


Re: \$132,520,000 City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Eleventh Series C

Certificate as to Effective Status of Bond Ordinance
and Related Ordinances.

I, CHARLES H. SAWYER, JR., Chief Clerk of the Council
of the City of Philadelphia, (the "Council"), do hereby certi-
fy that it appears from the records of said Council that:

(a) The copies of the Bill Number 1871 of 1975, 2068
of 1979, 274 of 1980, 534 of 1985 and 1248 of 1987
attached hereto are true and correct copies of the
originals of those Ordinances on file in the office of the
Chief Clerk of the Council; and

(b) Such Ordinances have not been amended or re-
pealed and are in full force and effect on the date of
this certificate.


CHARLES H. SAWYER, JR.
CHIEF CLERK OF THE COUNCIL OF
THE CITY OF PHILADELPHIA

Dated: February 14, 1989

(SEAL)



(Bill No. 2068)

AN ORDINANCE

Constituting the Fifth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975; authorizing the Mayor, City Controller, and City Solicitor or a majority thereof to sell either at public or private sale Gas Works Revenue Bonds, Fifth Series, of the City of Philadelphia in the maximum principal amount of fifty million (50,000,000) dollars and to establish the terms and provisions thereof by supplementing the General Gas Works Revenue Bond Ordinance of 1975; designating the projects and setting forth the use of proceeds; determining the sufficiency of the project revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Fifth Series Bonds from general accounts of the City; covenanting the payment of interest and principal; providing for transfer and payment of certain interest and income on moneys held in the Gas Works Sinking Fund Reserve to the operating funds of

the Gas Works and, with the approval of the Gas Commission, the payment to the City of any balance in the operating funds up to the amount so transferred and paid; and specifying the applicability of sections of the First Class City Revenue Bond Act and the General Gas Works Revenue Bonds Ordinance of 1975.

The Council of the City of Philadelphia hereby ordains:

SECTION 1. The Mayor, City Controller, and City Solicitor or a majority of them are hereby authorized on behalf of the City to borrow, by the issuance and sale of Gas Works Revenue Bonds, Fifth Series of the City (the Fifth Series Bonds), pursuant to the First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the Act) and the General Gas Works Revenue Bond Ordinance of 1975 (the General Ordinance), a sum or sums of which, in the aggregate, shall not exceed fifty million (50,000,000) dollars to be expended as provided in Section 2 of this ordinance. Said Fifth Series Bonds shall be sold either at public competitive sale to the highest bidder or bidders or at private negotiated sale as said officers or a majority of them shall deem to be in the best interest of the City. The Fifth Series Bonds shall con-

tain such terms and provisions as are determined by a majority of said officers to be in the best interest of the City and are not inconsistent with the provisions hereof, of the Act or of the General Ordinance.

The Fifth Series Bonds shall not pledge the credit or taxing power or create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than the revenues pledged in the General Ordinance.

SECTION 2. The projects for which the Fifth Series Bonds are to be issued consist of the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budget of the City. Such capital improvements include, without limitation, the acquisition of land or rights therein; the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery, and apparatus; the acquisition, construction or replacement of pipes and pipe lines; and the acquisition or replacement of property of a captial nature for use in the operation, maintenance and administration of the Gas Works system of the City.

The proceeds of the sale of the Fifth Series Bonds shall be used to pay financing costs, to make additional payments into the Sinking Fund Reserve as required by the General Ordinance and to pay other project costs (as defined in the Act), which may include, without limitation, the repayment to the City or to accounts of the Gas Works of amounts advanced for project costs, and the funding or refunding of outstanding bond anticipation temporary loan notes of the City issued in anticipation of bonds previously authorized by the Council for capital improvements to the Gas Works system of the City.

The City covenants that the proceeds of the sale of the Fifth Series Bonds which remain available for the payment of project costs, after payment of the financing costs, the required payment into the Sinking Fund Reserve, and the repayment to the City of amounts previously advanced for project costs or for the funding or refunding of bond anticipation temporary loans as described above, shall be deposited, held and disbursed in and from one or more unsegregated accounts of the Gas Works which shall be separate and apart from and not commingled with the con-

solidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes.

SECTION 3. Based on the report of the Director of Finance of the City filed with the Council pursuant to Section 8 of the Act, it is hereby determined that the pledged Project Revenues, as defined in the General Ordinance, will be sufficient to comply with the rate covenant contained in Section 4.03(b) of the General Ordinance and also to pay all costs, expenses and payments required to be paid there from in the order and priority stated in Section 4.02 of the General Ordinance.

SECTION 4. The City covenants that, so long as any of the Fifth Series Bonds shall remain outstanding, all revenues of the Gas Works which are pledged under Section 4.02 of the General Ordinance will be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. This covenant shall not be construed to require the establishment of any Gas Works account segre-

gated from any other Gas Works accounts except as otherwise required by the General Ordinance.

SECTION 5. The City covenants that, so long as any Fifth Series Bonds shall remain unpaid, it will make payments or cause payments to be made from the pledged Gas Works revenues directly into its Gas Works Revenue Bond Sinking Fund created under the General Ordinance, at such times and in such annual amounts as shall be required to accumulate amounts therein sufficient for the payment of principal of and the interest on the Fifth Series Bonds when due and that it will pay or cause to be paid from said Sinking Fund said principal and interest when due.

SECTION 6. All interest and income earned on moneys held in the Gas Works Revenue Bond Sinking Fund Reserve created under the General Ordinance (Sinking Fund Reserve Earnings) shall, to the extent not required to comply with Section 6.04 of the General Ordinance, be transferred and paid by the Sinking Fund Depository to the operating funds of the Gas Works to be applied as Project Revenues in accordance with the terms of Section 4.02 of the General Ordinance. To the extent that in any fiscal year balance remains in the Project Revenues, including Sinking Fund

Reserve Earnings, as such balance is determined in accordance with Section 4.02 of the General Ordinance, such balance, upon the approval of the Gas Commission may be paid to the City, provided that in a given fiscal year the balance so paid does not exceed the amount of Sinking Fund Reserve Earnings transferred and paid to the operating funds during the same fiscal year. For Fiscal Year 1980 up to \$4.5 million of such balance, subject to the above provisions, shall be transferred and paid to the General Fund.

SECTION 7. The Director of Finance is authorized to make such covenants and take such other action on behalf of the City with respect to the investment of the proceeds of the Fifth Series Bonds as may be necessary or advisable in order that the Fifth Series Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code.

SECTION 8. This ordinance is supplementary to the General Ordinance and all sections of the General Ordinance and the Act not inconsistent herewith are applicable to the Fifth Series Bonds. All definitions of terms contained in the Act or in the General Ordinance shall apply to such terms in this ordinance.

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APP. NO. 469-8

CERTIFICATION: This is a true and correct copy of
the original Ordinance approved by the Mayor on

JUL 26 1979 _____

Charles H. Sawyer Jr

Chief Clerk of the Council .



(Bill No. 1871)

AN ORDINANCE

Authorizing, generally, the issuance and sale by the City of Gas Works Revenue Bonds of the City of Philadelphia, prescribing the form of bonds, their execution, transfer, exchange, payment and redemption, prescribing the conditions precedent to the issue of specific series of bonds, including a supplemental authorizing ordinance, pledging the revenues of the Gas Works of the City as security, adopting a rate covenant, and directing the Gas Commission to impose rates sufficient to comply therewith, designating a fiscal agent and sinking fund depository, establishing a Sinking Fund, including a Sinking Fund Reserve, and providing for its management, providing remedies upon default, and for amendments and modifications.

The Council of the City of Philadelphia hereby ordains:

SECTION 1.

ARTICLE I

**AUTHORIZATION, SCOPE AND PURPOSE—
SHORT TITLE**

This Ordinance is enacted pursuant to the provisions of The First Class City Revenue Bond Act approved October 18, 1972 (Act No. 234, 53 P.S. §15901 to 15924) for the purpose of authorizing the issuance from time to time of gas works revenue Bonds of the City to be secured by a pledge of the revenues of the Gas Works of the City, in such principal amounts as shall from time to time be authorized by further ordinance of the Council as more particularly hereinafter set forth. This Ordinance shall be

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known as the General Gas Works Revenue Bond Ordinance of 1975.

SECTION 2.

ARTICLE II
DEFINITIONS AND OTHER PROVISIONS OF
GENERAL APPLICATION

SECTION 2.01. *Definitions.* For all purposes of this Ordinance and any ordinance supplemental hereto, except as otherwise expressly provided or unless the context otherwise requires:

Act means The First Class City Revenue Bond Act approved October 18, 1974 (Act No. 234, 53 P.S. §15901 to 15924) as from time to time amended. The words and phrases which are defined in the Act shall have such defined meaning when used in this Ordinance.

Bond or *Bonds* means any gas works revenue bond of the City issued and outstanding pursuant to the Act under this Ordinance and any supplemental ordinance and shall include installment bonds, temporary bonds and interim certificates.

Bondholder means the holder of any bearer bond and the registered owner of any registered bond and the term Holder, or Holders unless the context otherwise requires, shall be deemed to include the registered owners of any bond or bonds as well as the holders of bearer bonds.

City means the City of Philadelphia, Pennsylvania.

City Charges means the proportionate charges, if any, for services performed for the Gas Works of the City by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Agreement between the City and the Manager and all other payments made to the City from Project Revenues.

Director of Finance means the chief financial, accounting and budget officer of the City as established by the Philadelphia Home Rule Charter.

Fiscal Agent means the bank named as such in Section 6.02 or its successor.

Fiscal Year means the fiscal year of the City.

Gas Works means all property, real and personal, owned by the City and used in the acquisition or manufacture, storage and distribution of natural, liquified, synthetic or manufactured gas or in the maintenance, management or administration thereof, and also means, as the context may require, the business entity managed by the Manager.

Manager means The Philadelphia Facilities Management Corporation currently managing the Gas Works pursuant to an ordinance of City Council approved December 29, 1972, setting forth the Agreement between the City and The Philadelphia Facilities Management Corporation, or its successor or such other person, corporation, board, commission or department of the City, which may be designated by ordinance to manage the Gas Works.

Net Operating Expenses means Operating Expenses exclusive of City Charges.

Operating Expenses means all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each fiscal year of the City, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal account-

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ing principles consistently applied, but shall exclude depreciation and interest and sinking fund charges.

Project Revenues means the revenues pledged for the security and payment of the Bonds as set forth in Section 4.02.

Rate Covenant means the rate covenant contained in subsection (b) of Section 4.03.

Series when applied to Bonds means collectively all of the Bonds of a given issue authorized by Supplemental Ordinance as provided in Article IV thereof and may also mean, if appropriate, a subseries of any series if, for any reason, the City should determine to divide any series into one or more subseries of Bonds.

Sinking Fund means the Gas Works Revenue Bond Sinking Fund established by Section 6.01.

Sinking Fund Depositary means the bank named as such in Section 6.02 or its successor.

Sinking Fund Reserve means the Sinking Fund Reserve established by Section 6.04.

Supplemental Ordinance means an ordinance supplemental hereto enacted pursuant to the Act and this Ordinance by the Council of the City authorizing the issuance of a series of Bonds.

SECTION 2.02. *Interpretation.* All references in this Ordinance to articles, sections and other sub-divisions of the Ordinance are to the designated articles, sections or other sub-divisions of this Ordinance as originally enacted. The words "herein," "hereof," "hereby" and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular article, section or other sub-division.

SECTION 2.03. *Descriptive Headings.* The descriptive headings of the several articles and sections of this Ordinance are inserted for convenience only and shall not con-

trol or affect the meaning or construction of any of its provisions.

SECTION 2.04. *Severability.* In case any one or more of the provisions contained in this Ordinance or in any Bond or coupon issued pursuant hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Ordinance or of said Bonds or coupons, and this Ordinance or said Bonds or coupons shall be construed and enforced as if such invalid, illegal or unenforceable provisions had never been contained therein.

SECTION 3.

ARTICLE III CONCERNING THE BONDS

SECTION 3.01. *Forms Generally.* All Bonds, and the coupons, if any, appertaining thereto, shall be in substantially the forms set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Ordinance, and may be designated as of such Series by date, number, letter or otherwise and may also have such individual letters, identifying numbers or other marks, and such descriptive panels, registration panels, legends or endorsements placed thereon, as may, consistently with this Ordinance and the Act, be determined by the Director of Finance. The Bonds may also have printed thereon or on the reverse thereof the text of an approving legal opinion with respect thereto and an appropriate certificate as to its correspondence with an executed counterpart may be included on the face or on the reverse of the Bonds. Any portion of the text of any Bond may be set forth on the reverse thereof with an appropriate reference on the face of the bond.

SECTION 3.02. *Form of Fully Registered Bond.* Fully registered bonds shall be substantially in the following form:

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(Form of Fully Registered Bond)
UNITED STATES OF AMERICA
COMMONWEALTH OF PENNSYLVANIA
CITY OF PHILADELPHIA
GAS WORKS REVENUE BOND

[Numerical Designation] \$

[Series Designation]

[Interest Rate: % Semi-annual Interest \$]

The City of Philadelphia, Pennsylvania (the City), for value received, hereby promises to pay in lawful money of the United States of America to

or registered assigns, on

, unless this Bond shall be redeemable and shall have previously been called for redemption and payment of the redemption price made or provided for, from the rentals, revenues and moneys of the City pledged for the payment hereof pursuant to the General Gas Works Revenue Bond Ordinance of 1975 (Ordinance No. approved , 1975) of the City (the 1975 Ordinance) but solely therefrom and not otherwise, upon surrender hereof, the principal sum of

Dollars (\$), and the pay interest on such principal amount in like money, but solely from said rentals, revenues and moneys aforesaid, to the registered owner by check or draft mailed to the registered owner at his address as it appears on the bond register, from the interest payment date next preceding the date hereof, unless the date hereof shall be an interest payment date, in which case from the date hereof, initially on and thereafter on each subsequent and

until payment of such principal amount, or provisions therefor, shall have been made upon redemption or at or after maturity, at the annual rate shown hereon. The principal of and interest on this bond and the premium, if any, payable upon redemption are payable at the principal Philadelphia office of

Fiscal Agent of the City, in Philadelphia, Pennsylvania, or at the principal office of any successor Fiscal Agent appointed under the 1975 Ordinance.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds of the Series designated hereon (the Bonds), limited in aggregate principal amount to \$ _____ issued or to be issued pursuant to The First Class City Revenue Bond Act (Act No. 234 of the Pennsylvania General Assembly approved October 18, 1972, 53 P.S. §15901) (the Act) under the 1975 Ordinance and supplemental ordinance dated _____.

The Bonds, together with all previous bonds of the City, if any, issued under the 1975 Ordinance and under previous supplemental ordinances and together with all bonds of the City hereafter issued under the 1975 Ordinance and all subsequent supplemental ordinances, are and will be equally and ratably secured under the 1975 Ordinance by a pledge of all the rents, rates and charges imposed or charged by the City for the use of or services rendered by the Gas Works of the City and of certain other moneys derived from the Gas Works and from the investment of such revenue. The 1975 Ordinance requires such revenues to be applied in order of priority to net operating expenses, sinking fund payments required by the 1975 Ordinance, payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, debt service on other general obligation bonds issued for the Gas Works, City charges and any other proper purpose of the City.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, out of its Gas Works Revenue Bond Sinking Fund, in the semi-annual amount shown hereon on each interest payment date of this Bond, or as the case may be, the proportionate part thereof from the date hereof to the next interest payment date, and to pay, upon surrender hereof, from said Sinking Fund on the maturity date hereof or, if this Bond shall be selected for mandatory or optional redemption, then on the applicable

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redemption date, the principal amount hereof with the applicable premium, if any.

Reference is hereby made to the 1975 Ordinance for a statement of the terms and conditions under which previous bonds, if any, have been issued, under which the Bonds are issued and under which additional bonds will be issued, and for a statement of the particular rentals, revenues and moneys pledged for the security and payment of all bonds issued under the 1975 Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the 1975 Ordinance may be amended or modified, and the rights of the holders or registered owners of the Bonds with respect to such security. The City hereby represents to and covenants with the registered owner of this Bond that no Gas Works revenue bonds of the City have been or will be issued for the payment of which the holder has or shall have a prior lien on or security interest in the revenues pledged for the payment of this Bond or a prior right to payment therefrom and that all Gas Works revenue bonds which have been or will be equally and ratably secured by such pledged revenues have and will be issued in accordance with the provisions of the 1975 Ordinance. However, nothing herein contained shall be construed to prevent the City from financing Gas Works projects by the issuance of its general obligation bonds or by the issuance of Gas Works revenue bonds under other authorization for the payment of which project revenues of the Gas Works may be pledged subject and subordinate in each fiscal year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such fiscal year under the 1975 Ordinance in respect of Gas Works Revenue Bonds issued and outstanding thereunder.

In the manner and upon the terms and conditions provided in the 1975 Ordinance,

(here insert specific provisions with respect to redemption, including, if applicable, mandatory redemption)

If less than an entire year's maturity is to be redeemed at any particular time, the Bonds or portions thereof to be redeemed shall be chosen by the Fiscal Agent by lot.

Each such redemption shall be made after notice by publication once a week for two successive weeks in not less than two or more than four daily newspapers published and of general circulation in the City of Philadelphia, Pennsylvania, the first publication to be not less than thirty (30) days or more than sixty (60) days prior to the date fixed for redemption. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depositary, all interest on Bonds called for redemption accruing after the date fixed for redemption shall cease, and the holders or registered owners of the Bonds called for redemption shall have no security, benefit or lien under the 1975 Ordinance or any right except to receive payment of the redemption price.

This Bond is transferable and exchangeable by the registered owner hereof in person or by his attorney duly authorized in writing, at the principal Philadelphia office of the Fiscal Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the 1975 Ordinance, and upon surrender and cancellation of this Bond. Upon any such transfer or exchange, the City shall issue in the name of the transferee or of the registered owner hereof, and shall deliver in exchange for this Bond, to or upon the order of such registered owner, a new registered Bond or new registered Bonds in authorized denominations aggregating the principal amount hereof or a coupon Bond or coupon Bonds of such denominations and aggregate principal amount with coupons attached representing all unpaid interest due or to become due and, in each case, maturing on the same date and bearing interest at the same rate as this Bond, and bearing the same designation as to series or subseries as this Bond.

As provided by the Act, this Bond, its transfer and the income therefrom (including any gains made on the sale

thereof other than underwriting profits in a distribution thereof) shall at all times be free from taxation within and by the Commonwealth of Pennsylvania but this exemption shall not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on this Bond, the receipt of income therefrom, or the realization of gains on the sale thereof.

The City and the Fiscal Agent may treat the person in whose name this Bond is registered as the absolute owner hereof for all purposes whether or not this Bond or any installment of interest be overdue, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary. All payments of the principal, or premium upon redemption, of this Bond or of interest hereon to such registered owner in the manner herein and in the 1975 Ordinance set forth shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums so paid whether or not notation of the same be made hereon, and any consent, waiver or other action taken by such registered owner pursuant to the provisions of the 1975 Ordinance shall be conclusive and binding upon such registered owner, his heirs, successors or assigns, and upon all transferees hereof whether or not notation thereof be made hereon or on any Bond issued in exchange or transfer hereof.

In case an event of default, as defined in the 1975 Ordinance, shall occur, the principal of all bonds then outstanding under the 1975 Ordinance may be declared or may become due and payable and any such declarations may thereafter be annulled, all upon the conditions and in the manner and with the effect provided in the 1975 Ordinance and in the Act.

This Bond is a special obligation of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of, premium, if any, or interest on this Bond, nor shall this Bond be deemed to be a general obligation of the City.

It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the 1975 Ordinance precedent to and in the issuance of this Bond, exist, have happened and have been performed, and that the issuance and delivery of this Bond have been duly authorized by Ordinance of the City duly adopted.

IN WITNESS WHEREOF, the City of Philadelphia has caused this Bond to be properly executed by its Fiscal Agent, by two duly authorized officers thereof, and the facsimile of the seal of the City of Philadelphia to be imprinted hereon, and to be duly countersigned and attested by a facsimile signature of the City Controller, as of .

CITY OF
PHILADELPHIA

By
Fiscal Agent

Countersigned and Attested By
by (Facsimile Signature) Authorized Officer

City Controller By
Authorized Officer

SECTION 3.03. *Form of Coupon Bond and Form of Coupon for Interest.* Coupon Bonds and the coupons thereunto appertaining shall be substantially in the following form:

(Form of Coupon Bond)

UNITED STATES OF AMERICA
COMMONWEALTH OF PENNSYLVANIA
CITY OF PHILADELPHIA
GAS WORKS REVENUE BONDS

(Numerical Designation) \$

(Series Designation)

%

The City of Philadelphia, Pennsylvania (the City), for value received, hereby promises to pay in lawful money of

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the United States of America to the bearer, or if this Bond is registered as to principal as hereinafter provided, to the registered owner hereof, on _____ unless this Bond shall be redeemable and shall have previously been called for redemption and payment of the redemption price made or provided for, from the rentals, revenues and moneys of the City pledged for the payment hereof pursuant to the General Gas Works Revenue Bond Ordinance of 1975 (Ordinance No. _____ approved _____, 1975) of the City (the 1975 Ordinance) but solely therefrom and not otherwise, upon surrender hereof, the principal sum of _____ Dollars (\$ _____), and to pay interest on such principal amount in like money, but solely from said rentals, revenues and moneys aforesaid, from the date hereof initially on _____ and thereafter on each subsequent _____ and _____ until payment of such principal amount, or provision therefor, shall have been made upon redemption or at or after maturity, at the annual rate shown hereon, but, with respect to interest accrued at or prior to maturity, only upon presentation and surrender of the coupons for interest hereunto appertaining as they severally mature. The principal of and interest on this Bond and the premium, if any, payable upon redemption, are payable at the principal Philadelphia office of _____, Fiscal Agent of the City, in Philadelphia, Pennsylvania, or at the principal office of any successor Fiscal Agent appointed under the 1975 Ordinance.

This Bond is one of a duly authorized issue of bonds of the City designated as its Gas Works Revenue Bonds of the series designated hereon (the Bonds), limited in aggregate principal amount to \$ _____, issued or to be issued pursuant to The First Class City Revenue Bond Act (Act No. 234 of the Pennsylvania General Assembly approved October 18, 1972, 53 P.S. §15901) (the Act) under the 1975 Ordinance and supplemental ordinance dated _____.

The Bonds, together with all previous bonds of the City, if any, issued under the 1975 Ordinance and under previous supplemental ordinances and together with

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all bonds of the City hereafter issued under the 1975 Ordinance and all subsequent supplemental ordinances are and will be equally and ratably secured under the 1975 Ordinance by a pledge of all the rents, rates and charges imposed or charged by the City for the use of or services rendered by the Gas Works of the City and of certain other moneys derived from the Gas Works and from the investment of such revenue. The 1975 Ordinance requires such revenues to be applied in order of priority to net operating expenses, sinking fund payments required by the 1975 Ordinance, payment of general obligation bonds of the City adjudged to be self-liquidating from Gas Works revenues, debt service on other general obligation bonds issued for the Gas Works, City charges and any other proper purpose of the City.

The City covenants, so long as this Bond shall remain outstanding, to make payments of interest on the indebtedness represented by this Bond, upon surrender of the applicable coupons, out of its Gas Works Revenue Bond Sinking Fund in the amount shown on the respective coupons hereunto appertaining on each interest payment date of this Bond and to pay, upon surrender hereof, from said Sinking Fund on the maturity date hereof or, if this Bond shall be selected for mandatory or optional redemption, then on the applicable redemption date, the principal amount hereof with the applicable premium, if any.

Reference is hereby made to the 1975 Ordinance for a statement of the terms and conditions under which previous bonds, if any, have been issued, under which the Bonds are issued and under which additional bonds will be issued, and for a statement of the particular rentals, revenues and moneys pledged for the security and payment of all bonds issued under the 1975 Ordinance, the nature, extent and manner of enforcement of the security, the terms and conditions under which the 1975 Ordinance may be amended or modified, and the rights of the holders or registered owners of the Bonds with respect to such security. The City hereby represents to and covenants with the holder of this Bond that no Gas Works Revenue Bonds of the City have been

or will be issued for the payment of which the holder has or shall have a prior lien on or security interest in the revenues pledged for the payment of this Bond or a prior right to payment therefrom and that all Gas Works revenue bonds which have been or will be equally and ratably secured by such pledged revenues have and will be issued in accordance with the provisions of the 1975 Ordinance. However, nothing herein contained shall be construed to prevent the City from financing Gas Works projects by the issuance of its general obligation bonds or by the issuance of Gas Works revenue bonds under other authorization for the payment of which project revenues of the Gas Works may be pledged subject and subordinate in each fiscal year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such fiscal year under the 1975 Ordinance in respect of Gas Works Revenue Bonds issued and outstanding thereunder.

In the manner and upon the terms and conditions provided in the 1975 Ordinance,

(here insert specific provisions with respect to redemption, including, if applicable, mandatory redemption)

If less than an entire year's maturity is to be redeemed at any particular time, the Bonds or portions thereof to be redeemed shall be chosen by the Fiscal Agent by lot.

Each such redemption shall be made after notice by publication once a week for two successive weeks in not less than two or more than four daily newspapers published and of general circulation in the City of Philadelphia, Pennsylvania, the first publication to be not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depositary, all interest on Bonds called for redemption accruing after the date fixed for redemption shall cease, and the holders or registered owners of the Bonds called for redemption shall have no security, benefit or lien under the 1975 Ordinance

or any right except to receive payment of the redemption price.

This Bond is transferable by delivery unless registered as to principal in the name of the owner on the bond register of the City to be kept for that purpose at the principal Philadelphia Office of the Fiscal Agent, such registration to be noted hereon by the Fiscal Agent on behalf of the City. After such registration no transfer shall be valid unless made by the registered owner in person or by his duly authorized attorney and similarly noted upon said bond register and hereon. This Bond, however, may be discharged from registration by being in like manner transferred to bearer, and thereupon transferability by delivery shall be restored after which this Bond may again from time to time be registered or made transferable by delivery as before. Such registration, however, shall not affect the negotiability of the coupons for interest hereto attached, which shall always continue to be payable to bearer and to be transferable by delivery.

This Bond is exchangeable by the holder or, if registered as to principal, by the registered owner in person or by his attorney duly authorized in writing, at the principal Philadelphia office of the Fiscal Agent, but only in the manner, subject to the limitations, and upon payment of the charges provided in the 1975 Ordinance, and upon surrender of this Bond. Upon request for such exchange, the City shall issue in the name of the holder or registered owner of his nominee or in bearer form at the option of the holder or registered owner, and shall deliver in exchange for this Bond, to or upon the order of the holder or registered owner, a new registered Bond or new registered Bond in authorized denominations aggregating the principal amount hereof or a new coupon Bond or coupon Bonds of such denominations and aggregate principal amount with coupons attached representing all unpaid interest due or to become due and, in each case, maturing on the same date and bearing interest at the same rate as this Bond, and bearing the same designation as to series or subseries as this Bond.

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As provided by the Act, this Bond, its transfer and the income therefrom (including any gains made on the sale thereof other than underwriting profits in a distribution thereof) shall at all times be free from taxation within and by the Commonwealth of Pennsylvania but this exemption shall not extend to the underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on this Bond, the receipt of income therefrom, or the realization of gains on the sale thereof.

The City and the Fiscal Agent may treat the holder of this Bond if it shall not at the time be registered as to principal, the registered owner of this Bond if it shall at the time be so registered, and the holder of any coupon appertaining hereto, whether or not this Bond shall be so registered, as the absolute owner of this Bond or such coupon, as the case may be, for all purposes whether or not this Bond or such coupon be overdue, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the holder or registered owner hereof pursuant to the provisions of the 1975 Ordinance shall be conclusive and binding upon such holder or registered owner, his heirs, successors or assigns and upon all transferees hereof whether or not notation thereof be made hereon or on any Bond issued in exchange hereof.

In case an event of default, as defined in the 1975 Ordinance, shall occur, the principal of all bonds then outstanding under the 1975 Ordinance may be declared or may become due and payable and any such declarations may thereafter be annulled, all upon the conditions and in the manner and with the effect provided in the 1975 Ordinance and in the Act.

This Bond is a special obligation of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of, premium, if any, or interest on this Bond, nor shall this Bond be deemed to be a general obligation of the City.

It is hereby certified that all conditions, acts and things required to exist, happen and be performed under the Act and under the 1975 Ordinance precedent to and in the issuance of this Bond, exist, have happened and have been performed, and that the issuance and delivery of this Bond have been duly authorized by Ordinance of the City duly adopted.

IN WITNESS WHEREOF, The City of Philadelphia has caused this Bond to be properly executed by its Fiscal Agent, by two duly authorized officers thereof, and the facsimile of the seal of the City of Philadelphia to be imprinted hereon, and to be duly countersigned and attested by a facsimile signature of the City Controller, and has also caused the coupons hereto attached to be authenticated with the facsimile signature of the City Controller, as of

Countersigned and
Attested by

CITY OF PHILADELPHIA

(Facsimile Signature)
City Controller

By
Fiscal Agent

By
Authorized Officer

By
Authorized Officer

(Form of Coupon)

Coupon No.

\$

On _____, the City of Philadelphia upon surrender of this Coupon will pay to the bearer unless the Bond hereinafter mentioned shall have been called for previous redemption and payment of the redemption price made or provided for, at the principal Philadelphia office of _____ in Philadelphia, Pennsylvania, but only out of the rentals, revenues and moneys referred to in the Bond hereinafter mentioned, the amount shown hereon, in lawful money of the United States of America,

being interest then due on its Gas Works Revenue Bond,
, dated as of
and numbered.

CITY OF PHILADELPHIA

By
City Controller

SECTION 3.04. General Form, Content and Payment of Bonds. Bonds shall be generally designated as Gas Works Revenue Bonds of the City and shall be issued in such series and within such series in such subseries as the City may from time to time determine. The aggregate principal amount of Bonds which may be issued, authenticated and delivered under this Ordinance is unlimited, but prior to issuance of each Series of Bonds, the City shall adopt a Supplemental Ordinance authorizing such Series.

The Bonds of each Series may be issued in coupon form with principal payable to bearer or registered as to principal only, in fully registered form, or may consist in whole or in part of one or more installment Bonds in fully registered form payable as to principal or subject to mandatory redemption in annual installments, or any combination of the foregoing, shall be issued in such aggregate principal amount, shall be dated on or as of such date or dates, shall be in such denominations, shall mature or be subject to mandatory redemption in such principal amounts and on such dates, shall bear interest from such date or dates and at such rate or rates, shall be subject to optional redemption at such times and upon such terms, and shall contain such other terms and conditions not inconsistent with this Ordinance or the Act, all as shall be determined by the City and set forth in the supplemental ordinance under which such bonds are issued, or as shall be determined by a designated officer or officers of the City thereunto authorized by the Supplemental Ordinance, or in the absence of such provisions or designation, as shall be determined by the Director of Finance as specified in Section 4.05.

The principal of and interest on (except the final installment of principal and the interest then payable) and the principal, premium, if any, and accrued interest payable upon partial redemption with respect to, all fully registered installment Bonds, and the interest payable in respect of fully registered Bonds, shall be payable by check or draft of the Fiscal Agent mailed to the registered owner of such Bonds at the address of such owner as it appears upon the bond register, and the records of the Fiscal Agent shall be conclusive as to such payment and shall bind such owner, his successors and assigns whether or not such payment be noted on such Bond. Except as aforesaid, the principal of all Bonds, the premium, if any, payable upon redemption thereof, and the interest on all coupon Bonds payable at or prior to maturity, shall be payable in lawful money of the United States of America at the principal Philadelphia office of the Fiscal Agent in Philadelphia, Pennsylvania, or at the principal office of a paying agent designated in such Bonds, but with respect to such principal, only upon presentation and surrender of such Bonds, or with respect to interest payable at or prior to maturity of such coupon Bonds, only upon presentation and surrender of the respective coupons for interest, except as otherwise herein provided with respect to mutilated, destroyed, lost or stolen Bonds or coupons.

Each Bond executed and delivered upon any transfer, exchange or substitution, shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by the Bond or Bonds surrendered upon such transfer or exchange, or as the case may be, the part thereof represented by such new Bond or Bonds, and notwithstanding anything to the contrary contained in this Ordinance, such new Bond, if a fully registered Bond, shall be so dated, and, if a coupon Bond, shall have attached thereto such coupons, that neither gain nor loss in interest shall result from such transfer, exchange, or substitution.

The foregoing provisions of this Section, any other provision in this Ordinance to the contrary notwithstanding,

are subject to the express understanding that the principal of and interest on all Bonds issued hereunder and the premium, if any, payable on redemption thereof, shall be payable only from the rentals, revenues and moneys of the City pledged for the payment thereof pursuant to this Ordinance and not otherwise.

SECTION 3.05. *Registration of Bonds, Registrar, Bond Register.* The City shall keep or cause to be kept at the principal Philadelphia office of the Fiscal Agent, books for the registration and transfer of Bonds entitled to registration and transfer; and the City will register or transfer or cause to be registered or transferred therein, as hereinafter provided and under such reasonable regulations as may be prescribed by the Director of Finance, any Bonds entitled to be so registered or transferred, upon presentation for such purpose. The Fiscal Agent is hereby appointed the registrar of the City for the purpose of registering, transferring and exchanging the Bonds. The books kept pursuant to this Section are herein and in the Bonds referred to as the bond register.

SECTION 3.06. *Bonds are Negotiable Instruments.* The Bonds shall have the qualities of negotiable instruments under the law merchant and the laws pertaining to negotiable instruments of the Commonwealth of Pennsylvania, subject to the provisions for registration and transfer contained in Section 3.07 and 3.08 and in the Bonds.

SECTION 3.07. *Transfer of Coupon Bonds.* All coupon Bonds shall be negotiable and title thereto shall pass by delivery unless registered as to principal in the manner hereinafter provided. The bearer of any coupon Bond may have the ownership of the principal thereof registered on the bond register required to be kept pursuant to Section 3.05, and such registration shall be noted on the Bond. After such registration no transfer shall be valid unless made on such books by the registered owner in person, or by his duly authorized attorney, and similarly noted on the Bond; but such Bond may be discharged from registration by being in like manner transferred to bearer, and

thereupon transferability by delivery shall be restored; and such Bond may again, from time to time, be registered or discharged from registration in the same manner as before. Such registration, however, shall not affect the negotiability by delivery of the coupons, but every such coupon shall continue to be transferable by delivery and shall remain payable to bearer.

SECTION 3.08. Registration and Transfer of Fully Registered Bonds. The names and addresses of the registered owners of all fully registered Bonds together with a brief description of the Bonds so registered shall be recorded in the bond register. Any fully registered Bond may be transferred at the principal Philadelphia office of the Fiscal Agent or surrendered for transfer at the principal office of one of the paying agents designated in such Bond, upon surrender of such Bond accompanied by delivery of a written instrument of transfer in form approved by the Director of Finance, duly executed by the registered owner of such Bond or his duly authorized attorney, and thereupon the City and the Fiscal Agent shall execute in the name of the transferee or transferees, and the Fiscal Agent shall deliver, a new fully registered Bond, or new fully registered Bonds, of like form, of the same Series, bearing the same rate of interest, of the same maturity, and for the same aggregate principal amount.

SECTION 3.09. Exchange of Bonds. All Bonds of any Series issued hereunder shall be exchangeable for like Bonds of different authorized denominations or for Bonds in different form of the same Series, as the case may be, and, in each case, in the same aggregate principal amount, maturing on the same dates and bearing the same rate of interest as the Bonds to be exchanged, all in the manner hereinafter provided. The holder of any bearer coupon Bond or Bonds or the registered owner of any registered Bond or Bonds desiring to exchange such Bond or Bonds shall surrender (or, in the case of registered Bonds, shall cause his attorney thereunto duly authorized to surrender) such Bond or Bonds in negotiable form or, as the case may be,

accompanied by an appropriate instrument of transfer, together with all unmatured coupons appertaining to coupon Bonds so surrendered, at the principal Philadelphia office of the Fiscal Agent or at the principal office of one of the paying agents designated in the Bonds, together with a written request for exchange, in form approved by the Director of Finance, setting forth the form of Bond or Bonds requested to be issued in exchange, the denomination or denominations thereof and, if to be issued in partial or fully registered form, the person or persons in whose name such Bonds are to be registered. Thereupon and subject to the provisions of Section 3.10, the City and the Fiscal Agent shall execute and deliver to the persons thereunto entitled a new Bond or new Bonds in the form requested in authorized denominations aggregating the principal amount of the Bond or Bonds surrendered, maturing as to principal on the same date or dates, bearing the same rate of interest, and bearing the same designation as to series. All fully registered Bonds issued in exchange for Bonds of any series shall be dated on the date of issuance thereof and shall bear interest from the date from which interest was initially payable with respect to such Series or from the next preceding interest payment date of such Series, whichever is later, or, if the date of authentication shall be an interest payment date of such Series, from such date. All coupon Bonds issued in exchange for Bonds of any Series shall be dated as of the date of the initial issuance of such Series and all matured coupons shall be removed from such Bonds prior to their authentication and delivery in exchange. For the purpose of exchange, a fully registered installment Bond shall be deemed to represent separate Bonds each in the amount and of the maturity of the annual installments of principal provided for in such Bond.

SECTION 3.10. Cost of Bond Registration, Transfer or Exchange, Miscellaneous Provisions Governing Transfers and Exchanges. Registration, transfer, discharges from registration, and exchanges of Bonds authorized under this Article shall be without expense to the Holders of such Bonds, but any taxes or other governmental charges re-

quired to be paid with respect to the same shall be paid by the Holder requesting any such transaction, as a condition precedent to the exercise of such privilege.

The City shall not be required to make (a) any exchange or transfer of any Bonds during the period of fifteen business days next preceding any interest payment date for such Bonds, or (b) any exchange or transfer of any Bonds during the period of twenty business days next preceding the first publication or mailing of any notice of redemption of such Bonds.

All Bonds surrendered for exchange and the coupons, if any, attached thereto and all registered Bonds without coupons surrendered for transfer, shall be cancelled as the principal thereof and the coupons severally become due and payable and after such due date, may be cremated, shredded or otherwise destroyed by the Fiscal Agent.

All Bonds executed, authenticated and delivered in exchange for Bonds surrendered or upon the transfer of registered Bonds shall be valid obligations of the City, evidencing the same debt as the Bonds surrendered, and shall be secured by this Ordinance to the same extent as such surrendered Bonds.

SECTION 3.11. Ownership of Bonds. The City, the Fiscal Agent and any paying agent designated in any Bond may treat the holder of any coupon Bond if it shall not at the time be registered as to principal, the registered owner of any coupon Bond if it shall at the time be so registered, the holder of any coupon appertaining to a coupon Bond whether or not such coupon Bond shall be so registered, and the registered owner of any fully registered Bond, as the absolute owner of such Bond or such coupon, as the case may be, for all purposes whether or not such Bond or such coupon shall be overdue, and neither the City, the Fiscal Agent nor any paying agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the holder of any bearer coupon Bond or by the registered owner of any Bond other than a bearer

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coupon Bond pursuant to the provisions of this Ordinance shall be conclusive and binding upon such Holder, his heirs, successors or assigns, and upon all transferees of such Bond whether or not notation of such consent, waiver or other action shall have been made on such Bond or on any Bond issued in exchange therefor.

SECTION 3.12. *Definitive and Temporary Bonds.* Bonds in definitive form shall be fully engraved or printed or lithographed on steel engraved borders. Until Bonds in definitive form of any Series are ready for delivery, the City and the Fiscal Agent may execute, and, upon the request of the City in writing, the Fiscal Agent shall deliver in lieu of any such Bonds, and subject to the same provisions, limitations and conditions, one or more printed, lithographed or typewritten Bonds in temporary form, substantially of the tenor of the Bonds hereinbefore described, without coupons or with one or more coupons, and with appropriate omissions, variations and insertions. Such Bond or Bonds in temporary form may be for the amount of any authorized denomination or any multiple thereof, as the Director of Finance may determine. Until exchanged for Bonds in definitive form such Bonds in temporary form shall be entitled to the benefit of this Ordinance. Unless otherwise agreed with the Holder of such temporary Bond or Bonds, the City shall, without unreasonable delay, prepare, execute and deliver to the Fiscal Agent, and thereupon, upon the presentation and surrender of any Bond or Bonds in temporary form, the Fiscal Agent shall execute and deliver, in exchange therefor, a Bond or Bonds in definitive form of the same Series and same maturity for the same aggregate principal amount as the Bond or Bonds in temporary form surrendered. Such exchange shall be made by the City at its own expense and without making any charge therefor. Until such Bonds in definitive form are ready for delivery, the Holder of one or more Bonds in temporary form may, with the consent of the City, exchange the same, upon surrender thereof to the Fiscal Agent for cancellation, for Bonds in temporary form of like aggregate principal amount, of the same Series and

maturity, in authorized denominations and bearing all unmatured coupons, if any.

SECTION 3.13. *Execution of Bonds.* The Bonds shall be executed on behalf of the City by the Fiscal Agent by the manual signatures of two of its duly authorized officers, under the seal of the City which shall be either affixed or reproduced thereon in facsimile and shall be countersigned and attested by the manual or facsimile signature of the Controller, all in accordance with the Act of March 24, 1949, P. L. 312, or in such other manner as shall be authorized by law and prescribed by supplemental ordinance. The coupons attached to coupon Bonds shall be executed on behalf of the City by the facsimile signature of the City Controller. Any such Bonds or coupons may be executed, issued and delivered notwithstanding that one or more of the officers signing such Bonds or whose facsimile signature shall be upon such Bonds or coupons or any thereof, shall have ceased to be such officer or officers at the time when such Bonds shall actually be delivered, and although at the nominal date of the Bond any such person shall not have been such officer.

SECTION 3.14. *Mutilated, Destroyed, Lost or Stolen Bonds.* Upon receipt by the Fiscal Agent and the City of evidence satisfactory to both of them that any outstanding Bond or coupon has been destroyed, lost or stolen, and of indemnity satisfactory to both of them, then, in the absence of notice to the City or to the Fiscal Agent that such Bond or coupon, if alleged to have been lost or stolen, has been acquired by a bona fide purchaser, or if a Bond or coupon has been mutilated, the City in its discretion acting through the Director of Finance, may execute and deliver a new bond of the same Series and same maturity and of like tenor (which shall have attached the same corresponding coupons, if any, as the mutilated, destroyed, lost or stolen Bond if such Bond were a coupon Bond) in exchange and substitution for, and upon surrender and cancellation of, the mutilated Bond and coupons, if any, or in lieu of and in substitution for the Bond and coupons, if any, so destroyed, lost or stolen.

The City may, for each new bond authenticated and delivered under the provisions of this Section, require the payment of the expenses, including counsel fees, which may be incurred by the City and the Fiscal Agent in the premises. In case any such mutilated, lost or stolen Bond or coupon has become or is about to become due and payable, the City, in its discretion, may, instead of issuing a new Bond or coupon, direct the payment thereof at maturity and the Fiscal Agent shall thereupon pay the same.

Any Bond or coupon issued under the provisions of this Section in lieu of any Bond or coupon alleged to be destroyed, lost or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond or coupon so alleged to be destroyed, lost or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Ordinance with all other Bonds and coupons issued under this Ordinance.

SECTION 3.15. *Installment Bonds—Interim Certificates.* Nothing in this Ordinance shall be construed to prohibit the authorization by supplemental ordinance of installment Bonds in the forms above provided with appropriate modifications or to prohibit the issuance of interim certificates pending the delivery of definitive Bonds in such form as shall be approved by the City Solicitor.

SECTION 4.

ARTICLE IV
ISSUANCE OF BONDS—SUPPLEMENTAL
ORDINANCES

SECTION 4.01. *Purpose of Bonds.* The Bonds issued under this Ordinance shall be issued for the purpose of paying the cost of projects, as such term is defined in the Act, related to the Gas Works, of reimbursing any fund of the City from which such costs shall have been paid or advanced, of funding any of such costs for which the City shall have outstanding bond anticipation notes or other obligations, of refunding any Bonds of the City issued for

the foregoing purposes under the Act, or of refunding general obligation bonds of the City issued for the foregoing purposes.

SECTION 4.02. *Pledge of Revenues; Grant of Security Interest; Application of Revenues.* The City hereby pledges for the security and payment of all Bonds and coupons, if any, issued under this Ordinance and hereby grants a security interest in, all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other revenues derived therefrom (the Project Revenues) as such term is defined in the Act and all accounts, contract rights and general intangibles representing the Project Revenues, and in each case, the proceeds of the foregoing. For the purpose of compliance with the filing requirements of the Uniform Commercial Code in order to perfect the security interest herein granted, the Fiscal Agent shall be deemed to be and the City hereby recognizes the Fiscal Agent as, the representative of bondholders to execute financing statements as the secured party. Subject to the provisions of Section 7.02 hereof, all Project Revenues as and when collected in each fiscal year shall be applied first to Net Operating Expenses; second, to required payments into the Sinking Fund herein created to pay the principal of and interest on all Bonds issued hereunder and, if required, to accumulate, or to restore any deficiency in, the Sinking Fund Reserve; third, to the payment of any general obligation bonds adjudged to be self-liquidating on the basis of such expected revenues; fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works, and fifth, to the payment of City Charges. Any balance remaining may be applied to any proper purpose of the City. The foregoing provisions shall not be construed to require the segregation upon collection of revenues prior to default in the payment of the principal of and interest on Bonds.

SECTION 4.03. *Particular Covenants.* The City covenants with the Holders of all Bonds from time to time and

at the time outstanding under this Ordinance, that so long as any such Bonds shall remain outstanding:

(a) No Bonds will be issued by the City hereunder or under any ordinance supplemental hereto unless the financial report of the chief fiscal officer of the City required by Section 8 of the Act to be filed with the City Council shall be accompanied by an engineering report of an independent consulting engineer or an independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field (the Engineers) setting forth the qualifications of the Engineers and:

(i) containing a statement that the Engineers have made such investigation of the physical properties included in the Gas Works and of the books and records of the Gas Works maintained by the City or by the Manager, as they deemed necessary; and

(ii) on the basis of such investigation containing:

(aa) the same matters, statements and opinion as are required by Section 8 of the Act to be contained in the financial report of the chief fiscal officer supported by appropriate schedules and summaries;

(bb) a statement that the Gas Works rents, rates and charges, on the basis of which the statements required by the foregoing clause (aa) are made, are currently and will be sufficient to comply with the Rate Covenant set forth in Section 4.03 (b); and

(cc) a statement that, in the opinion of the engineers, the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

(b) it will, at a minimum, impose, charge and collect in each Fiscal Year such gas rates and charges as shall,

together with all other Project Revenues (as defined in the Act) to be received in such Fiscal Year, equal not less than the greater of:

A. The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) 150% of the amount required to pay sinking fund requirements for principal of and interest on all Bonds issued and outstanding hereunder which will become due and payable during such Fiscal Year; and

(iii) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year; or

B. The sum of:

(i) All Net Operating Expenses payable during such Fiscal Year; and

(ii) all Sinking Fund deposits required during such Fiscal Year in respect of all outstanding Bonds and in respect of all outstanding general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve.

The Gas Commission is hereby authorized and directed, without further authorization, to impose and charge and to collect, or cause to be collected, rents, rates and charges which shall be sufficient in each Fiscal Year to comply with the foregoing Rate Covenant.

(c) It will pay or cause the Fiscal Agent or paying agent to pay from the Project Revenues deposited in the Sinking Fund the principal of, premium, if any, and interest on all Bonds as the same shall become due and payable and as more particularly set forth in the Bonds.

(d) It will continuously maintain in good condition and continuously operate the Gas Works.

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(e) It will not in any Fiscal Year pay from the Project Revenues any City Charges or deposit from the Project Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior thereto or concurrently therewith all sinking fund charges in respect of Bonds issued and outstanding hereunder for such Fiscal Year, then payable, shall have been deposited in the Sinking Fund created hereby.

(f) It will not refund from the proceeds of Bonds any debt of the City represented by general obligation bonds or notes issued prior to January 1, 1974.

(g) That it has, by Ordinance, authorized the imposition of rates and charges by the Gas Commission sufficient from time to time to comply with Rate Covenant set forth in Section 4.03(b) and that it will not repeal or materially adversely dilute such authorization.

(h) It will, not later than 120 days following the close of each Fiscal Year, file with the Fiscal Agent a report of the operation of the Gas Works setting forth, among other things, in reasonable detail financial data concerning the Gas Works for such Fiscal Year, including a balance sheet, statements of income, equity, and changes in financial condition, and an analysis of funds available to cover debt service (in each case not inconsistent with the statements of income, expenses, and other accounts of the City audited by the City Controller) prepared by the Manager of the Gas Works in accordance with generally recognized municipal accounting principles consistently applied, showing compliance with the Rate Covenant, accompanied by a certificate of the Manager of the Gas Works that the Gas Works are in good operating condition and by a certificate of the Director of Finance that as of the date of such report the City has complied with all of the covenants in this Ordinance and in all ordinances supplemental hereto on its part to be performed. Such report shall be furnished to the Fiscal Agent in such reasonable number of copies

as shall be required to meet the written requests of Bondholders therefor on a first come first served basis. The Fiscal Agent shall keep on file a copy of each report and its accompanying certificates for a period of ten (10) years and shall exhibit the same to, and permit the copying thereof by, any Bondholder or his authorized representative at all reasonable times.

SECTION 4.04. *Bonds to be Parity Bonds.* All bonds issued hereunder shall be parity Bonds equally and ratably secured by the pledge of and grant of security interest in, the Project Revenues without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond or coupon over any other Bond or coupon or as between principal and interest.

The City hereby reserves the right, and nothing herein shall be construed to impair such right, to finance improvements to its Gas Works by the issuance of its general obligation bonds or by the issuance, under ordinances other than Supplemental Ordinances, of Gas Works bonds for the payment of which Project Revenues of the Gas Works may be pledged subject and subordinate in each Fiscal Year to the prior payment from such revenues of all principal, premium, interest and sinking fund requirements payable during such Fiscal Year under this Ordinance, as from time to time supplemented and amended, in respect of Bonds.

SECTION 4.05. *Sale of Bonds; Taxes Not to be Assumed; Terms and Provisions; Authority of Director of Finance.* To the extent, pursuant to Section 4.06, that the Supplemental Ordinance authorizing any Series of Bonds hereunder shall not otherwise provide:

(a) All bonds shall be sold at public, private or invited sale as a majority of the Mayor, the City Controller and the City Solicitor may determine to be in the best interest of the City and, if sold at competitive public sale, shall be sold to the purchaser or purchasers submitting the highest and best bid upon such terms and conditions

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of the bidding as shall be specified in an official notice of sale issued in the name of the City by the Director of Finance;

(b) no covenant to pay or assume any taxes shall be included in such Bonds; and

(c) subject to the foregoing, the terms upon which or the prices for which the Bonds are to be sold or exchanged, and the form, terms and provisions of the Bonds including, without limitation, the matters referred to in Section 5 of the Act, and in the second paragraph of Section 3.04 of this Ordinance shall be determined by the Director of Finance who is hereby designated as the officer of the City to make such determinations based, to the extent applicable, on the prices, interest rates or other terms set forth in the highest and best proposal conforming to the bidding specifications as ascertained and accepted on behalf of the City by the Director of Finance.

SECTION 4.06. *Conditions of Issuing Bonds, Supplemental Ordinance; Filing of Transcript; Use of Proceeds; Refunding Bonds.* Prior to the issuance of any series of Bonds, the Council shall adopt an ordinance supplemental hereto specifying the aggregate principal amount or maximum aggregate principal amount, and authorizing the issuance of such Bonds; stating that such Bonds are issued in respect of capital costs of a Gas Works project or projects of the City or to fund or refund bond anticipation or other obligations of the City issued in respect thereof or for the purpose of refunding debt issued for such purpose; making a finding based on the report of the Director of Finance of the City required by Section 8 of the Act that the Project Revenues pledged hereunder will be sufficient to comply with the Rate Covenant and also to pay all costs, expenses and payments required to be paid therefrom and in the order and priority stated in Section 4.02; and containing the covenant as to the payment of debt service required by Article IX, Section 10 of the Pennsylvania Constitution. Such Supplemental Ordinance may specify such form,

terms and provisions of the Bonds to be issued thereunder, may specify a particular method of sale; may specify the terms upon which, or the prices for which, the Bonds are to be sold or exchanged, including, if applicable, competitive bidding specifications; may contain such amendments to this Ordinance, including amendments or rescission of the covenants herein contained, and may contain or authorize such further covenants and agreements, including such covenants as may be appropriate under existing regulations so that the Bonds may not be deemed to be "arbitrage bonds" as such term is defined in the Internal Revenue Code and applicable regulations, all as the Council may deem appropriate and proper and as shall be authorized or permitted by the Act but no such amendments, provisions, terms, covenants or agreements (other than those permitted under Section 8.01 and adopted pursuant thereto) which shall be inconsistent with the provisions of, or if they would impair a prior covenant contained in, this Ordinance as at the time amended or supplemented, shall become effective until all Bonds the holders of which are entitled to the protection of, or to enforce compliance with such prior covenant, shall cease to be outstanding.

Prior to the issuance of any Series of Bonds hereunder the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds which shall include (i) a certified copy of this Ordinance (unless previously so filed); (ii) a certified copy of the Supplemental Ordinance; (iii) an executed or certified copy of the report of the Director of Finance required by subsection (a) of Section 8 of the Act; (iv) an executed copy of the opinion of the City Solicitor required by subsection (b) of Section 8 of the Act; (v) an executed copy of the Engineer's report required by subsection (a) of Section 4.03; and (vi) a certificate of the Director of Finance that there is no default in the payment of the principal of, interest on, or premiums, if any, payable in respect of, any Bonds, that the amounts currently on deposit in the Sinking Fund Reserve

meet the requirements of Section 6.04 that the report for the latest completed Fiscal Year required to be filed pursuant to subsection (h) of Section 4.03 has been filed and that during such Fiscal Year the City was in compliance with the Rate Covenant as therein shown, and that the City is currently in compliance with the Rate Covenant and all other covenants contained in this Ordinance and all Supplemental Ordinances, and thereupon the proper officers of the City and the Fiscal Agent shall be authorized to execute and deliver the Bonds so authorized, to receipt for the purchase price thereof and to execute and deliver on behalf of the City the usual closing statements, affidavits and certificates.

The Director of Finance, the City Solicitor, the City Controller and such other officers of the City as may be appropriate are authorized in connection with the issuance of any Series of Bonds hereunder, to prepare, execute and file on behalf of the City such statements, documents or other material as may accurately and properly reflect the financial condition of the City or other matters relevant to the issuance or payment of such Bonds and as may be required or appropriate to comply with applicable state or federal laws or regulations.

Unless otherwise provided in the Supplemental Ordinance, the proceeds of sale of all Bonds issued hereunder shall be deposited in the consolidated cash account of the City to the credit of the capital improvement funds and shall be disbursed therefrom, in accordance with established procedures, for the costs of the project or projects (as such term is defined in the Act) for which the Bonds were issued *provided*, however, that if such Bonds shall be issued for the purpose of funding or refunding bonds or notes previously issued by the City such proceeds shall, unless otherwise directed by the Supplemental Ordinance, be deposited in a special account in the Sinking Fund hereinafter authorized and deposited, invested (if appropriate) and disbursed under the direction of the Director of Finance for the purpose of retiring the bonds or notes being funded or refunded.

If the City shall, by Supplemental Ordinance, authorize the issuance of revenue refunding bonds pursuant to Section 10 of the Act, in the absence of specific direction or inconsistent authorization contained in the Supplemental Ordinance, the Director of Finance is hereby authorized in the name and on behalf of the City to take all such action, including the irrevocable pledge of proceeds and/or the income and profit from the investment thereof for the payment and redemption of the funded or refunded bond or notes and including the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the funding or refunding and to comply with the requirements of Section 10 of the Act.

SECTION 5.

ARTICLE V
REDEMPTION OF BONDS

SECTION 5.01. *Bonds May Be Subject to Redemption.* Bonds of any Series may be subject to either optional or mandatory redemption at the times, in the order, in the amounts, at the redemption prices, and other such terms, conditions and restrictions, all as may be set forth in the Supplemental Ordinance authorizing the issuance of such series or, in the absence of such provisions, as may be set forth in the Bonds at the direction of the Director of Finance and shall be set forth in the official notice of sale.

SECTION 5.02. *Notice, Selection by Lot.* Whenever the City shall, by ordinance of Council, determine to redeem all or part of the Bonds of any series in accordance with the right reserved so to do, or when the City or the Fiscal Agent shall be required to redeem Bonds pursuant to mandatory redemption provisions, the City or the Fiscal Agent, as the case may be, shall cause a notice of intention to redeem, signed in the name of the City by the Fiscal Agent, to be published once a week for two consecutive weeks, the first publication to be at least thirty days and not more than sixty days before the redemption date, in not less than two nor more than four daily newspapers published in the Eng-

lish language and of general circulation in the City. At least thirty days before the redemption date the Fiscal Agent shall mail such notice to each registered owner appearing upon the bond register of the registered Bonds to be redeemed, but failure so to mail any such notice shall not affect the validity of the proceedings for redemption. Such notice shall specify, unless a pertinent Supplemental Ordinance shall otherwise provide, the Series and the maturities of the Bonds so to be redeemed and also, if less than all then outstanding Bonds of a maturity are to be redeemed, the numbers of the Bonds to be redeemed which may be expressed in designated blocks, if applicable, and the date fixed for redemption, the redemption price and the place of payment, and shall further state that, from and after such date, interest thereon will cease to accrue.

In connection with the redemption of less than all the Bonds of a particular maturity or series, the Fiscal Agent shall draw by lot the number of the Bonds to be redeemed in such manner as it shall deem proper unless the Supplemental Ordinance establishing the terms and provisions of such Bonds or the redemption provisions of the particular Bonds provides that they shall be redeemable in the order or inverse order of their numbers or that such Bonds shall be redeemable in the order or inverse order of their maturities and all Bonds of a particular maturity or maturities are being redeemed. For the purpose of any drawing, the Fiscal Agent shall assign a number for each basic denomination.

SECTION 5.03. *Effect of Redemption, Payment.* Notice having been given in the manner hereinbefore provided in this Article or irrevocable instructions to give such notice having been delivered to the Fiscal Agent to pay said Bonds or portions thereof, and funds complying with the provisions of subparagraph (1) of Section 10 of the Act having been deposited in trust with the Fiscal Agent or having been set aside with the Sinking Fund Depository in a special account in the Sinking Fund, prior to the date fixed for redemption, the Bonds or portions thereof so called for redemption, shall become due and payable on the redemp-

tion date so designated, and interest on such Bonds or portions thereof shall cease from such redemption date, whether such Bonds be presented for redemption or not, and the coupons representing the interest on any of said Bonds thereafter to accrue shall from that date be void and of no effect. The principal amount of all Bonds or portions thereof so called for redemption, together with the premium, if any, and accrued interest thereon, shall be paid by the Fiscal Agent, upon presentation and surrender thereof in negotiable form, accompanied by coupons, if any, representing such interest. All coupons maturing subsequent to the date of redemption must accompany each Bond so redeemed.

SECTION 5.04. *Partial Redemption.* Upon presentation of any Bond which is to be redeemed in part only, the City and the Fiscal Agent shall execute and deliver to the Holder thereof, at the expense of the City a new Bond or Bonds of authorized denominations in principal amount equal to and of the same Series and maturity as the unredeemed portion of the Bond or Bonds so presented, which new Bond or Bonds shall, at the option of the Holder, either be a coupon Bond or Bonds with all unmatured coupons thereto appertaining or a registered Bond or Bonds without coupons.

SECTION 6.

ARTICLE VI
SINKING FUND

SECTION 6.01. *Establishment of Sinking Fund.* There is hereby established a sinking fund to be known as the City of Philadelphia Gas Works Revenue Bond Sinking Fund (referred to in this Ordinance as the Sinking Fund) for the benefit and security of the Holders of all Bonds. The Sinking Fund shall be held in the name of the City in an account or accounts separate and apart from all other accounts of the City and payments therefrom shall be made only as hereinafter in this Ordinance provided.

The City covenants and the Director of Finance is directed to deposit in, and there is hereby appropriated to,

the Sinking Fund from the pledged revenues in each Fiscal Year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and the interest on the Bonds then becoming due and payable. Payment into the Sinking Fund shall be scheduled at such times and in such amounts in relation to the receipt of revenues and the operation and maintenance requirements of the Gas Works as the Director of Finance shall determine.

SECTION 6.02. *Fiscal Agent.* Such state or federally chartered bank as may from time to time be appointed by the City in accordance with law, shall act as Fiscal Agent in respect of all Bonds issued under this Ordinance or in respect of any particular issue or issues of Bonds. The Fiscal Agent shall also act as Sinking Fund Depository of the Sinking Fund, and as paying agent and registrar of the Bonds in respect of which it is the Fiscal Agent. Nothing in this Ordinance shall be construed to prevent the City from engaging other or additional Fiscal Agents from time to time or from engaging other or additional sinking fund Depositories, paying agents or registrars of the Bonds or any series thereof.

Subject to the foregoing, the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of accounts and records, the disposal of cancelled Bonds and coupons, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of this Ordinance.

SECTION 6.03. *Payments From the Sinking Fund.* The Sinking Fund Depository shall, on direction of the Director of Finance, or if for any reason he should fail to give such direction, on the direction of the Fiscal Agent, liqui-

date investments, if necessary, and pay over from the Sinking Fund in cash to the Fiscal Agent not later than the due date thereof the full amount of the principal, interest on, and premium, if any, payable upon redemption of, all Bonds.

Any excess moneys in the Sinking Fund, including any excess amount in the Sinking Fund Reserve and moneys for the payment of the interest, principal and premium of bonds unclaimed after the due date for two years, shall be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Sinking Fund.

SECTION 6.04. *Sinking Fund Reserve.* There is hereby established a Sinking Fund Reserve which shall be held by the Sinking Fund Depository as part of the Sinking Fund but for which separate accounts shall be maintained. Unless otherwise provided in the applicable Supplemental Ordinance in compliance with this Section 6.04, the City shall, under direction of the Director of Finance, deposit in the Sinking Fund Reserve from the proceeds of sale of each Series of Bonds issued hereunder, an amount equal to the maximum amount required in any Fiscal Year to pay the principal of and interest on the Bonds of such Series becoming due and payable in such Fiscal Year. The money and investments (valued at market) in the Sinking Fund Reserve shall be held and maintained in an amount equal at all times to the maximum principal and interest requirements in any subsequent Fiscal Year of all bonds issued and outstanding hereunder, *provided* that if the Supplemental Ordinance authorizing a Series of Bonds shall authorize the accumulation from Project Revenues of a reserve of such amount in respect of such Bonds over a period of not more than six Fiscal Years after the issuance and delivery of such Bonds, then the full payment of the annual deposits required under such Supplemental Ordinance will meet the Sinking Fund Reserve requirement of this Ordinance in respect of such Bonds.

If, at any time and for any reason, the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, shall be insufficient to pay as and when due, the principal of (and premium if any) or interest on any Bond or Bonds, the Sinking Fund Depositary is hereby authorized and directed to withdraw from the Sinking Fund Reserve and pay over to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City hereby covenants to restore such deficiency as required by Section 7.02.

SECTION 6.05. *Management of the Sinking Fund.* To the extent that debt service in respect of any Series of Bonds shall not be financed as a part of the cost of the project or projects for which the Bonds are issued, in which case the amount of the debt service financed shall be deposited in the Sinking Fund from the proceeds of Bonds, sinking fund payments from the pledged revenues in respect of each Series of Bonds shall commence during the six-month period immediately preceding the first interest payment date of each Series for which debt service has not been completely funded and in any event not later than one year subsequent to the estimated completion or acquisition of projects to be constructed or acquired as estimated by the Manager of the Gas Works and, in all other cases, not later than one year subsequent to the date of the Bonds. The moneys, including interest bearing deposits, in the Sinking Fund to the extent not otherwise invested and to the extent not insured, shall be secured as required by the Act and, to the extent not currently required for the payment of debt service, shall be continuously invested and reinvested in securities or interest bearing deposits authorized by the Act, all at the direction and under the management of the Director of Finance. Interest and profits from such investments shall be added to the Sinking Fund and credited in reduction of or to complete required deposits into the Sinking Fund.

SECTION 6.06. *Consolidated Fund.* The Sinking Fund shall be a consolidated fund for the equal and proportionate

benefit of the holders of all Bonds from time to time outstanding hereunder and may be invested and reinvested on a consolidated basis. The principal of and interest on and profits (and losses if any) realized on investments in the Sinking Fund shall be allocated prorata for the Series or the specific Bonds in respect of which such investments were made without distinction or priority but moneys (and the investments thereof) specifically deposited for the payment of any particular installment of principal, interest or premium shall be held and applied exclusively to the payment of such particular principal, interest or premium.

SECTION 7.

ARTICLE VII
DEFAULTS AND REMEDIES

SECTION 7.01. *Defaults and Statutory Remedies.* If the City shall fail or neglect to pay or to cause to be paid the principal of, redemption premium, if any, or the interest on any Bond or any Series of Bonds issued hereunder, whether at stated maturity or upon call for prior redemption, or if the City shall fail to comply with any provision of the bonds or with any covenant of the City contained in this Ordinance or an applicable Supplemental Ordinance then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies, including the appointment of a trustee, provided in the Act.

SECTION 7.02. *Additional Remedies.* If the City shall fail or neglect to make deposits into the Sinking Fund, including the Sinking Fund Reserve, in the amounts and at the times required by this Ordinance and as provided in the Bonds or if, for any reason, there shall be insufficient moneys on deposit in the Sinking Fund for the payment in full of the principal (and premium, if any) or of interest on the Bonds as and when the same shall from time to time become due and payable, then the City covenants that it will without notice thereof from any Bondholder, fiscal agent, paying agent or sinking fund depository, and so long as such default shall continue, immediately upon such

default deposit in the Sinking Fund, on a daily basis of all pledged revenues of the Gas Works, or a percentage thereof as the Director of Finance may determine. The covenant of this Section 7.02 shall be legally enforceable by any trustee appointed under Section 20 of the Act or if there be no such trustee appointed, then by the Holder of any Bond outstanding.

SECTION 7.03. Remedies Not Exclusive; Effect of Exercise of Remedies. No remedy herein conferred upon or reserved to the trustee, if any, or the Holder of any bond is intended to be exclusive of (and in addition to) any other remedies specifically provided in the Act) of any other remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy hereunder or now or hereafter existing at law or by statute.

No delay or omission of the trustee, if one or more, or of any Holder of the Bonds to exercise the power accruing upon any default shall impair the right or power or shall be construed to be a waiver of such default, or an acquiescence therein; and the remedy given by this Article, by the Act or otherwise may be exercised from time to time, and as often as may be deemed expedient.

SECTION 7.04. Remedies to be Enforced Against Pledged Revenues. Any decree or judgment of money against the City by reason of a default under shall be enforceable only against the revenues and the investments thereof and no decree or judgment against the City upon an action brought shall order or be construed to permit the attachment, seizure, or sale upon execution of any property of the City.

SECTION 8.

ARTICLE VIII
AMENDMENTS AND MODIFICATIONS

SECTION 8.01. In addition to the adoption of Supplemental Ordinances supplementing and/or amending this Ordinance as provided in Section 4.06 in connection with the issuance of successive series of bonds, this Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission herein or therein; (b) to grant to or confer upon Bondholders, or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority, or security that may be lawfully granted or conferred; (c) to comply with any mandatory provision of state or federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds but no amendment or modification shall be made with respect to any outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected outstanding Bonds; and (d) except as aforesaid, in such other respect as may be authorized in writing by the Holders of 67% in principal amount of the Bonds outstanding and affected. Bonds which have become due and payable on a fixed redemption date in accordance with Section 5.03 shall be deemed to be not outstanding.

SECTION 9.

ARTICLE IX
MISCELLANEOUS

SECTION 9.01. *Ordinances are Contracts With Bondholders.* This Ordinance and Supplemental Ordinances adopted pursuant hereto are contracts with the Holders of all Bonds from time to time outstanding hereunder and thereunder and shall be enforceable in accordance with the provisions of Article VII and the laws of Pennsylvania.

SECTION 9.02. *Repeals.* All ordinances and parts of ordinances heretofore adopted to the extent that the same are inconsistent herewith are hereby repealed.

APP. NO. 397-44

CERTIFICATION: This is a true and correct copy of
the original Ordinance approved by the Mayor on

MAY 30 1975

Charles H. Sawyer Jr

Chief Clerk of the Council



(Bill No. 274)

AN ORDINANCE

Constituting the Sixth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975, as amended by the Fifth Supplemental Ordinance thereto; authorizing the Mayor, the City Controller and the City Solicitor, or a majority of them, to sell Gas Works Revenue Bonds, Sixth Series, of the City of Philadelphia in the maximum aggregate principal amount of one hundred million dollars (\$100,000,000); designating the projects being financed and setting forth the use of proceeds; determining the sufficiency of the project revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Sixth Series Bonds from general accounts of the City; covenanting the payment of interest and principal on the Sixth Series Bonds; authorizing covenants and action in order that the Sixth Series Bonds shall not be arbitrage bonds; amending the General Gas Works Revenue Bond Ordinance of 1975, as amended by the Fifth

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Supplemental Ordinance thereto, to provide that interest and income on the Sinking Fund Reserve may be retained in such Reserve by the Director of Finance; and specifying the applicability of sections of The First Class City Revenue Bond Act and the General Gas Works Revenue Bond Ordinance of 1975, as amended by the Fifth Supplemental Ordinance thereto.

The Council of the City of Philadelphia hereby ordains:

SECTION 1. The Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, are hereby authorized on behalf of the City to borrow, by the issuance and sale of Gas Works Revenue Bonds, Sixth Series, of the City (the "Sixth Series Bonds"), pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, as amended by the Fifth Supplemental Ordinance thereto (the "General Ordinance"), a sum or sums which in the aggregate shall not exceed one hundred million dollars (\$100,000,000) to be expended as provided in Section 2 of this Ordinance. The Sixth Series Bonds shall contain such terms and

provisions as are determined by a majority of the Bond Committee to be in the best interest of the City and are not inconsistent with the provisions hereof, of the Act or of the General Ordinance.

The Sixth Series Bonds shall not pledge the credit or taxing power, create any debt or charge against the tax or general revenues or create any lien against any property of the City other than the revenues pledged by the General Ordinance.

SECTION 2. The Sixth Series Bonds shall be issued in respect of capital costs of the gas works system of the City (the "Gas Works") incurred or to be incurred for the purpose of (i) acquiring and constructing the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budget of the City, which may include, without limitation, (a) the acquisition of land or rights therein; (b) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery, and apparatus; (c) the acquisition, construction or replacement of pipes and pipe lines; and (d) the acquisition or replacement of property of a capital nature for

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use in the operation, maintenance and administration of the Gas Works system of the City; and (ii) paying any other Project Costs (as defined in the Act), which may include, without limitation, the repayment to any fund of the City or to accounts of the Gas Works of amounts advanced for Project Costs, and the funding or refunding of outstanding bond anticipation temporary loan notes or other obligations of the City issued in respect of Project Costs.

The City covenants that the proceeds of the sale of the Sixth Series Bonds which remain available for the payment of the costs of the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budget of the City, after payment of the financing costs, the required payment into the Sinking Fund Reserve and the repayment to the City and the Gas Works of amounts previously advanced for project costs or for the funding or refunding of bond anticipation temporary loans or other obligations as described above, shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate and apart from and not commingled

with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts.

SECTION 3. Based on the report of the Director of Finance of the City filed with the Council pursuant to Section 8 of the Act, it is hereby determined that the pledged Project Revenues, as defined in the General Ordinance, will be sufficient to comply with the rate covenant contained in Section 4.03(b) of the General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in the order and priority stated in Section 4.02 of the General Ordinance.

SECTION 4. Subject to the provisions of Section 7.02 of the General Ordinance, the City covenants that, so long as any of the Sixth Series Bonds shall remain outstanding, all pledged Project Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the consolidated cash account of the City or any other account of

the City not held exclusively for Gas Works purposes. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts except as otherwise required by the General Ordinance.

SECTION 5. The City covenants that, so long as any Sixth Series Bonds shall remain unpaid, it shall make payments or cause payments to be made out of its Gas Works Revenue Bond Sinking Fund created under the General Ordinance, at such times and in such annual amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due.

SECTION 6. The Director of Finance is authorized to take such action on behalf of the City with respect to the investment of the proceeds of the Sixth Series Bonds, and the Director of Finance and any member of the Bond Committee are authorized to make such covenants, as may be necessary or advisable in order that the Sixth Series Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code of 1954, as amended.

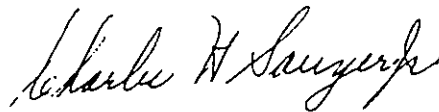
SECTION 7. The General Ordinance is hereby amended by changing the first sentence of Section 6 of the Fifth Supplemental Ordinance to the General Ordinance to read as follows:

"All interest and income earned on moneys held in the Gas Works Revenue Bond Sinking Fund Reserve created under the General Ordinance (Sinking Fund Reserve Earnings) may, to the extent not required to comply with Section 6.04 of the General Ordinance, be transferred and paid by the Director of Finance to the operating funds of the Gas Works, to be applied as Project Revenues in accordance with the terms of Section 4.02 of the General Ordinance."

SECTION 8. This Ordinance is supplementary to the General Ordinance and all sections of the General Ordinance and the Act not inconsistent herewith are applicable to the Sixth Series Bonds. All definitions of terms contained in the Act or in the General Ordinance shall apply to such terms in this Ordinance.

APP. NO. 368—8

CERTIFICATION: This is a true and correct copy of
the original Ordinance approved by the Mayor on
1. 31 1959.

A handwritten signature in cursive script, reading "Charles H. Sawyer".

Chief Clerk of the Council



(Bill No. 534)

AN ORDINANCE

Constituting the Eighth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975, as amended to date; authorizing the Mayor, the City Controller and the City Solicitor, or a majority of them, to sell, either at public or private sale, Gas Works Revenue Bonds, Eighth Series, of the City of Philadelphia in the maximum aggregate principal amount of ninety million dollars (\$90,000,000), provided that if the Bonds are sold at a discount the aggregate principal amount may be increased to reflect such discount so long as the aggregate gross proceeds to the City from the sale of the Bonds do not exceed ninety million dollars (\$90,000,000); designating the projects being financed and setting forth the use of proceeds and permitting the transfer of interest and income earned on such proceeds to the operating funds of the Gas Works; determining the sufficiency of the project revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Eighth Series Bonds from general accounts of the City; covenanting

APP. NO. 247-2

the payment of interest and principal on the Eighth Series Bonds; authorizing covenants and action in order that the Eighth Series Bonds shall not be arbitrage bonds; amending the General Gas Works Revenue Bond Ordinance of 1975, as amended to date, to provide that excess monies in the Sinking Fund Reserve in respect of the Eighth Series Bonds, other than Sinking Fund Reserve Earnings, shall be transferred to certain accounts of the Gas Works and applied to pay capital costs; amending the General Revenue Bond Ordinance of 1975, as amended to date, relating to the issuance of fully registered bonds; and specifying the applicability of sections of The First Class City Revenue Bond Act and the General Gas Works Revenue Bond Ordinance of 1975, as amended to date.

The Council of the City of Philadelphia hereby ordains:

SECTION 1. The Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, are hereby authorized on behalf of the City to borrow, by the issuance and sale of Gas Works Revenue Bonds, Eighth Series, of the City (the "Eighth Series Bonds"), pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, as amended to date (the "General Ordinance"), a sum or sums which in the aggregate shall not exceed the

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principal amount of Bonds authorized to be issued hereunder, to be expended as provided in Section 2 of this Ordinance. The Eighth Series Bonds shall be sold either at public competitive sale to the highest bidder or bidders or at a private negotiated sale, as a majority of the Bond Committee shall deem to be in the best interest of the City. The Eighth Series Bonds shall contain such terms and provisions, as are determined by a majority of the Bond Committee to be in the best interest of the City and are not inconsistent with the provisions hereof, of the Act or of the General Ordinance.

The aggregate principal amount of Eighth Series Bonds which are authorized to be issued hereunder shall not be more than ninety million dollars (\$90,000,000); provided that if any of the Eighth Series Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of Eighth Series Bonds which may be issued hereunder shall be increased to reflect such discounts, so long as the aggregate gross proceeds from the sale of the Eighth Series Bonds shall not exceed ninety million dollars (\$90,000,000).

The Eighth Series Bonds shall not pledge the credit or taxing power, create any debt or charge against the tax or general revenues or create any lien against any property of the City other than the revenues pledged by the General Ordinance.

SECTION 2. The Eighth Series Bonds shall be issued in respect of capital costs of the gas works system of the City (the "Gas Works") incurred or to be incurred for the purpose of (i) acquiring and constructing the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budgets of the Gas Works, as approved by City Council, which may include, without limitation, (a) the acquisition of land or rights therein; (b) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (c) the acquisition, construction or replacement of pipes and pipe lines; and (d) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; and (ii) paying any other Project Costs (as defined in the Act), which may include, without limitation, the repayment to any fund of the City or to accounts of the Gas Works of amounts advanced for Project Costs, and the funding or refunding of outstanding bond anticipation notes or other obligations of the City issued in respect of Project Costs.

The City covenants that the proceeds of the sale of the Eighth Series Bonds which remain available for the payment of the costs of the capital improvements, after payment of the financing costs, the required payment into

APP. NO. 247-5

the Sinking Fund Reserve and the repayment to the City and the Gas Works of amounts previously advanced for Project Costs or for the funding or refunding of bond anticipation notes or other obligations as described above, shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate and apart from and not commingled with the *consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes.* This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts. All interest and income earned on the investment of such proceeds pending expenditure for the aforesaid purposes may be transferred to and deposited in the operating funds of the Gas Works and applied as Project Revenues in accordance with Section 4.02 of the General Ordinance.

Any excess moneys in the Sinking Fund Reserve in respect of the Eighth Series Bonds other than Sinking Fund Reserve Earnings shall be transferred to the accounts of the Gas Works described in this Section 2 and applied to pay capital costs as described in this Section 2.

SECTION 3. Based on the report of the Director of Finance of the City filed with the Council pursuant to Section 8 of the Act, it is hereby determined that the pledged Project Revenues, as defined in the General

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Ordinance, will be sufficient to comply with the rate covenant contained in Section 4.03(b) of the General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in the order and priority stated in Section 4.02 of the General Ordinance.

SECTION 4. Subject to the provisions of Section 7.02 of the General Ordinance, the City covenants that, so long as any of the Eighth Series Bonds shall remain outstanding, all pledged Project Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. This covenant shall not be construed to require the establishment of any Gas Works account segregated from other Gas Works accounts except as otherwise required by the General Ordinance.

SECTION 5. The City covenants that, so long as any Eighth Series Bonds shall remain unpaid, it shall make payments or cause payments to be made out of its Gas Works Revenue Bond Sinking Fund created under the General Ordinance, at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due.

SECTION 6. The Director of Finance is authorized to take such action on behalf of the City with respect to the

investment of the proceeds of the Eighth Series Bonds, and the Director of Finance and any member of the Bond Committee are authorized to make such covenants as may be necessary or advisable in order that the Eighth Series Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code of 1954, as amended (the "Code").

SECTION 7. In order to comply with the requirement of Section 103(j) of the Code that all tax-exempt obligations be in registered form, the General Ordinance is hereby amended as follows:

(a) The following definition of Record Date is added to Section 2.01 of the General Ordinance:

"Record Date means, with respect to each interest payment date on the Bonds, that day which next precedes such interest payment date by fifteen (15) days, whether or not such day is a business day."

(b) The General Ordinance is amended by the addition of Section 3.04A, to read as follows:

"The third paragraph of Section 3.04 shall not apply to Bonds issued after May 1, 1985 but, instead, the following provision shall apply to such Bonds: The principal of and interest on (except the final installment of principal and the interest then payable) and the principal, premium, if any, and accrued interest payable upon partial redemption

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with respect to, all fully registered installment Bonds, and the interest payable in respect of fully registered Bonds shall be payable by check or draft of the Fiscal Agent mailed to the registered owner of such Bonds at the address of such owner as it appears upon the bond register at the close of business on the Record Date, or, in the case of defaulted interest, as it appears on a special record date established for the payment of such defaulted interest by notice mailed by or on behalf of the City to the registered owner of such Bonds not less than ten (10) days preceding such special record date (such notice to be mailed to the registered owner of such Bonds appearing on the bond register on the close of business on the fifth day preceding the date of mailing); and the records of the Fiscal Agent shall be conclusive as to such payment and shall bind such owner, his successors and assigns whether or not such payment be noted on such Bond. Except as aforesaid, the principal of all Bonds, the premium, if any, payable upon redemption thereof, and the interest on all coupon Bonds payable at or prior to maturity, shall be payable in lawful money of the United States of America at the principal Philadelphia office of the Fiscal Agent in Philadelphia, Pennsylvania, or at the principal office of a paying agent designated in such Bonds, but with respect to such principal, only upon presentation and

APP. NO. 247-9

surrender of such Bonds, or with respect to interest payable at or prior to maturity of such coupon Bonds, only upon presentation and surrender of the respective coupons for interest, except as otherwise herein provided with respect to mutilated, destroyed, lost or stolen Bonds or coupons.”

(c) The first sentence of Section 3.09 of the General Ordinance is amended to read as follows:

“All Bonds of any Series issued hereunder shall be exchangeable for like Bonds of different authorized denominations or for Bonds in different form authorized for the same Series, as the case may be, and, in each case, in the same aggregate principal amount, maturing on the same dates and bearing the same rate of interest as the Bonds to be exchanged, all in the manner hereinafter provided.”

(d) The General Ordinance is amended by the addition of Section 3.09A, to read as follows:

“The fourth sentence of Section 3.09 hereof shall not apply to Bonds issued after May 1, 1985 but, instead, the following provision shall apply to such Bonds: All fully registered Bonds issued in exchange for Bonds of any Series shall be dated the date of issuance thereof and shall bear interest from the date from which interest was initially payable with

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respect to such Series or from the next preceding interest payment date of such Series to which interest has been duly paid or provided, whichever is later, or, if the date of authentication shall be an interest payment date to which interest has been duly paid or provided, from such date."

(e) The first sentences of Section 5.02 of the General Ordinance is amended to read as follows:

"Whenever the City shall, by ordinance of the Council, determine to redeem all or part of the Bonds of any Series in accordance with the right reserved so to do, or when the City or the Fiscal Agent shall be required to redeem Bonds pursuant to mandatory redemption provisions, the City or the Fiscal Agent, as the case may be, shall cause a notice of intention to redeem, signed in the name of the City by the Fiscal Agent, to be published once a week for two (2) consecutive weeks, the first publication to be at least thirty (30) days and not more than sixty (60) days before the redemption date, in not less than two (2) nor more than four (4) daily newspapers published in the English language and of general circulation in the City; provided, however, that no such published notice shall be required for the redemption of fully registered Bonds of any Series for which mailed

APP. NO. 247-11

notice, described in the next succeeding sentence, shall be the only required notice.”

(f) Section 5.04 of the General Ordinance is amended to read as follows:

“Upon presentation of any Bond which is to be redeemed in part only, the City and the Fiscal Agent shall execute and deliver to the Holder thereof, at the expense of the City, a new Bond or Bonds of authorized denominations in principal amount equal to and of the same Series and maturity as the unredeemed portion of the Bond or Bonds so presented, which new Bond or Bonds shall be in the same form of the Bond to be redeemed or, at the option of the Holder, in any other form authorized for Bonds of such Series.”

SECTION 8. This Ordinance is supplementary to the General Ordinance and all Sections of the General Ordinance and the Act not inconsistent herewith are applicable to the Eighth Series Bonds. All definitions of terms contained in the Act or in the General Ordinance not inconsistent herewith shall apply to such terms in this Ordinance.

APP. NO. 247-12

CERTIFICATION: This is a true and correct copy of
the original Ordinance approved by the Mayor on

MAY 17 1985

Charles H. Sawyer Jr

Chief Clerk of the Council



(Bill No. 1248)

AN ORDINANCE

Constituting the Eleventh Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1975, as amended to date; authorizing the Mayor, the City Controller and the City Solicitor, or a majority of them, to sell, either at public or private sale, Gas Works Revenue Bonds of the City of Philadelphia, in one or more series, in the maximum aggregate principal amount of two hundred seventy five million dollars (\$275,000,000), provided that if the Bonds are sold at a discount the aggregate principal amount may be increased to reflect such discount so long as the aggregate gross proceeds to the City from the sale of the Bonds do not exceed two hundred seventy five million dollars (\$275,000,000); designating that the Bonds are being issued to pay the costs of certain projects and to refund certain outstanding series of Gas Works Revenue Bonds and the application of the proceeds of the Bonds for such purpose; determining the sufficiency of the project revenues; covenanting the separation of Gas Works revenue accounts and proceeds of the Bonds from general accounts of the City; covenanting the payment of interest and principal on the Bonds; authorizing covenants and action in order that the Bonds shall not be arbitrage bonds; and specifying the

APP. NO. 169-2

applicability of sections of The First Class City Revenue Bond Act and the General Gas Works Revenue Bond Ordinance of 1975, as amended to date.

The Council of the City of Philadelphia hereby ordains:

SECTION 1. The Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, are hereby authorized on behalf of the City to borrow, by the issuance and sale of Gas Works Revenue Bonds of the City (the "Bonds"), in one or more series, pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, as amended to date (the "General Ordinance"), a sum or sums which in the aggregate shall not exceed the principal amount of Bonds authorized to be issued hereunder, to be expended as provided in Section 2 of this Ordinance. The Bonds shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interest of the City and are not inconsistent with the provisions hereof, of the Act or of the General Ordinance.

The aggregate principal amount of Bonds which are authorized to be issued hereunder shall not be more than two hundred seventy-five million dollars (\$275,000,000); provided that if any of the Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of Bonds which may be issued hereunder shall be increased to reflect such discounts, so long as the aggregate gross proceeds from the sale of the Bonds shall not exceed two hundred seventy-five million dollars (\$275,000,000).

APP. NO. 169-3

The Bonds shall not pledge the credit or taxing power, create any debt or charge against the tax or general revenues or create any lien against any property of the City other than the revenues pledged by the General Ordinance.

SECTION 2. The Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) acquiring and constructing the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budgets of the Gas Works, as approved by City Council, which may include, without limitation, (a) the acquisition of land or rights therein; (b) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (c) the acquisition, construction or replacement of pipes and pipe lines; and (d) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; (ii) the refunding of the City's Gas Works Revenue Bonds, First Series, the City's Gas Works Revenue Bonds, Second Series and certain maturities of the City's Gas Works Revenue Bonds, Ninth Series or such other series as shall be designated by the Director of Finance (collectively, the "Prior Bonds"); (iii) paying the costs of issuing the Bonds and any required deposits to the Sinking Fund Reserve; and (iv) paying any other Project Costs (as defined in the Act), which may include, without limitation, the repayment to any fund of the City or to accounts of the Gas Works of amounts advanced for Project Costs, and the funding or refunding

APP. NO. 169-4

of outstanding bond anticipation notes or other obligations of the City issued in respect of Project Costs.

The City covenants that proceeds of the Bonds applicable to the refunding of the Prior Bonds will be deposited in an escrow or similar account with the Fiscal Agent as defined in the General Ordinance, separate and apart from all other accounts of the City or Gas Works, including the Sinking Fund established by the General Ordinance, to be held for the benefit of the holders of refunded Prior Bonds. The City covenants that the proceeds of the Bonds which remain available for the payment of the costs of the capital improvements, after payment of the financing costs, the required payment into the Sinking Fund Reserve and the repayment to the City and the Gas Works of amounts previously advanced for Project Costs or for the funding or refunding of bond anticipation notes or other obligations as described above, shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate and apart from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts. All interest and income earned on the investment of such proceeds pending expenditure for the aforesaid purposes may be transferred to and deposited in the operating funds of the Gas Works and applied as Project Revenues in accordance with Section 4.02 of the General Ordinance.

APP. NO. 169-5

The Director of Finance is hereby authorized to determine, on behalf of the City, the particular series and maturities of the Prior Bonds to be refunded, the amount of Bond proceeds to be applied to the refunding of the Prior Bonds and to deposit such proceeds in an escrow account for the benefit of the holders of the refunded Prior Bonds, and to take any and all other action including the irrevocable pledge of such proceeds and/or the income or profit from the investment thereof for the payment and redemption of the refunded Prior Bonds and the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the refunding of the Prior Bonds and to comply with the requirements of Section 10 of the Act.

Any excess moneys in the Sinking Fund Reserve in respect of the Bonds other than Sinking Fund Reserve Earnings shall be transferred to the accounts of the Gas Works described in this Section 2 and applied to any of the purposes described in this Section 2.

SECTION 3. Based on the report of the Director of Finance of the City filed with the Council pursuant to Section 8 of the Act, it is hereby determined that the pledged Project Revenues, as defined in the General Ordinance, will be sufficient to comply with the rate covenant contained in Section 4.03(b) of the General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in the order and priority stated in Section 4.02 of the General Ordinance.

1
2

APP. NO. 169-2

applicability of sections of The First Class City Revenue Bond Act and the General Gas Works Revenue Bond Ordinance of 1975, as amended to date.

The Council of the City of Philadelphia hereby ordains:

SECTION 1. The Mayor, the City Controller and the City Solicitor (the "Bond Committee"), or a majority of them, are hereby authorized on behalf of the City to borrow, by the issuance and sale of Gas Works Revenue Bonds of the City (the "Bonds"), in one or more series, pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, as amended to date (the "General Ordinance"), a sum or sums which in the aggregate shall not exceed the principal amount of Bonds authorized to be issued hereunder, to be expended as provided in Section 2 of this Ordinance. The Bonds shall contain such terms and provisions as are determined by a majority of the Bond Committee to be in the best interest of the City and are not inconsistent with the provisions hereof, of the Act or of the General Ordinance.

The aggregate principal amount of Bonds which are authorized to be issued hereunder shall not be more than two hundred seventy-five million dollars (\$275,000,000); provided that if any of the Bonds are to be sold at discounts which are in lieu of periodic interest, the aggregate principal amount of Bonds which may be issued hereunder shall be increased to reflect such discounts, so long as the aggregate gross proceeds from the sale of the Bonds shall not exceed two hundred seventy-five million dollars (\$275,000,000).

APP. NO. 169-3

The Bonds shall not pledge the credit or taxing power, create any debt or charge against the tax or general revenues or create any lien against any property of the City other than the revenues pledged by the General Ordinance.

SECTION 2. The Bonds shall be issued for the purpose of providing funds for any or all of the following purposes: (i) acquiring and constructing the capital improvements included in the capital program of the Gas Works as from time to time included in the capital budgets of the Gas Works, as approved by City Council, which may include, without limitation, (a) the acquisition of land or rights therein; (b) the acquisition, construction or improvement of buildings, structures and facilities together with their related furnishings, equipment, machinery and apparatus; (c) the acquisition, construction or replacement of pipes and pipe lines; and (d) the acquisition or replacement of property of a capital nature for use in the operation, maintenance and administration of the Gas Works system of the City; (ii) the refunding of the City's Gas Works Revenue Bonds, First Series, the City's Gas Works Revenue Bonds, Second Series and certain maturities of the City's Gas Works Revenue Bonds, Ninth Series or such other series as shall be designated by the Director of Finance (collectively, the "Prior Bonds"); (iii) paying the costs of issuing the Bonds and any required deposits to the Sinking Fund Reserve; and (iv) paying any other Project Costs (as defined in the Act), which may include, without limitation, the repayment to any fund of the City or to accounts of the Gas Works of amounts advanced for Project Costs, and the funding or refunding

2

APP. NO. 169-4

of outstanding bond anticipation notes or other obligations of the City issued in respect of Project Costs.

The City covenants that proceeds of the Bonds applicable to the refunding of the Prior Bonds will be deposited in an escrow or similar account with the Fiscal Agent as defined in the General Ordinance, separate and apart from all other accounts of the City or Gas Works, including the Sinking Fund established by the General Ordinance, to be held for the benefit of the holders of refunded Prior Bonds. The City covenants that the proceeds of the Bonds which remain available for the payment of the costs of the capital improvements, after payment of the financing costs, the required payment into the Sinking Fund Reserve and the repayment to the City and the Gas Works of amounts previously advanced for Project Costs or for the funding or refunding of bond anticipation notes or other obligations as described above, shall be deposited and held in and disbursed from one or more unsegregated accounts of the Gas Works which shall be separate and apart from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes. This covenant shall not be construed to require the establishment of any Gas Works account segregated from any other Gas Works accounts. All interest and income earned on the investment of such proceeds pending expenditure for the aforesaid purposes may be transferred to and deposited in the operating funds of the Gas Works and applied as Project Revenues in accordance with Section 4.02 of the General Ordinance.

APP. NO. 169-5

The Director of Finance is hereby authorized to determine, on behalf of the City, the particular series and maturities of the Prior Bonds to be refunded, the amount of Bond proceeds to be applied to the refunding of the Prior Bonds and to deposit such proceeds in an escrow account for the benefit of the holders of the refunded Prior Bonds, and to take any and all other action including the irrevocable pledge of such proceeds and/or the income or profit from the investment thereof for the payment and redemption of the refunded Prior Bonds and the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the refunding of the Prior Bonds and to comply with the requirements of Section 10 of the Act.

Any excess moneys in the Sinking Fund Reserve in respect of the Bonds other than Sinking Fund Reserve Earnings shall be transferred to the accounts of the Gas Works described in this Section 2 and applied to any of the purposes described in this Section 2.

SECTION 3. Based on the report of the Director of Finance of the City filed with the Council pursuant to Section 8 of the Act, it is hereby determined that the pledged Project Revenues, as defined in the General Ordinance, will be sufficient to comply with the rate covenant contained in Section 4.03(b) of the General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom in the order and priority stated in Section 4.02 of the General Ordinance.

APP. NO. 169-7

of Finance and any member of the Bond Committee are authorized to make such covenants as may be necessary or advisable in order that the Bonds shall not be "arbitrage bonds" as defined in the Internal Revenue Code of 1986, as amended (the "Code").

SECTION 7. In accordance with Section 6.04 of the General Ordinance, the City is authorized to accumulate from Project Revenues over a period of not more than six Fiscal Years from the date or dates of issuance and delivery of the Bonds, the amount required by the General Ordinance to be deposited in the Sinking Fund Reserve in respect thereof.

SECTION 8. This Ordinance is supplementary to the General Ordinance and all sections of the General Ordinance and the Act not inconsistent herewith are applicable to the Bonds. All definitions of terms contained in the Act or in the General Ordinance not inconsistent herewith shall apply to such terms in this Ordinance.

APP. NO. 169-8

CERTIFICATION: This is a true and correct copy of
the original Ordinance approved by the Mayor on

MAY 26, 1987

Charles H. Sawyer Jr

Chief Clerk of the Council

Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
222 W. Washington Ave., Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, NY 10004
Policy Number: 3406BE

Issuer: CITY OF PHILADELPHIA, PENNSYLVANIA

Bonds: \$132,520,000 Gas Works Revenue Bonds, Premium: \$1,491,691.76
Eleventh Series, dated January 1, 1989
(except for the TECA Securities which are dated
their date of delivery), consisting of: \$37,925,000 in
aggregate principal amount of Current Interest Bonds maturing
on January 1 in the years 1991 through 1999, both inclusive;
\$6,617,423.90 in aggregate principal amount of TECA Term Bonds
maturing on January 1, 2001; \$8,258,141.05 in aggregate principal amount
of TECA Securities maturing on January 1 (as further described on the reverse
hereof:)

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

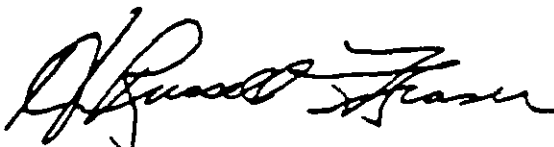
AMBAC will make such payments to the Insurance Trustee within 5 days following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all of the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

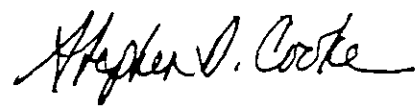
As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is **noncancelable**. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any redemption, prepayment or acceleration premium which at any time may become due in respect of any Bond, nor against risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.


President




Secretary


Authorized Representative


Authorized Officer

Effective Date: February 14, 1989

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



BONDS: in the years 2002 through 2004, both inclusive; \$52,110,000 in aggregate principal amount of Term Bonds maturing on January 1, 2010; \$5,064,435.05 in aggregate principal amount of TECA Term Bonds maturing on January 1, 2012; and \$22,545,000 in aggregate principal amount of Term Bonds maturing January 1, 2015. The Fiscal Agent is The Philadelphia National Bank, Philadelphia, Pennsylvania.

The undersigned hereby certifies that this document is a true and correct copy of the Municipal Bond Insurance Policy, Policy No. 340AB issued by AMBAC INDEMNITY CORPORATION.


Assistant Secretary

Date Feb 19 19 87

NEW ISSUE

In the opinion of Co-Bond Counsel, under existing law as presently enacted and construed, interest on the Eleventh Series C Bonds is excluded from gross income for Federal income tax purposes and is not a preference item for purposes of determining the Federal alternative minimum tax imposed on corporations and individuals; however, interest on the Eleventh Series C Bonds may be subject to the application of the alternative minimum tax and the environmental tax when held by certain corporations and the application of the foreign branch profits tax when held by foreign corporations. In rendering this opinion, Co-Bond Counsel has assumed continuing compliance by the City with tax covenants contained in the Bond Authorization relating to the Eleventh Series C Bonds. Under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the Eleventh Series C Bonds are, in the opinion of Co-Bond Counsel, exempt from personal property taxes in Pennsylvania and the interest thereon and gain from the sale thereof are exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

\$132,520,000

City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Eleventh Series C

Dated: January 1, 1989

Due: January 1, as shown below

TECA Securities dated the date of delivery

The Eleventh Series C Bonds (other than the Eleventh Series C Bonds maturing January 1, 2001 through January 1, 2004 and January 1, 2012, the "TECA Securities") are issuable as fully registered bonds in the aggregate principal amounts and bearing interest at the rates set forth on the inside cover hereof in the denomination of \$5,000 principal amount or any whole multiple thereof (the "Current Interest Bonds"). The TECA Securities shall be issuable in fully registered form in the denomination of \$5,000 Maturity Amount or any whole multiple thereof payable on the dates and in the amounts set forth on the inside cover hereof. The principal or redemption price of the Eleventh Series C Bonds is payable at the principal corporate trust office of The Philadelphia National Bank, Fiscal Agent, Sinking Fund Depository and Escrow Agent, Philadelphia, Pennsylvania. Interest on the Current Interest Bonds is payable initially on January 1, 1990 and thereafter semiannually on each July 1 and January 1 by check mailed by the Fiscal Agent to the persons in whose names the Current Interest Bonds are registered on the 15th day preceding each interest payment date. Registered owners of at least \$100,000 principal amount of Current Interest Bonds may elect to receive interest payments by wire transfer. The Eleventh Series C Bonds due January 1, 2010 and January 1, 2015 (the "Term Bonds") are subject to optional and mandatory redemption prior to maturity and the TECA Securities due January 1, 2001 and January 1, 2012 (the "TECA Term Bonds") are subject to mandatory redemption prior to maturity, all as described herein.

Payment of the principal of and interest on the Eleventh Series C Bonds when due will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the delivery of the Eleventh Series C Bonds.

THE ELEVENTH SERIES C BONDS DO NOT PLEDGE THE CREDIT OR TAXING POWER OF THE CITY OF PHILADELPHIA OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY OR CREATE ANY LIEN AGAINST ANY CITY PROPERTY OTHER THAN CERTAIN REVENUES AND FUNDS OF THE PHILADELPHIA GAS WORKS REFERRED TO HEREIN.

The Eleventh Series C Bonds are offered when, as and if issued and received by the Underwriters, subject to receipt of an unqualified approving legal opinion of Drinker Biddle & Reath and Hwang & Associates, A Professional Corporation, Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor, for the Philadelphia Gas Works by Obermayer, Rebmann, Maxwell & Hippel of Philadelphia, Pennsylvania, and for the Underwriters by Astor, Weiss & Newman and Harris and Kahn, both of Philadelphia, Pennsylvania. It is anticipated that the Eleventh Series C Bonds will be available for delivery in New York, New York, on or about February 14, 1989.

PaineWebber Incorporated

Doley Securities, Inc.

Donaldson, Lufkin & Jenrette
Securities Corporation

The First Boston Corporation

Marine Midland Capital Markets Corporation

Merrill Lynch Capital Markets

Metro Equities Corporation

W.H. Newbold's Son & Co. Inc.

Russell, Rea & Zappala, Inc.

Van Kampen Merritt

Dated: January 26, 1989

*TECA Securities are a service mark of PaineWebber Incorporated.

\$37,925,000 Serial Bonds

<u>Due January 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Due January 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
1991	\$2,345,000	6.10%	1996	\$5,590,000	6.60%
1992	2,485,000	6.20	1997	5,950,000	6.70
1993	2,640,000	6.30	1998	6,345,000	6.75
1994	2,805,000	6.40	1999	6,780,000	6.80
1995	2,985,000	6.50			

(Plus Accrued Interest)

\$52,110,000 7.25% Term Bonds Due January 1, 2010; Price – 99.250%

\$22,545,000 6.75% Term Bonds Due January 1, 2015; Price – 94.184%

(Plus Accrued Interest)

\$8,258,141.05 Initial Principal Amount Serial TECA Securities

<u>Due January 1</u>	<u>Initial Principal Amount</u>	<u>Maturity Amount</u>	<u>Approximate Yield to Maturity</u>
2002	\$2,965,866.00	\$7,240,000	7.05%
2003	2,748,810.80	7,240,000	7.10
2004	2,543,464.25	7,235,000	7.15

\$6,617,423.90 TECA Term Bonds Due January 1, 2001

Maturity Amount \$14,986,126.55; Approximate Yield 7.00%

\$5,064,435.05 TECA Term Bonds Due January 1, 2012

Maturity Amount \$25,835,000.00; Approximate Yield 7.25%

CITY OF PHILADELPHIA

MAYOR
HONORABLE W. WILSON GOODE

Mayor's Cabinet

William P. HankowskyDirector of Commerce
Seymour KurlandCity Solicitor
Elizabeth C. RevealDirector of Finance
Edward A. SchwartzHousing Director
Gerri H. WalkerCity Representative
James Stanley WhiteManaging Director

City Treasurer and Deputy Finance Director

Benjamin Blakney

Acting City Controller

John G. Smithyman

President of City Council

Honorable Joseph E. Coleman

Philadelphia Gas Works

Robert J. Patrylo, President and
Chief Executive Officer

Alfred P. Degen, Executive Vice President

Sydney Avent, Senior Vice President and General Counsel

Thomas F. Bonner, Senior Vice President and
Chief Operating Officer

Joseph G. Horan, Senior Vice President

Thomas J. Hanna, Vice President—Engineering and Services

Don C. Kenley, Vice President—Public Affairs

Terri Maloney, Vice President—Customer Activities

Lorina Marshall, Vice President—Government and
Community Affairs

Edward H. Morris, Jr., Vice President and
Chief Financial Officer

Harry A. Connelly, Vice President—Rates and
Federal Regulatory Affairs

Dennis E. Stinson, Vice President—Marketing

OFFICIAL STATEMENT
of the
CITY OF PHILADELPHIA, PENNSYLVANIA
respecting its
\$132,520,000 Gas Works Revenue Bonds, Eleventh Series C

INTRODUCTION

General

This Official Statement, including the cover page, table of contents, tables and appendices, sets forth information with respect to the issuance by the City of Philadelphia, Pennsylvania (the "City") of \$132,520,000 aggregate principal amount of Gas Works Revenue Bonds, Eleventh Series C dated January 1, 1989 (except for the TECA Securities which are dated the date of delivery) (the "Eleventh Series C Bonds"). THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE ELEVENTH SERIES C BONDS ARE PAYABLE SOLELY FROM MONIES DERIVED FROM THE REVENUES OF THE PHILADELPHIA GAS WORKS. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF PHILADELPHIA IS PLEDGED, NOR WILL EITHER BE APPLIED, TO ANY SUCH PAYMENT. PERSONS CONSIDERING A PURCHASE OF ELEVENTH SERIES C BONDS SHOULD READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY.

The Eleventh Series C Bonds are being issued to refund certain of the City's Gas Works Revenue Bonds, Ninth Series (the "Ninth Series Bonds") and certain of the City's Gas Works Revenue Bonds, Eighth Series (the "Eighth Series Bonds"). The Eleventh Series C Bonds are being issued pursuant to The First Class City Revenue Bond Act of the Commonwealth of Pennsylvania (the "Act"), the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "General Ordinance"), and the Eleventh Supplemental Gas Works Revenue Bond Ordinance (the "Eleventh Supplemental Ordinance"). Bonds of all series issued or to be issued under the General Ordinance are parity bonds (herein referred to as the "Bonds" or as "Gas Works Revenue Bonds"). Eleven series of Gas Works Revenue Bonds have been issued under the General Ordinance and appropriate supplemental ordinances. As of January 1, 1989, \$549,590,000 aggregate principal amount of Gas Works Revenue Bonds of such series were outstanding, of which \$138,755,000 were Eleventh Series A Bonds and Eleventh Series B Bonds, which were issued in June, 1987 to fund a portion of PGW's capital improvement program and refund all outstanding maturities of the First and Second Series Bonds, \$89,325,000 were Eighth Series Bonds and \$101,300,000 were Ninth Series Bonds. Upon the deposit of the net proceeds of the Eleventh Series C Bonds with the Escrow Agent, \$88,795,000 of the principal amount of the Ninth Series Bonds maturing in the years 1996 through 2012, inclusive, and \$25,000,000 of the principal amount of the Eighth Series Bonds maturing in the year 2015 will be refunded (the "Refunded Bonds").

All quotations from and summaries and explanations of the constitution and laws of the Commonwealth of Pennsylvania (the "Commonwealth" or the "State") and Ordinances of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Eleventh Series C Bonds are qualified in their entirety by reference to the definitive form of the Eleventh Series C Bonds. All capitalized terms used herein shall have the meanings ascribed to them in the Act and the General Ordinance (see Appendix II). Copies of the Act, the General Ordinance and the Eleventh Supplemental Ordinance are available from the Office of the Director of Finance, Room 1420, Municipal Services Building, Philadelphia, Pennsylvania 19102.

Philadelphia Gas Works

The Philadelphia Gas Works ("PGW") consists of all the real and personal property owned by the City and used for the manufacture, storage, processing and distribution of gas within the City and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof. Included in such assets, in addition to an extensive distribution system, are

facilities for the production of gas to supplement the natural gas supply from pipeline transmission companies and facilities for storage. Such facilities include a liquified natural gas ("LNG") plant, a substitute natural gas ("SNG") plant and a liquid propane gas ("LPG") plant.

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the sole supplier of gas in the City. Outside the City limits, PGW has no distribution mains and serves no customers. Of total gas revenues for the twelve month period ended August 31, 1988, 72% was derived from residential customers, 23% was derived from commercial and industrial customers and 5% was derived from municipal entities. As of November, 1988, PGW served approximately 523,900 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission to be so constituted and appointed and to exercise such power and perform such duties as may from time to time be provided in contracts between the City and the operator of the Philadelphia Gas Works, or, in the absence of a contract, as may be provided by ordinance. (For details of the Gas Commission's various responsibilities and oversight of the operations of PGW, see "THE GAS COMMISSION".)

Since January 1, 1973, PGW has been managed by Philadelphia Facilities Management Corporation ("PFMC"), a not-for-profit corporation, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the "Management Agreement").

Rates, including the Gas Cost Rate, and charges of PGW are fixed by the Gas Commission and not by the Public Utility Commission of the Commonwealth (see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME - Gas Cost Rate"). The Court of Common Pleas of Philadelphia County has ruled that decisions of the Gas Commission regarding PGW rate increases are subject to court review. On May 29, 1986, PGW filed a request for a base rate increase with the Gas Commission designed to produce net additional base revenues in the fiscal year commencing September 1, 1986 of \$59 million. On March 3, 1987, the Gas Commission granted a base rate increase, which became effective May 7, 1987, designed to produce net additional base revenues for the period January 1, 1987 through August 31, 1987, the fiscal year end, of \$28.65 million. On September 16, 1987, the Gas Commission ordered that the base rate be annualized to produce the same level of base revenues for the fiscal year ending August 31, 1988. On June 3, 1988, PGW filed a rate request for a base rate increase with the Gas Commission designed to produce additional base revenues in the fiscal year commencing September 1, 1988 of \$49 million. On October 13, 1988, the Gas Commission rejected this request and established base rates reflecting a \$2 million reduction in base revenues, effective as of September 1, 1988.

The offices of PGW are located at 800 W. Montgomery Avenue, Philadelphia, Pennsylvania 19122. The telephone number is 215-236-0500.

Segregation of Accounts and Relation to the City

The City has covenanted that so long as any Eleventh Series C Bonds remain outstanding, all Project Revenues (as defined in the Act and the General Ordinance) shall be deposited, held and disbursed in and from one or more unsegregated accounts of PGW which shall be separate from and not commingled with monies or accounts of the City not held exclusively for PGW purposes.

The Management Agreement provides for PGW to make certain payments to the City. Such payments, which are subordinated to debt service on the Bonds, currently include an annual payment of \$18 million. The amount of this payment may be subject to change from time to time.

Additional information regarding the City is presented in Appendix III - City of Philadelphia, General Information.

Recent Operating Results and Rate Covenant Compliance

The following table presents recent operating results for PGW. Debt service coverages are computed under terms of the Rate Covenant in the General Ordinance. The Rate Covenant provides that so long as any Bonds are outstanding, the City will impose, charge and collect in each fiscal year such

gas rates and charges as shall, together with all other Project Revenues to be received in such fiscal year, be sufficient to provide, after meeting any Sinking Fund Reserve requirements, the greater of (a) the sum of all Net Operating Expenses payable during such fiscal year plus 150% of the debt service requirements for such year on all outstanding Gas Works Revenue Bonds or (b) the sum of all Net Operating Expenses payable during such fiscal year plus the debt service requirements for such year on all outstanding Gas Works Revenue Bonds and all outstanding general obligation bonds issued for improvements to PGW.

	(Dollar Amounts in Thousands)	
	Years Ended August 31,	
	1987	1988
Project Revenues*.....	\$469,265	\$487,344
Net Operating Expenses*	<u>375,490</u>	<u>392,293</u>
Net Revenues.....	<u>\$ 93,775</u>	<u>\$ 95,051</u>
Debt Service on Outstanding Revenue Bonds	\$ 50,193	\$ 59,473
Debt Service Coverage on Outstanding Revenue Bonds	1.87x	1.60x
Debt Service on Outstanding General Obligation Bonds**	\$ 1,729	-
Debt Service Coverage on Total Outstanding Revenue and Other General Obligation Bonds Issued for Gas Works Purposes.....	1.81x	1.60x
Balance Available for Other Purposes	\$ 41,853	\$ 35,578
Outstanding Revenue Bonds.....	\$566,735	\$549,590

* Project Revenues and Net Operating Expenses have been computed in accordance with the General Ordinance.

** General Obligation Bonds matured in the 1987 fiscal year.

For a further explanation of revenues and expenses, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME."

SECURITY

The Eleventh Series C Bonds are secured solely by monies derived, directly or indirectly, from PGW's Project Revenues as provided in the Act, the General Ordinance and the Eleventh Supplemental Ordinance. Such Project Revenues include principally the rents, rates and charges imposed by the City on the users of gas distributed by PGW. Reference is made to Appendix II for summaries of the Act, the General Ordinance and the Eleventh Supplemental Ordinance, including definitions of certain terms used herein. Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the issuance of the Bonds (see "MUNICIPAL BOND INSURANCE").

Pledge of Revenues and Funds

In the General Ordinance, the City has pledged and granted a security interest in all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues for the security and payment of all Bonds issued under the General Ordinance.

The Act subjects all monies deposited in the Sinking Fund, including the Sinking Fund Reserve, to a security interest for the Bonds until such moneys are properly disbursed and provides that no bonds issued under the Act shall pledge the credit or taxing power of the City or create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than Project Revenues.

Priority in Application of Project Revenues

The General Ordinance creates a lien on and a pledge of all Project Revenues of PGW for the benefit of the holders of Gas Works Revenue Bonds in each fiscal year and creates a priority in application of Project Revenues prior to default as follows:

First, to Net Operating Expenses;

Second, to required payments into the Sinking Fund to pay the principal of and interest on all Bonds issued under the General Ordinance and to accumulate, or to restore any deficiency in the Sinking Fund Reserve;

Third, to the payment of general obligation bonds which have been adjudged to be self liquidating on the basis of expected revenues from PGW;

Fourth, to the payment of interest and Sinking Fund charges of other general obligation debt incurred for PGW; and

Fifth, to the payment of City Charges.

The balance of the Project Revenues in any fiscal year, including Sinking Fund Reserve Earnings, as such balance is determined in accordance with the General Ordinance, may, upon the approval of the Gas Commission, be paid to the City provided that in a given fiscal year the balance so paid does not exceed the amount of earnings on the Sinking Fund Reserve transferred and paid to PGW's operating funds during the same fiscal year. See Appendix II — Summaries of Legislation Authorizing the Issuance of Gas Works Revenue Bonds. During the 1989 fiscal year, to date, there has been no request by the City for transfer of any excess Project Revenues relating to PGW's current fiscal year.

Subordinated Short Term Borrowings — Tax Exempt Commercial Paper Program

In December, 1982, legislation was approved by the Commonwealth permitting PGW to finance inventory and accounts receivable through temporary borrowings (not exceeding five years) which mature beyond the limitations of the fiscal year in which issued. The legislation does not limit the amount of such borrowings. In September, 1983, the City was authorized by ordinance to effect such borrowings by the issuance of tax-exempt notes from time to time in amounts not to exceed \$100,000,000 aggregate principal amount at any one time outstanding. The ordinance subordinated payment of any such tax-exempt notes from Project Revenues to all the payments set forth above under "Priority in Application of Project Revenues" except the payment of City Charges, which was relegated to the lowest priority. Since the City's authorization, the Gas Commission has approved a maximum amount at any time outstanding for such notes of \$85,000,000. As of November 30, 1988, \$82,175,000 aggregate principal amount of tax-exempt notes were outstanding.

Rate Covenant and Rate Requirements

The General Ordinance includes a rate covenant (the "Rate Covenant") which requires that, so long as Gas Works Revenue Bonds are outstanding, the City impose, charge and collect in each fiscal year such gas rates and charges as shall, together with all other Project Revenues to be received in such fiscal year, be sufficient to provide, after meeting any Sinking Fund Reserve requirements, the greater of (a) the sum of all Net Operating Expenses payable during such fiscal year plus 150% of the debt service requirements for such year on all outstanding Gas Works Revenue Bonds or (b) the sum of all Net Operating Expenses payable during such fiscal year plus the debt service requirements for such year on all outstanding Gas Works Revenue Bonds and all outstanding City general obligation bonds issued for improvements to PGW. (For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "RATES AND CHARGES.")

Covenant Against Commingling with Other City Funds

The City has covenanted that so long as any of the Eleventh Series C Bonds remain outstanding all Project Revenues shall be deposited, held and disbursed in and from one or more unsegregated accounts of PGW which shall be separate from and not commingled with monies or accounts of the City not held exclusively for PGW purposes.

Additional Parity Bonds

The General Ordinance permits the issuance of additional Bonds which will be parity bonds, provided, among other requirements, that an independent engineer determines that estimated Project Revenues will be sufficient to meet the Rate Covenant. See the material under the caption "The

General Ordinance" in Appendix II for a discussion of the provisions relating to the issuance of additional Bonds. The Eleventh Supplemental Ordinance authorizes the issuance of up to \$275 million of Bonds, in one or more series, to fund capital improvements and to advance refund outstanding First and Second Series Bonds and certain outstanding Ninth Series Bonds or such other series as shall be designated by the Director of Finance of the City. The Eleventh Series A Bonds and Eleventh Series B Bonds were issued in June, 1987 in the aggregate amount of \$142,440,000 to fund a portion of PGW's capital improvement program and refund all outstanding maturities of the First and Second Series Bonds.

Sinking Fund

Pursuant to the Act, the General Ordinance establishes a Sinking Fund for the benefit and security of the holders of all Bonds to be held separate and apart from all other accounts of the City, and directs the Director of Finance to deposit therein from the Project Revenues in each fiscal year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then coming due and payable. It is the current practice of the City to make deposits in the Sinking Fund on or immediately prior to the date on which debt service payments are due. To the extent monies are on deposit in the Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance. Interest and profits from any such investment shall be added to the Sinking Fund and credited in reduction of or to complete required deposits into the Sinking Fund.

Sinking Fund Reserve

The General Ordinance establishes a Sinking Fund Reserve as part of the Sinking Fund but for which separate accounts shall be maintained. The City is required to deposit in the Sinking Fund Reserve from the proceeds of sale of each series of Bonds issued under the General Ordinance an amount equal to the maximum amount required in any fiscal year to pay the principal of and interest on the Bonds of such series coming due and payable in that fiscal year unless the Supplemental Ordinance authorizing the series of Bonds authorizes the accumulation from Project Revenues of a reserve of such amount over a period of not more than six fiscal years after the issuance and delivery of the Bonds. Although the Eleventh Supplemental Ordinance has authorized an accumulation from Project Revenues, it is expected that the Sinking Fund Reserve requirement will be fully funded by proceeds from the Eleventh Series C Bonds. The money and investments (valued at market) in the Sinking Fund Reserve must at all times be held and maintained in an amount equal to the maximum of the principal and interest requirements of all outstanding Bonds in any subsequent fiscal year. As of November 30, 1988, the value of the funds and investments on deposit in the Sinking Fund Reserve was required to be at least \$62,670,335 and the amount in the Sinking Fund Reserve met this requirement. If, at any time, the monies in the Sinking Fund (other than the Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any Bond or Bonds, the Sinking Fund Depository is required to pay over to the Fiscal Agent from the Sinking Fund Reserve the amount of the deficiency. The Sinking Fund and Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. The General Ordinance provides that interest and income earned on monies held in the Sinking Fund Reserve may be transferred and paid by the Director of Finance to the operating funds of PGW and applied as Project Revenues in the manner described under "SECURITY - Priority in Application of Project Revenues."

Required Deposit to Sinking Fund From Project Revenues

The City has covenanted in the General Ordinance that, if the City shall fail to make required deposits into the Sinking Fund, including the Sinking Fund Reserve, or if, for any reason, there shall be a deficiency in the Sinking Fund Reserve, it will immediately upon such failure or deficiency and without notice thereof, and so long as such failure or deficiency shall continue, deposit in the Sinking Fund, including the Sinking Fund Reserve, on a daily basis, 50% of all Project Revenues or such

greater percentage thereof as the Director of Finance shall determine. This obligation is specifically enforceable by the trustee for bondholders appointed in accordance with the Act or, if none is appointed, by any bondholder (see "REMEDIES OF BONDHOLDERS").

MUNICIPAL BOND INSURANCE

The City has received a commitment from the AMBAC Indemnity Corporation ("AMBAC Indemnity") for a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Eleventh Series C Bonds, effective as of the date of issuance of the Eleventh Series C Bonds. A description of AMBAC Indemnity is attached hereto as Appendix IV. Appendix IV also contains a copy of the text of the Municipal Bond Insurance Policy and a summary of the rights of holders of the Eleventh Series C Bonds with respect to the Municipal Bond Insurance Policy. A Statement of Insurance containing a summary of the Municipal Bond Insurance Policy will be printed on the Eleventh Series C Bonds. The City has not made any independent investigation of AMBAC Indemnity or of their financial condition.

DESCRIPTION OF THE ELEVENTH SERIES C BONDS

The Eleventh Series C Bonds are being issued pursuant to the Act, the General Ordinance and the Eleventh Supplemental Ordinance. The Eleventh Series C Bonds are being issued for the purpose of providing funds to advance refund certain of the City's Gas Works Revenue Bonds, Ninth Series and certain of the City's Gas Works Revenue Bonds, Eighth Series. The Act authorizes the City to issue Revenue Bonds to finance revenue producing projects and to refund bonds issued for such purpose, but the bonds must be payable, directly or indirectly, solely from Project Revenues (as defined in the Act). The General Ordinance is the governing ordinance under which all Gas Works Revenue Bonds are issued.

The Current Interest Bonds

The Current Interest Bonds will be dated January 1, 1989 and will bear interest from such date, payable on January 1, 1990, and on each July 1 and January 1 thereafter. The Current Interest Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the inside cover hereof in the denomination of \$5,000 principal amount each or any integral multiple thereof. The principal of, and premium, if any, on the Current Interest Bonds will be payable at the principal corporate trust office of The Philadelphia National Bank in Philadelphia. Interest on the Current Interest Bonds, when due, will be paid by check, mailed by the Fiscal Agent to the persons in whose names the Current Interest Bonds are registered on the 15th day preceding each interest payment date, except that if any such interest payment date is not a business day, then such interest check shall be mailed on the next succeeding business day. Registered owners of at least \$100,000 principal amount of the Current Interest Bonds may elect to receive interest payments by wire transfer.

The TECA Securities

The TECA Securities are payable at maturity in an amount (the "Maturity Amount") equal to the principal amount of such TECA Securities at delivery (the "Initial Principal Amount"), plus interest from the date of delivery of such TECA Securities compounded on January 1 and July 1 of each year. The TECA Securities are issuable as fully registered bonds in the denomination of \$5,000 Maturity Amount or any integral multiple thereof (except for one TECA Security maturing in 2001 which shall be issued in the Maturity Amount of \$1,126.55). The TECA Securities are payable on the dates and in the amounts set forth on the following page at the principal corporate trust office of The Philadelphia National Bank in Philadelphia.

<u>Due Jan. 1</u>	<u>Initial Principal Amount</u>	<u>Maturity Amount</u>	<u>Approximate Yield to Maturity</u>
2001	\$6,617,423.90	\$14,986,126.55	7.00%
2002	2,965,866.00	7,240,000.00	7.05
2003	2,748,810.80	7,240,000.00	7.10
2004	2,543,464.25	7,235,000.00	7.15
2012	5,064,435.05	25,835,000.00	7.25

Accreted Value

The Initial Principal Amount plus interest accreted (the "Accreted Value") per \$5,000 Maturity Amount of each TECA Security on each January 1 and July 1 of each year is set forth on the next succeeding page. The Accreted Value of TECA Securities on any other date will be calculated based on an assumption that such Accreted Value increases in equal daily amounts on the basis of a 360 day year consisting of twelve 30 day months.

Use of Proceeds

It is estimated that the proceeds of the Eleventh Series C Bonds will be applied as follows:

Ninth Series Escrow Account (1)	\$ 89,022,350
Eighth Series Escrow Account (2)	23,011,950
Municipal Bond Insurance Policy (3)	1,500,192
Sinking Fund Reserve Deposit (4).....	15,526,700
Costs of Issuance (5)	1,756,766
Original Issue Discount	<u>1,702,042</u>
	<u>\$132,520,000</u>

- (1) Net of monies transferred from the Ninth Series Sinking Fund Reserve.
- (2) Net of monies transferred from the Eighth Series Sinking Fund Reserve.
- (3) Net of rebate from AMBAC Indemnity on the Refunded Bonds of \$595,200.
- (4) The deposit to the Sinking Fund Reserve from the proceeds of the Eleventh Series C Bonds is equal to the maximum annual debt service requirement on the Eleventh Series C Bonds. See "SECURITY – Sinking Fund Reserve."
- (5) Includes Underwriters' discount. See "UNDERWRITING".

Plan of Refunding

Pursuant to an Escrow Deposit Agreement to be dated the date of delivery of the Eleventh Series C Bonds, the net proceeds of the Eleventh Series C Bonds will be deposited with The Philadelphia National Bank (the "Escrow Agent") and invested in government obligations or other permitted escrow obligations the principal of and interest on which will be applied to: a) Pay the interest due on all Refunded Ninth Series Bonds from March 15, 1989 to March 15, 1995, inclusive; b) Call the Refunded Ninth Series Bonds for redemption on March 15, 1995, at 102 ½% of par; (c) Pay the interest due on all Refunded Eighth Series Bonds from May 15, 1989 to May 15, 1995, inclusive; and (d) Call the Refunded Eighth Series Bonds for redemption on May 15, 1995, at 102 ½% of par.

City of Philadelphia, Pennsylvania
 Gas Works Revenue Bonds, Eleventh Series C
 Accreted Value Per \$5,000 Maturity Amount of
 TECA Securities

<u>Accreted Value On</u>	<u>January 1, 2001 Maturity</u>	<u>January 1, 2002 Maturity</u>	<u>January 1, 2003 Maturity</u>	<u>January 1, 2004 Maturity</u>	<u>January 1, 2012 Maturity</u>
02/14/89	2,207.85	2,048.25	1,898.35	1,757.75	980.15
07/01/89	2,266.42	2,102.98	1,949.43	1,805.38	1,007.08
01/01/90	2,345.75	2,177.11	2,018.64	1,869.92	1,043.58
07/01/90	2,427.85	2,253.85	2,090.30	1,936.77	1,081.41
01/01/91	2,512.82	2,333.30	2,164.51	2,006.01	1,120.62
07/01/91	2,600.77	2,415.55	2,241.35	2,077.73	1,161.24
01/01/92	2,691.80	2,500.70	2,320.92	2,152.01	1,203.33
07/01/92	2,786.01	2,588.85	2,403.31	2,228.95	1,246.95
01/01/93	2,883.52	2,680.11	2,488.63	2,308.63	1,292.16
07/01/93	2,984.45	2,774.58	2,576.98	2,391.17	1,339.00
01/01/94	3,088.90	2,872.39	2,668.47	2,476.65	1,387.54
07/01/94	3,197.02	2,973.64	2,763.20	2,565.20	1,437.83
01/01/95	3,308.91	3,078.46	2,861.29	2,656.90	1,489.96
07/01/95	3,424.72	3,186.98	2,962.87	2,751.89	1,543.97
01/01/96	3,544.59	3,299.32	3,068.06	2,850.27	1,599.94
07/01/96	3,668.65	3,415.63	3,176.98	2,952.17	1,657.93
01/01/97	3,797.05	3,536.03	3,289.76	3,057.71	1,718.03
07/01/97	3,929.95	3,660.67	3,406.55	3,167.03	1,780.31
01/01/98	4,067.50	3,789.71	3,527.49	3,280.25	1,844.85
07/01/98	4,209.86	3,923.30	3,652.72	3,397.52	1,911.73
01/01/99	4,357.21	4,061.60	3,782.39	3,518.99	1,981.03
07/01/99	4,509.71	4,204.78	3,916.67	3,644.79	2,052.84
01/01/2000	4,667.55	4,353.00	4,055.71	3,775.10	2,127.25
07/01/2000	4,830.92	4,506.44	4,199.69	3,910.06	2,204.37
01/01/2001	5,000.00	4,665.30	4,348.79	4,049.85	2,284.28
07/01/2001		4,829.75	4,503.17	4,194.63	2,367.08
01/01/2002		5,000.00	4,663.04	4,344.59	2,452.89
07/01/2002			4,828.58	4,499.91	2,541.81
01/01/2003			5,000.00	4,660.79	2,633.95
07/01/2003				4,827.42	2,729.43
01/01/2004				5,000.00	2,828.37
07/01/2004					2,930.90
01/01/2005					3,037.15
07/01/2005					3,147.24
01/01/2006					3,261.33
07/01/2006					3,379.55
01/01/2007					3,502.06
07/01/2007					3,629.01
01/01/2008					3,760.57
07/01/2008					3,896.89
01/01/2009					4,038.15
07/01/2009					4,184.53
01/01/2010					4,336.22
07/01/2010					4,493.41
01/01/2011					4,656.30
07/01/2011					4,825.09
01/01/2012					5,000.00

Optional Redemption of Term Bonds

The Eleventh Series C Bonds due January 1, 2010 and January 1, 2015 (the "Term Bonds") are subject to redemption prior to maturity at the option of the City on and after January 1, 1999 in whole or in part on any interest payment date, in any order of maturity directed by the City, by lot, at the following redemption prices, plus accrued interest to the date of redemption:

<u>Redemption Period (Dates Inclusive)</u>	<u>Redemption Price (Expressed as a Percentage of Principal Amount Calculated as of the Redemption Date)</u>
January 1, 1999 to December 31, 1999	102
January 1, 2000 to December 31, 2000	101
January 1, 2001 and thereafter	100

Mandatory Redemption of Term Bonds

The Term Bonds are subject to mandatory redemption prior to maturity, in direct order of maturity and within a maturity by lot, at a redemption price of 100% of their principal amounts plus accrued interest, from funds which the City has covenanted to deposit in the Sinking Fund on or before January 1 of the years 2005 to 2010 (including 2010 which is a final maturity) in the case of the 2010 maturity, and the years 2013 to 2015 (including 2015 which is a final maturity) in the case of the 2015 maturity, in amounts sufficient to redeem on each January 1 the following principal amounts of such Term Bonds (to the extent that Term Bonds in the principal amount otherwise required to be redeemed have not been previously purchased by the City and surrendered to the Fiscal Agent), and to pay the Term Bonds at maturity as set forth below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2005	\$ 7,240,000	2013	\$7,030,000
2006	7,765,000	2014	7,505,000
2007	8,325,000	2015	8,010,000
2008	8,925,000		
2009	9,580,000		
2010	10,275,000		

Mandatory Redemption of TECA Term Bonds

The TECA Term Bonds maturing on January 1, 2001 and on January 1, 2012 are subject to mandatory redemption prior to maturity, in direct order of maturity and within a maturity by lot, at a redemption price of 100% of their Accreted Value, from funds which the City has covenanted to deposit in the Sinking Fund on or before January 1 of the years 2000, 2001 (which is a final maturity), 2011 and 2012 (which is a final maturity) in amounts sufficient to redeem on each January 1 the following Accreted Value of such TECA Term Bonds:

<u>Year</u>	<u>Amount</u>
2000	\$ 7,231,086.60
2001*	7,240,000.00
2011	11,016,805.80
2012*	14,005,000.00

*Final Maturity

Notice of Redemption

Each redemption made pursuant to the foregoing paragraphs shall be made only after notice is mailed, not less than 30 nor more than 60 days before the date fixed for redemption, first class postage prepaid, to the registered owners appearing on the bond register of the Eleventh Series C Bonds to be redeemed. Failure to mail such notice, or any defect therein, shall not affect the validity of the proceedings for redemption of Eleventh Series C Bonds for which such notice has been properly given. Notice having been so given and provision having been made for redemption from funds on deposit with the City's Fiscal Agent or Sinking Fund Depository, all interest on Eleventh Series C Bonds

called for redemption accruing after the date fixed for redemption shall cease, and the registered owners of the Eleventh Series C Bonds called for redemption shall have no security, benefit or lien under the General Ordinance or any rights thereunder except to receive payment of the redemption price.

REMEDIES OF BONDHOLDERS

Remedies under the Act and the General Ordinance available to Bondholders, including the holders of the Eleventh Series C Bonds, and to any trustee for Bondholders appointed by the holders of 25% in principal amount of any series of Bonds in default are described in the summaries contained in Appendix II hereof. Also, Bondholders or a trustee therefor are entitled to the remedies of secured parties in respect of the Project Revenues and the funds on deposit in the Sinking Fund, including the Sinking Fund Reserve.

Limitation Under Federal Bankruptcy Code

The rights and remedies of Bondholders are subject to various provisions of Chapter 9 of the United States Bankruptcy Code (the "Code"), which permits, under certain circumstances, a political subdivision or public agency or instrumentality of a state to file a voluntary petition in bankruptcy in the nature of a plan for adjustment in the repayment of debts, if it is insolvent or unable to meet its debts as they mature. Such a petition may be filed by a political subdivision only if the state legislature has generally authorized the entity to be a debtor under Chapter 9 of the Code or a governmental officer or organization empowered by state law to give such authorization has done so. No such authorization has ever been sought or granted with regard to the City. Should the City ever file under Chapter 9 of the Code, the rights and remedies of the Bondholders may be adversely affected.

The enforceability of the rights and remedies of Bondholders may also be limited by bankruptcy, insolvency or other laws now or hereafter in effect affecting the rights or remedies of creditors generally, or be subject to principles of equity, if equitable remedies are sought.

PHILADELPHIA GAS WORKS

General

PGW consists of all the real and personal property owned by the City and used for the manufacture, storage, processing and distribution of gas in the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof. PFMC has operated PGW pursuant to the Management Agreement since January 1, 1973. Under the Management Agreement, various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission and, where authorization of City Council is required, recommendation of the City's Director of Finance or the Gas Commission or, as appropriate, both. The Gas Commission has various responsibilities for the oversight of the operations of PGW; the Director of Finance oversees certain financial practices of PGW and the operations of its pension plan; and the City's Law Department is designated as the legal advisor to the Gas Commission and PGW.

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Summary Statements of Income

The summary statements of income set forth below should be read in conjunction with the audited financial statements and notes included in Appendix I hereto.

	(Dollar Amounts In Thousands)				
	Fiscal Years Ended August 31,				
	1984	1985	1986	1987	1988
Operating revenues	\$532,163	\$495,286	\$477,127	\$456,443	\$469,567
Natural gas	305,835	289,383	266,029	221,119	229,284
Other raw materials	105	748	1,003	1,814	549
Gas processing	16,781	16,356	18,726	18,899	24,062
Customer service	18,182	19,455	20,306	20,858	20,786
Distribution	12,335	13,048	13,411	14,350	16,562
Customer activities	50,866	49,491	47,309	51,449	51,186
Administrative and general	18,692	19,647	25,068	26,112	28,413
Pensions	16,710	16,936	17,571	16,763	17,016
Taxes, other than income	4,696	5,037	5,430	5,808	6,398
Depreciation	14,057	14,490	14,553	19,462	21,155
Total operating expenses	<u>458,259</u>	<u>444,591</u>	<u>429,406</u>	<u>396,634</u>	<u>415,411</u>
Operating income	73,904	50,695	47,721	59,809	54,156
Other income	<u>16,729</u>	<u>15,906</u>	<u>15,643</u>	<u>12,295</u>	<u>15,940</u>
Income before interest expense	90,633	66,601	63,364	72,104	70,096
Interest expense	<u>39,843</u>	<u>40,766</u>	<u>44,244</u>	<u>44,125</u>	<u>48,575</u>
Income before extraordinary loss	50,790	25,835	19,120	27,979	21,521
Loss on extinguishment of debt (2)	—	8,488	—	—	—
Net income (1)	<u>\$ 50,790</u>	<u>\$ 17,347</u>	<u>\$ 19,120</u>	<u>\$ 27,979</u>	<u>\$ 21,521</u>

(1) Net Income is before payment of City Fee.

(2) In fiscal year 1985, PGW recorded an extraordinary charge against earnings of \$8,488,000, which recognizes the increase in the debt outstanding net of related issuance and discount costs between the Ninth Series Bonds and the defeased maturities of the Seventh Series Bonds. Due to the reduced interest costs, debt service payments over the life of the Ninth Series Bonds compared to the defeased maturities of the Seventh Series Bonds were lowered by approximately \$6.6 million.

In fiscal year 1987, PGW received approval from the Gas Commission to permit the amortization of the a) loss incurred in the issuance of the Tenth Series Bonds over the life of the Tenth Series Bonds and b) the loss incurred in the issuance of the Eleventh Series B Bonds over the life of the Eleventh Series B Bonds. Due to the reduced interest rates achieved by the refundings, debt service payments over the life of the Tenth Series Bonds compared to the defeased maturities of the Sixth Series Bonds were lowered by approximately \$4.4 million and debt service payments over the life of the Eleventh Series B Bonds compared to the defeased maturities of the First and Second Series Bonds were lowered by approximately \$1.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME

General Considerations

During the five fiscal years ended August 31, 1988 (presented in the foregoing Summary Statements of Income), PGW experienced slightly declining natural gas sales caused, in part, by fluctuating winter weather conditions, conservation efforts on the part of PGW's customers and a reduction in the number of customers PGW serves. PGW's annual sales of natural gas declined from 78.3 billion cubic feet (bcf) in 1984 to 75.4 bcf in 1988. PGW successfully adapted its rate structure and marketing program to meet the ever changing supply of and demand for natural gas. Despite fluctuations in gas sales over the past 5 years, PGW has been able to maintain profitability and rate stability through Gas Cost Rate adjustments and control of operating expenses (see "Gas Cost Rate" and "Five Year Summary of Operations" below). To increase gas sales and profit margins, PGW has directed its marketing efforts towards attracting new, large volume commercial and industrial customers and retaining current customers.

Other major factors which influenced natural gas sales and overall financial results during this period include: (i) volatility of natural gas costs to PGW; and (ii) concurrent decreases in the cost of alternative fuels such as oil which resulted in reduced demand and profit margins for interruptible sales (see "Five Year Summary of Gas Sales" below).

Five Year Summary of Operations

The beginning of this decade was marked by financial transition during which efforts were undertaken to address working capital shortfalls, which were the result of an unprecedented rise in unpaid customer accounts and of costlier supplemental fuel supplies. To fund this deficiency in working capital, PGW borrowed \$45.0 million from the City and repaid this amount in the 1983 fiscal year.

To provide a more permanent, low cost funding mechanism with which to stabilize its working capital needs, PGW established a tax exempt commercial paper program in fiscal year 1984, which PGW continues to use. The authorized level of the tax-exempt commercial paper program is \$85.0 million (see "Tax Exempt Commercial Paper" below).

A three-year labor contract was negotiated in 1983 providing for annual increases of 5%, 6% and 6% respectively, over the term. PGW negotiated a subsequent three-year agreement which provided for increases of 4.5% annually, commencing April 8, 1986.

Five Year Summary of Gas Sales

Total gas sales for PGW can be described as sales to firm or interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in delivery of natural gas. Firm service is sold to residential, commercial and industrial customers depending on the type of service required and represented 83% of total gas sales as of the end of fiscal year 1988. Interruptible service is offered to customers, under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak-load periods. Interruptible service is sold to high volume commercial and industrial customers and represented 17% of total gas sales as of the end of fiscal year 1988. (See "Certain Financial Data" below for a five year summary of gas sales.)

Fiscal year 1984 marked the coldest winter in the last five years (4,972 degree days*), resulting in a net increase of 5.7 bcf in gas sales over fiscal year 1983. This increase in sales more than offset the impact of a downward adjustment to the Gas Cost Rate ("GCR"), as defined below, effective from January 1, 1984 to March 31, 1984. Thus, gas revenues were \$525.0 million for fiscal year 1984, an increase of \$30.3 million or 6.1% over those for the prior year. Revenues from firm sales increased by \$34.8 million over those for fiscal year 1983 on the strength of a 5.9 bcf volume increase. Revenues from interruptible sales declined by \$4.5 million reflecting competitive pressure from oil prices and a .2 bcf decrease in customer demand.

* A "normal" year has 4600 degree days.

In fiscal year 1985, total gas sales were 69.9 bcf, down 8.4 bcf from the previous year. Milder than normal temperatures during the 1985 heating season were primarily responsible for this decrease. Firm sales decreased by 7.3 bcf while firm revenues in 1985 totaled \$433.2 million, down \$28.0 million or 6.1% from fiscal year 1984. Interruptible sales declined in 1985 by 1.1 bcf, reducing interruptible revenues by \$7.8 million.

For fiscal year 1986, total gas sales were 71.9 bcf, an increase of 2.0 bcf over the previous year. Temperatures during the 1986 heating season were slightly cooler than the prior heating season. Sales to firm customers, representing 84% of gas sold, totaled 60.4 bcf. This higher level of sales reflects primarily a return to a more normal heating season. Revenues from gas sales in 1986 totaled \$471.5 million, 3.6% less than the prior year, as a result of a decline in the GCR. Firm revenues decreased by \$7.8 million as the impact of additional sales of 2.0 bcf were more than offset by the downward adjustment in the GCR. Gas sales to interruptible customers were 11.5 bcf, virtually unchanged from the previous year, while revenues declined by \$10.4 million from the 1985 level due to competitive oil prices which declined sharply over the year thereby reducing profit margins.

Fiscal year 1987 resulted in total gas sales of 71.3 bcf, a decrease of .6 bcf from the previous year. Temperatures during the 1987 heating season were slightly warmer than the 1986 heating season, and 2% warmer than a normal heating season. Sales to firm customers, representing 85% of gas sold, totaled 61.0 bcf in 1987. This higher level of firm sales was principally due to additional residential sales. The demand for gas service by interruptible customers declined by 1.1 bcf from the prior year, to a level of 10.3 bcf. Total revenues from gas sales in fiscal year 1987 amounted to \$450.8 million, 4.4% less than the preceding year. Firm revenues declined by \$9.2 million as downward adjustments in the fuel component of the base rate and the GCR more than offset additional sales and the approved \$28.65 million rate increase. Interruptible revenues declined by \$11.5 million from the 1986 level due to competitive oil prices.

For the 1988 fiscal year, gas sales totaled 75.4 bcf, 4.1 bcf higher than the 1987 fiscal year. Slightly cooler than normal temperatures during the heating season produced 4,676 degree days, an increase of 76 degree days or 2% greater than normal, and 178 degree days or 4% greater than experienced in the prior year. Sales to firm customers of 62.8 bcf were 1.9 bcf higher than experienced in 1987 due to increased heating demand. Interruptible gas sales increased 21% to 12.6 bcf. Associated interruptible revenues increased 18.5% as movement of alternate fuel prices reduced profit margins.

Gas Cost Rate

Revenues in each fiscal year reflect the recovery of natural gas and raw material costs through the operation of the Gas Cost Rate (GCR).

The GCR is designed to routinely change customer rates to allow for the recovery of lower or higher fuel costs through the application of a levelized rate established on an annual basis, beginning September 1st of each year.

Since January 1, 1984, the GCR's have been as follows:

<u>Effective Date</u>	<u>\$/thousand cubic feet (mcf) ¹</u>
January 1, 1984	(0.8948)
April 1, 1984	(0.3915)
September 1, 1984	0.3825
January 1, 1985	0.1188
April 1, 1985	(0.0590)
September 1, 1985	(0.0890)
February 1, 1986	(0.2542)
September 1, 1986	(0.2443) ²
December 1, 1987	(0.4419)
September 1, 1988	(0.0655)

1 Parentheses () denote a negative GCR, which is a credit on the customer's bill.

2 As of September 1, 1986, the fuel component of the base rate was reduced from \$4.2401 per mcf to \$3.6000 per mcf.

Natural Gas

In fiscal year 1984, due to the impact of deregulation, natural gas prices declined to levels 7% lower than those of fiscal year 1983. However, increased sendout and a reduction in natural gas refunds from pipeline suppliers caused PGW's overall natural gas costs to rise by nearly \$8 million.

In fiscal year 1985 the downward trend in natural gas costs continued, with expenses for natural gas totaled \$289.4 million compared to \$305.8 million in 1984. Also contributing to this decrease in natural gas expenditures were reduced sendout stemming from a warmer heating season, and an increase in refunds received from pipeline suppliers.

Natural gas expenses were further decreased by \$23.0 million or 8% in fiscal 1986 as the result of lower pipeline prices and purchases on the spot market. These savings were offset, in part, by deferred pipeline charges of \$11.5 million as approved by the Federal Energy Regulatory Commission, and increased sendout.

In fiscal year 1987 natural gas expenses decreased by \$44.9 million or 17% from the 1986 fiscal year level. This was again a result of lower pipeline prices and purchases on the spot market combined with reduced sendout. Also, the payment of deferred pipeline charges approved by the Federal Energy Regulatory Commission was \$11.3 million lower in fiscal year 1987.

In fiscal year 1988, natural gas prices increased \$8.2 million over the 1987 level due to the cost of meeting the increased sendout requirement and the initiation of deferred fuel accounting. The deferral of the application of \$6.7 million of refunds received from pipeline suppliers into the 1989 fiscal year coupled with the increased sendout more than offset savings resulting from lower natural gas prices and economies of spot gas market purchases.

Accounts Receivable

Beginning in 1982, several programs were developed by PGW, in concert with the Gas Commission, to provide for better collection policies and stabilization of accounts receivable growth. Among these programs were the following:

- PGW worked closely with the City in the establishment and promotion of energy assistance programs such as the federally funded Low Income Home Energy Assistance Program (LIHEAP), the Philadelphia Emergency Crisis Program and the Utility Emergency Services Fund (UESF). These programs collectively provided a total of \$12.7 million of assistance to customers during fiscal year 1988.
- Accelerated collection activities were instituted to keep outstanding customer balances from reaching excessively high levels. Limitation of customer balances contributes favorably to their collectibility.
- Additional meter readers were employed during the heating season to eliminate the need for estimated billings, and collection activities were augmented in off peak periods.
- In October, 1984, PGW initiated the Limited Service Program, which offered heating service to customers who had been shut-off for nonpayment.
- To improve PGW's efforts to collect accounts receivable, the 5%-2% Repayment Agreement Plan was instituted in February, 1985. This plan permitted customers to enter into an agreement requiring an initial payment of 5% of the past-due amount, payment of 2% of the past-due amount each month and payment of current usage on a monthly budget plan.

Although the 5%-2% Repayment Agreement Plan was created to increase collections, revisions to this plan made in September, 1985 incorporating an income eligibility test and allowing for a maximum forgiveness of 50% (the "Forgiveness Repayment Agreements") limited its effectiveness. The revisions enabled the remaining customers, not meeting the income eligibility test, to make a 20% initial payment of the past due amount with the remaining amount to be paid over a maximum of 24 months (the "20% Repayment Agreements").

The large number of both Forgiveness Repayment Agreements and 20% Repayment Agreements resulted in the reactivation of previously terminated accounts during 1985, 1986 and to a lesser extent 1987 and 1988. This reactivation is the principal reason for the increase in Accounts Receivable and the growth in the annual average number of delinquent accounts.

During the period May through August, 1987, PGW retroactively billed customers the \$28.65 million resulting from the rate increase approved for the 1987 fiscal year. The impact of this delayed billing inflated the customer accounts receivable at August, 1987 and contributed to the 11% improvement recorded in August, 1988. Through November, 1988, delinquent customers entered into 29,466 Forgiveness Repayment Agreements, of which 15,271 are currently active with a balance of \$13.0 million. Delinquent customers also entered into 92,371 20% Repayment Agreements, 27,741 of which are currently active with a balance of \$10.8 million. The total amount of active outstanding accounts under these two repayment plans is 28% of total Gas Accounts Receivable and starting in 1985, PGW has increased the reserve for uncollectible accounts to provide for these account reinstatements under the two repayment plans.

The status of Accounts Receivable during the 1984 to 1988 period is reflected in the following table:

**ACCOUNTS RECEIVABLE, ACCUMULATED PROVISIONS FOR UNCOLLECTIBLE ACCOUNTS
WRITE-OFF EXPENSES, DELINQUENT CUSTOMERS, AND REVENUE STATISTICS**

(Dollars Amounts in Thousands)

	Fiscal Years Ended August 31,				
	1984	1985	1986	1987	1988
Reported revenues during the year	\$500,057	\$489,419	\$471,192	\$450,518	\$465,122
Accounts receivable at August 31 .	\$ 71,781	\$ 81,902	\$ 92,061	\$ 94,441	\$ 83,734
Accumulated provisions for uncollectible accounts at August 31 . .	\$ 26,071	\$ 33,419	\$ 39,358	\$ 41,639	\$ 40,851
Net accounts receivable at					
August 31	\$ 45,710	\$ 48,483	\$ 52,703	\$ 52,802	\$ 42,883
Accumulated provisions for uncollectible accounts as a percentage of accounts receivable (%)	36.3	40.8	42.8	44.1	48.8
Write-offs during the year*	\$ 24,392	\$ 14,424	\$ 13,159	\$ 20,496	\$ 20,874
Receivables as a percentage of reported revenues during the year (%)	14.35	16.73	19.54	20.96	18.00
Delinquent customers (annual average)	131,052	141,521	153,086	156,387	148,588
Delinquent customers at					
August 31	135,226	125,851	135,394	148,670	124,543

*Net write-off.

Write-off of Uncollectible Accounts

In fiscal year 1984, net customer accounts receivable of \$24.4 million were written off and the reserve balance increased moderately to \$26.1 million. In fiscal years 1985, 1986, 1987 and 1988, in recognition of the substantial number of reactivated gas accounts resulting from the two repayment plans, the reserve was increased to \$33.4 million, \$39.4 million, \$41.6 million and \$40.9 million respectively, while the amount written off, net of reactivations, was \$14.4 million in 1985, \$13.2 million in 1986, \$20.5 million in 1987 and \$20.9 million in 1988.

The following table presents information regarding the aging of Gas Accounts Receivable of PGW at August, 1988 and August, 1987:

AGING ANALYSIS OF GAS ACCOUNTS RECEIVABLE
(Dollar Amounts in Thousands)

<u>Customer Receivables</u>	August 31, 1988					
	<u>Current</u>	<u>30 Days</u>	<u>60 Days</u>	<u>Total 90 Days & Over</u>	<u>Gas Accounts Receivable</u>	<u>Delinquent Accounts</u>
Residential and small commercial . . .	\$ 5,852	\$5,419	\$4,443	\$42,702	\$58,416	\$52,564
Industrial and large commercial	5,869	766	285	1,029	7,949	2,080
Final billing (a)	<u>2,493</u>	<u>3,117</u>	<u>3,994</u>	<u>5,606</u>	<u>15,210</u>	<u>12,717</u>
Total	<u>\$14,214</u>	<u>\$9,302</u>	<u>\$8,722</u>	<u>\$49,337</u>	<u>\$81,575(b)</u>	<u>\$67,361</u>

<u>Customer Receivables</u>	August 31, 1987					
	<u>Current</u>	<u>30 Days</u>	<u>60 Days</u>	<u>Total 90 Days & Over</u>	<u>Gas Accounts Receivable</u>	<u>Delinquent Accounts</u>
Residential and small commercial . . .	\$25,348	\$ 4,915	\$2,948	\$34,257	\$67,468	\$42,120
Industrial and large commercial	3,982	2,996	485	1,200	8,663	4,681
Final billing (a)	<u>2,836</u>	<u>3,542</u>	<u>3,909</u>	<u>4,842</u>	<u>15,129</u>	<u>12,293</u>
Total	<u>\$32,166</u>	<u>\$11,453</u>	<u>\$7,342</u>	<u>\$40,299</u>	<u>\$91,260(b)</u>	<u>\$59,094</u>

- (a) Gas service on these accounts has been terminated. Amounts include voluntary and involuntary termination.
- (b) This amount represents Gas Accounts Receivable and does not include other miscellaneous Accounts Receivable which would be included in the Accounts Receivable figures on the preceding chart.

Capital Improvement Program

PGW's Capital Improvement Program is funded by the sale of revenue bonds and Internally Generated Funds ("IGF"). Bond sales are made in advance of actual expenditures, with the proceeds being placed in restricted accounts and expended solely for PGW capital purposes. The last revenue bond issue sold under the Capital Improvement Program was the \$100 million Gas Works Revenue Bonds, Eleventh Series A, issued in June, 1987.

In fiscal year 1989, PGW expects to issue \$75 million Gas Works Revenue Bonds (the Twelfth Series Bonds) to pay for various capital expenditures.

FISCAL YEAR
NET CAPITAL EXPENDITURES(1)
(Dollar Amounts in Thousands)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Gas supply	\$ 4,914	\$ 4,599	\$ 2,839	\$ 3,294	\$ 6,124
Distribution	23,127	26,362	29,654	35,621	41,846
Customer service	2,320	3,657	3,856	4,546	4,426
Other	<u>2,994</u>	<u>7,184</u>	<u>10,838</u>	<u>14,645</u>	<u>20,141</u>
Total	<u>\$33,355</u>	<u>\$41,802</u>	<u>\$47,187</u>	<u>\$58,106</u>	<u>\$72,537</u>
Internally Generated Funds to fund Capital Improvements	<u>\$ 9,600</u>	<u>\$12,400</u>	<u>\$ 6,200</u>	<u>\$21,100</u>	<u>\$19,400</u>

(1) Net of reimbursements, contributions and salvage.

Internally Generated Funds

Since fiscal year 1982, PGW has provided for a portion of capital costs to be funded through the use of IGF. IGF consists of funds generated by PGW net revenues. In fiscal year ended August 31, 1988, PGW generated \$19.4 million of IGF, which funded approximately 27% of the Capital Improvement Program for that year.

Tax-Exempt Commercial Paper

In 1984, PGW's ability to meet its short term financing needs was enhanced by the institution of a tax-exempt commercial paper program (see "SECURITY - Subordinated Short Term Borrowings"). The resulting rate structure stability and financing flexibility have enabled PGW to meet its current operating needs. The authorized level of the tax-exempt commercial paper program was increased by the Gas Commission during the 1985 fiscal year to \$85 million from the \$75 million initially authorized. At August 31, 1988, the amount outstanding was reduced to \$34.4 million due to timing constraints on the sale of notes. The amount outstanding at August 31, 1987, August 31, 1986, and August 31, 1985 was constant at \$83 million compared to \$64 million outstanding at August 31, 1984.

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Certain Financial Data

The following data are based upon the records of PGW. The Acting City Controller has not participated in the preparation of any of the financial data contained in this Official Statement. For further information, see Appendix I – Financial Statements of PGW.

SELECTED OPERATING DATA (Dollar Amounts in Thousands)

	Years Ended August 31.				
	1984	1985	1986	1987	1988
DEGREE DAYS	4,972	4,428	4,536	4,498	4,676
% of normal (4,600 degree days)	108	96	99	98	102
MAXIMUM 24-HOUR SENDOUT (mcf)	676,842	719,133	571,751	600,858	596,889
Avg. peak-day temperature (degrees)	7	4	20	14	14
GAS REVENUES & SALES BY CUSTOMER CLASSIFICATION					
Gas operating revenues (\$ 000 omitted)					
Residential:					
Heating	5311,113	5311,011	5306,824	5501,984	5306,008
Non-heating	32,935	31,272	30,090	28,021	26,614
Industrial and commercial:					
Firm	65,411	66,582	66,370	64,725	65,028
Interruptible	63,823	56,052	45,628	34,100	40,410
Other gas revenues (municipal, PHA, sales for resale and unbilled revenues)	51,746	24,352	22,630	21,988	26,212
Total gas revenues	5525,028	5489,269	5471,542	5450,818	5464,272
Other operating revenues	7,135	6,017	5,585	5,625	5,295
Total operating revenues	5532,163	5495,286	5477,127	5456,443	5469,567
Other income	16,729	15,906	15,643	12,295	15,940
Total revenues and other income	5548,892	5511,192	5492,770	5468,738	5485,507
SUMMARY OF CUSTOMERS AT END OF PERIOD					
Residential	500,338	500,378	499,608	496,836	497,227
Industrial and commercial:					
Firm	18,431	18,482	18,840	19,015	19,513
Interruptible	98	135	164	193	259
Municipal and PHA	2	2	2	2	2
Total customers	518,869	518,997	518,614	516,046	517,001
GAS SALES BY CLASSIFICATION (mmcf)					
Residential:					
Heating	47,204	42,157	43,525	44,268	45,838
Non-heating	4,532	3,947	3,956	3,790	3,667
Industrial and commercial:					
Firm	9,807	8,943	9,347	9,398	9,670
Interruptible	12,561	11,437	11,453	10,362	12,584
Other	4,165	3,367	3,576	3,520	3,667
Total gas sales	78,269	69,851	71,857	71,338	75,426
SUPPLY AND DISPOSITION OF GAS (mmcf)					
Natural gas purchased	79,245	69,998	75,383	73,944	78,178
Liquid petroleum	14	81	141	59	110
Liquified natural gas	2,840	2,331	2,596	1,760	2,620
Total supply	82,099	72,410	78,120	75,793	80,908
Deduct:					
Additions to (withdrawals from) gas storage	1,097	(1,088)	967	75	2,502
PGW's use and other	2,733	3,647	5,296	4,380	2,980
Total gas sales	78,269	69,851	71,857	71,338	75,426
AVERAGE MONTHLY USAGE OF RESIDENTIAL CUSTOMERS (mcf)					
Heating	10.2	9.1	9.2	9.2	9.5
Non-heating	2.9	2.8	2.9	2.9	2.9
AVERAGE MONTHLY BILL OF RESIDENTIAL CUSTOMERS					
Heating	\$ 70.13	\$ 69.75	\$ 67.72	\$ 66.77	\$ 66.10
Non-heating	\$ 21.77	\$ 23.05	\$ 23.08	\$ 22.39	\$ 21.76

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE

The financial operations for the five years ended August 31, 1988 and the revenues available for debt service are shown in the following table:

	(Dollar Amounts in Thousands)				
	Years Ended August 31,				
	1984	1985	1986	1987	1988
Operating revenues	\$532,163	\$495,286	\$477,127	\$456,443	\$469,567
Other income	16,729	15,906	15,643	12,295	15,940
Total revenues	548,892	511,192	492,770	468,738	485,507
Adjustments	2,696	227	2,124	527	1,837
Project revenues	551,588	511,419	494,894	469,265	487,344
Operating expenses	458,259	444,591	429,406	396,634	415,411
Less: depreciation	15,376	16,390	16,634	21,707	23,615
other adjustments	60	72	276	(563)	(497)
Net operating expenses	442,823	428,129	412,496	375,490	392,293
Net revenues	<u>\$108,765</u>	<u>\$ 83,290</u>	<u>\$ 82,398</u>	<u>\$ 93,775</u>	<u>\$ 95,051</u>
Debt service on revenue bonds ..	\$ 48,951	\$ 47,502	\$ 51,597	\$ 50,193	\$ 59,473
Debt service on general obligation bonds issued for PGW*	4,347	3,440	2,549	1,729	—
Total revenue bond and general obligation bond debt service ...	<u>\$ 53,298</u>	<u>\$ 50,942</u>	<u>\$ 54,146</u>	<u>\$ 51,922</u>	<u>\$ 59,473</u>
Debt service coverage:					
Revenue bonds	2.22x	1.75x	1.60x	1.87x	1.60x
Revenue bonds and general obli- gation bonds	2.04x	1.63x	1.52x	1.81x	1.60x

* General obligation bonds matured in the 1987 fiscal year.

In connection with its rate decision of Oct. 13, 1988, the Gas Commission suggested certain expense reductions which would allow PGW to meet its financial obligations and achieve a debt service coverage level above the Rate Covenant. In response to this rate decision, PGW has developed an operational plan for fiscal year 1989, which includes extensive reductions in operating expenses. Personnel levels are being reduced by PGW through attrition and the implementation of an early retirement program, which together are expected to result in staffing levels at fiscal year end being approximately 10% below previously budgeted levels. All other operating expenses have been reviewed and selective reductions have been implemented. PGW expects that for fiscal year 1989, debt service coverage will be in excess of the Rate Covenant.

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Projected Debt Service

The following table presents year-by-year debt service requirements of the previously issued Gas Works Revenue Bonds (First through Eleventh Series A & B), excluding the refunded portion of the Seventh Series Bonds, the refunded portion of the Sixth Series Bonds, the refunded First Series Bonds, the refunded Second Series Bonds, and the refunded portion of the Eighth Series Bonds and Ninth Series Bonds. The table also includes debt service requirements on \$132,520,000 Eleventh Series C Bonds, and a forecast for \$75,000,000* of the Twelfth Series Bonds.

DEBT SERVICE REQUIREMENTS GAS WORKS REVENUE BONDS (Dollar Amounts in Thousands)

Fiscal Year (Aug. 31)	Debt Service on Previously Issued Revenue Bonds	Debt Service on Eleventh Series C Bonds				Debt Service on Twelfth Series Revenue Bonds (1)*	Estimated Total Debt Service on Third through Twelfth Series Bonds
		Principal	Interest	Accretion	Total		
1989	\$ 57,326,012.00					\$	\$ 57,326,012.00
1990	52,429,855.00		11,690,490.00		11,690,490.00	6,817,500.00	70,937,845.00
1991	52,404,397.00	2,345,000.00	7,722,137.50		10,067,137.50	6,820,525.00	69,292,059.50
1992	52,415,769.00	2,485,000.00	7,573,580.00		10,058,580.00	6,819,013.00	69,293,362.00
1993	52,393,492.00	2,640,000.00	7,413,385.00		10,053,385.00	6,817,962.00	69,264,839.00
1994	52,387,405.00	2,805,000.00	7,240,465.00		10,045,465.00	6,821,963.00	69,254,833.00
1995	52,370,755.00	2,985,000.00	7,053,692.50		10,038,692.50	6,820,188.00	69,229,635.50
1996	47,340,228.00	5,590,000.00	6,772,210.00		12,362,210.00	6,822,637.00	66,525,075.00
1997	43,236,993.00	5,950,000.00	6,388,415.00		12,338,415.00	6,818,487.00	62,393,895.00
1998	38,545,245.00	6,345,000.00	5,974,946.25		12,319,946.25	6,817,738.00	57,682,929.25
1999	31,863,554.00	6,780,000.00	5,530,282.50		12,310,282.50	6,819,562.00	50,993,398.50
2000	27,182,346.00	3,420,457.10	5,299,762.50	3,810,633.34	12,530,852.94	6,818,138.00	46,531,336.94
2001	27,181,744.00	3,196,966.80	5,299,762.50	4,043,033.20	12,539,762.50	6,823,050.00	46,544,556.50
2002	15,785,976.00	2,965,866.00	5,299,762.50	4,274,134.00	12,539,762.50	6,823,062.00	35,148,800.50
2003	15,787,614.00	2,748,810.80	5,299,762.50	4,491,189.20	12,539,762.50	6,822,763.00	35,150,139.50
2004	15,783,411.00	2,543,464.25	5,299,762.50	4,691,535.75	12,534,762.50	6,821,325.00	35,139,498.50
2005	15,784,393.00	7,240,000.00	5,037,312.50		12,277,312.50	6,817,925.00	34,879,630.50
2006	15,788,238.00	7,765,000.00	4,493,381.25		12,258,381.25	6,821,738.00	34,868,357.25
2007	15,789,351.00	8,325,000.00	3,910,118.75		12,235,118.75	6,821,112.00	34,845,581.75
2008	15,785,663.00	8,925,000.00	3,284,806.25		12,209,806.25	6,820,225.00	34,815,694.25
2009	15,783,356.00	9,580,000.00	2,614,000.00		12,194,000.00	6,817,838.00	34,795,194.00
2010	15,782,162.00	10,275,000.00	1,894,256.25		12,169,256.25	6,817,713.00	34,769,131.25
2011	15,787,050.00	2,319,034.90	1,521,787.50	8,697,766.91	12,538,589.31	6,818,200.00	35,143,839.31
2012	12,797,156.00	2,745,400.15	1,521,787.50	11,259,599.85	15,526,787.50	6,817,650.00	35,141,593.50
2013	19,993,638.00	7,030,000.00	1,284,525.00		8,314,525.00	6,819,412.00	35,127,575.00
2014	8,680,362.00	7,505,000.00	793,968.75		8,298,968.75	6,821,425.00	23,800,755.75
2015	8,680,575.00	8,010,000.00	270,337.50		8,280,337.50	6,821,625.00	23,782,537.50
2016	8,631,019.00					6,817,950.00	15,498,969.00
2017	8,678,544.00					6,818,338.00	15,496,882.00
2018						6,819,900.00	6,819,900.00
2019						6,819,750.00	6,819,750.00
	<u>\$812,446,303.00</u>	<u>\$132,520,000.00</u>	<u>\$126,484,697.50</u>	<u>\$41,267,892.25</u>	<u>\$300,272,589.75</u>	<u>\$204,594,714.00</u>	<u>\$1,317,313,606.75</u>

(1) Interest estimated at 8¼%.

* Subject to change

THE GAS COMMISSION

The Management Agreement provides for a five member Gas Commission consisting of the City Controller, two members appointed by City Council and two members appointed by the Mayor, and vests in the Gas Commission the responsibility for overseeing the operation of PGW by PFMC. The Management Agreement grants to the Gas Commission certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include fixing of PGW rates and charges, approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of the annual operating budget, review of the capital budget and recommendations thereon to City Council, approval of certain loans, access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services, and approval of all real property acquisitions for further approval of City Council.

RATES AND CHARGES

The rates fixed by the Gas Commission, to be charged by PGW for providing gas and related services, are subject to various statutory provisions. The General Ordinance and the Management Agreement, the complete text of which was authorized by ordinance, each contains a rate covenant. In addition, the Philadelphia Home Rule Charter contains a rate covenant which, in the absence of any other applicable rate covenant, would govern PGW's rates. See Appendix II for details of the General Ordinance.

The Management Agreement directs the Gas Commission without further authorization of City Council, to fix rates and charges (other than charges to the City and the Philadelphia Board of Education, which are subject to approval of City Council) which, together with other Project Revenues, will in each fiscal year produce revenues sufficient, at a minimum:

(a) to pay all the operation and maintenance costs and expenses of PGW, including, but not limited to, depreciation, employee retirement costs and a management fee to PFMC not exceeding \$300,000 annually, and to pay interest and amortization becoming due in such fiscal year on debt incurred for PGW;

(b) to make annual payments to the City in the aggregate principal amount of \$18 million;

(c) to provide appropriations for debt reduction and capital additions not otherwise provided which are determined by the Gas Commission to be reasonable and which are approved by City Council; and

(d) to provide reasonable additions to working capital as may be determined by PFMC and approved by the Gas Commission.

The Management Agreement provides that, for purposes of complying with such rate requirement, the amount of operating expenses which do not represent an actual outflow of funds (e.g., depreciation) may be included in revenues in determining whether revenues are sufficient to meet other costs, expenses and requirements.

The Management Agreement also requires the rate schedules to be non-discriminatory and based on a suitable and reasonable classification of the services provided, taking into consideration the nature and purpose of the use, the quantity used, the time when used, the available supply of gas and other competing fuels, the maximum demand, and State and Federal laws, regulations and guidelines. The Gas Commission has granted a 20% discount to persons 65 years of age and over for residential use.

GAS SUPPLY AND REGULATION OF FEEDSTOCKS

PGW has contracts for natural gas with two major interstate pipeline companies which account for virtually all of PGW's gas supplies. In addition, it relies on pipeline storage gas deliveries under storage contracts with the same pipeline companies. It also owns and operates supplemental LNG,

SNG and propane-air facilities to meet incremental demand in excess of pipeline and storage supplies. Portions of its SNG facility are not presently in use. A preliminary decision has been made to discontinue maintenance on the unused portion of the plant. A decision on the most effective disposition/disposal of the unused portions of the plant will be made in the future. PGW's supplies of natural gas, LNG and propane-air are adequate to meet its projected demand under either normal or design (colder-than-normal) conditions through 1992. The price and supply of interstate natural gas and certain feedstocks for PGW gas manufacturing facilities are regulated by the Federal Energy Regulatory Commission. Pursuant to legislation included in the National Gas Policy Act, regulation of the price of interstate natural gas was phased out gradually and terminated on January 1, 1985.

INSURANCE

PGW is principally insured through insurance carriers. A reserve is maintained by periodic charges to income to cover current estimated losses which are excluded from coverage under the deductible provisions of the insurance policies. Charges against the reserve are made as claims are settled.

PGW's property is insured against the risks of loss or damage, without aggregate limits, in the amount of \$250 million per occurrence with a \$100,000 deductible; subject, however, to an annual aggregate limit of \$100 million for earthquake and an annual aggregate limit of \$50 million for flood, generally, and to a lower limit as to the Richmond Plant. PGW is insured against the risk of damage or injury to the public (i) with respect to incidents arising on or after February 1, 1979 but before September 1, 1980, for \$10 million in excess of \$500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage there is aggregate excess coverage of \$40 million; (ii) with respect to incidents arising on or after September 1, 1980 but before October 8, 1981, for \$10 million in excess of \$500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$65 million; (iii) with respect to incidents arising on or after October 8, 1981 but before October 17, 1983, for \$10 million in excess of \$500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$90 million; (iv) with respect to incidents arising on or after October 17, 1983 but before September 1, 1984, for \$10 million in excess of \$500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$190 million; (v) with respect to incidents arising on or after September 1, 1984 but before September 1, 1985, for \$25 million in excess of \$500,000 for any one incident, without aggregate limits; and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$175 million; (vi) with respect to incidents arising on or after September 1, 1985, for \$20 million in excess of \$500,000 for any one incident, without aggregate limits, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$55 million then \$21 million part of \$25 million; (vii) with respect to incidents arising on or after October 22, 1985, for \$20 million in excess of \$500,000 for any one incident, without aggregate limitation, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$80 million; (viii) with respect to incidents arising on or after September 1, 1986, for \$25 million in excess of \$500,000 for any one incident, generally without aggregate limitation, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$75 million; and (ix) with respect to incidents on or after October 1, 1986, for \$25 million in excess of \$500,000 for any one incident, generally without aggregate limits, and for incidents exceeding the foregoing coverage, there is aggregate excess coverage of \$175 million. PGW also maintains \$25 million of Workers' Compensation insurance in excess of \$500,000 per incident for on-duty injuries to employees. In addition, PGW maintains Boiler and Machinery, Blanket Crime, and other forms of insurance.

Directors and Officers Liability Insurance, which has been maintained since September, 1977, was cancelled effective January, 1989 as the City broadened and clarified the indemnity provision of the Management Agreement between the City and PFMC to include all PGW officers thereby negating the need for outside Directors and Officers insurance.

LITIGATION

A gas explosion in fiscal year 1979 resulted in personal injury, deaths and substantial property damage. Claims related to this incident have been made against PGW. Certain of the claims are for punitive damages, which may be outside the scope of PGW insurance coverage, which has a \$500,000 deductible. Although discovery has not been completed, PGW is not presently aware of any facts which would give rise to awards for punitive damages.

PGW is a defendant in three additional cases arising from explosions in which damages claimed exceed the \$500,000 deductible portion of its insurance coverage. PGW's liability would be limited in each case to its \$500,000 deductible. In one case, settlement is expected for much less than \$500,000. The other cases are in the discovery stage, and their outcome cannot be determined at this time.

Four explosions occurred in 1988, as a result of which, claims for property damage and personal injury for two occurrences are expected to exceed \$500,000; claims for property damage and personal injury for the two remaining occurrences are expected to aggregate \$500,000.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Eleventh Series C Bonds at a price of \$129,271,449.40 (including an original issue discount of \$1,702,042.20), plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the Eleventh Series C Bonds if any are purchased. The Eleventh Series C Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

RATINGS

Standard & Poor's Corporation and Moody's Investors Service, Inc. have assigned their municipal bond ratings of AAA and Aaa, respectively, to the Eleventh Series C Bonds with the understanding that upon delivery of the Eleventh Series C Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Eleventh Series C Bonds will be issued by AMBAC Indemnity Corporation. An explanation of the significance of the rating assigned by a rating agency may only be obtained from the rating agency furnishing the same. There is no assurance that a rating will be maintained for any given period of time or that it will not be revised or withdrawn entirely, if in the rating agency's judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the trading volume and market price of the Eleventh Series C Bonds.

TAX EXEMPTION

In the opinion of Co-Bond Counsel, under existing law as presently enacted and construed, interest on the Eleventh Series C Bonds is excluded from gross income for Federal income tax purposes and is not a preference item for purposes of determining the Federal alternative minimum tax imposed on corporations and individuals; however, interest on the Eleventh Series C Bonds may be subject to the application of the alternative minimum tax and the environmental tax when held by certain corporations and the application of the foreign branch profits tax when held by foreign corporations. In rendering this opinion, Co-Bond Counsel has assumed continuing compliance by the City with tax covenants contained in the Bond Authorization relating to the Eleventh Series C Bonds. Under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the Eleventh Series C Bonds are, in the opinion of Co-Bond Counsel, exempt from personal property taxes in Pennsylvania and the interest thereon and gain from the sale thereof are exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

Failure to comply with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code") could cause the interest on the Eleventh Series C Bonds to be included in gross income, in certain cases retroactive to the date of issue of the Eleventh Series C Bonds regardless of the date at which such non-compliance occurs or is ascertained. These requirements include the provisions of Section 148 of the Code which prescribe yield and other limits within which the proceeds of the Eleventh Series C Bonds are to be invested and require that certain investment earnings on such proceeds be rebated on a periodic basis to the United States. The City will execute a certificate setting forth the facts, estimates and circumstances in existence on the date of delivery of the Eleventh Series C Bonds on the basis of which Co-Bond Counsel will determine that the proceeds of the Eleventh Series C Bonds will not be used in a manner that would cause the Eleventh Series C Bonds to be "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code.

Ownership of the Eleventh Series C Bonds may result in collateral Federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred indebtedness to purchase or carry the Eleventh Series C Bonds. Co-Bond Counsel will express no opinion with respect to these collateral tax consequences and taxpayers who may be subject to these provisions should consult their own tax advisors.

FEDERAL TAX TREATMENT OF INTEREST ON TECA SECURITIES

Although no interest will be paid on the TECA Securities prior to maturity or earlier redemption, the value of the TECA Securities will accrete at an annual percentage rate compounded semiannually on July 1 and January 1 of each year, resulting in the approximate yield to maturity expressed on the inside cover of this Official Statement. During each semiannual accretion period, the Accreted Value of each TECA Security will increase in equal daily amounts on the basis of a 360 day year consisting of twelve 30 day months. The difference at any time between the Accreted Value of any TECA Security and the Initial Principal Amount thereof is original issue discount. Original issue discount properly allocable to the owner of any TECA Security is excludable from gross income for Federal income tax purposes.

NEGOTIABLE INSTRUMENTS

The Act provides that bonds issued thereunder shall have all the qualities and incidents of securities under the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

EXPERTS

The financial statements of PGW as of August 31, 1988 and 1987 and for the years then ended have been audited by Coopers & Lybrand, independent certified public accountants, as set forth in their report in Appendix I. Such audited financial statements of PGW have been included in this Official Statement in reliance upon the report of Coopers & Lybrand and upon their authority as experts in accounting and auditing.

LEGAL OPINIONS

Certain legal matters incident to the authorization, issuance and sale of the Eleventh Series C Bonds are subject to receipt of the approving opinions of Co-Bond Counsel, Drinker Biddle & Reath and Hwang & Associates, A Professional Corporation, both of Philadelphia, Pennsylvania. The proposed form of approving opinion is included herein as Exhibit A. Certain legal matters will be passed upon for the City by the Office of the City Solicitor, for PGW by Obermayer, Rebmann, Maxwell & Hippel of Philadelphia, Pennsylvania, and for the Underwriters by Astor, Weiss & Newman and Harris and Kahn, both of Philadelphia, Pennsylvania.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (a) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the investments held pursuant to the Escrow Deposit Agreement to pay (1) interest when due on all Refunded Ninth Series Bonds from March 15, 1989 to March 15, 1995, inclusive; (2) the principal amount and applicable redemption premium, on March 15, 1995, of the Refunded Ninth Series Bonds maturing on March 15 of the years 1996 through 2012; (3) interest when due on all Refunded Eighth Series Bonds from May 15, 1989 to May 15, 1995, inclusive; and (4) the principal amount and applicable redemption premium, on May 15, 1995, of the Refunded Eighth Series Bonds maturing on May 15, 2015, and (b) the mathematical computations supporting the conclusion that the Eleventh Series C Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, will be verified solely as to mathematical accuracy by Leevy, Redcross and Company, independent certified public accountants.

NO LITIGATION CERTIFICATE

Upon the delivery of the Eleventh Series C Bonds, the Office of the City Solicitor will furnish a certificate in form satisfactory to Co-Bond Counsel, to the effect, among other things, that, except for litigation which in the opinion of the Office of the City Solicitor is without merit and except as disclosed in the Official Statement, there is no litigation or other legal proceeding pending, or, to the best of its knowledge, threatened, to restrain or enjoin the issuance or delivery of the Eleventh Series C Bonds or the collection or pledge of any monies provided for the payment of the Eleventh Series C Bonds or contesting or affecting the validity of the Eleventh Series C Bonds or contesting the powers of the City or its authority for the issuance of such Bonds.

CERTAIN REFERENCES

All summaries of the provisions of the Eleventh Series C Bonds and the security therefor, the Act, the General Ordinance and the Eleventh Supplemental Ordinance set forth herein and in Appendix II hereof, and all summaries and references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

The Official Statement has been duly executed and delivered by the following officers on behalf of the City of Philadelphia.

CITY OF PHILADELPHIA

By:

/s/ W. WILSON GOODE
Mayor

/s/ SEYMOUR KURLAND
City Solicitor

/s/ JOHN G. SMITHYMAN
Acting City Controller

Approved:

/s/ ELIZABETH C. REVEAL
Director of Finance

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APPENDIX I
FINANCIAL STATEMENTS
OF PGW
PHILADELPHIA GAS WORKS
YEARS ENDED AUGUST 31, 1988 AND 1987

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Controller of the
City of Philadelphia and the
Chairman and Members of the
Philadelphia Gas Commission
Philadelphia, Pennsylvania

We have audited the accompanying balance sheets of the Philadelphia Gas Works as of August 31, 1988 and 1987, and the related statements of income, changes in City equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Philadelphia Gas Works as of August 31, 1988 and 1987, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
October 28, 1988

PHILADELPHIA GAS WORKS

BALANCE SHEETS

AUGUST 31, 1988 and 1987

(thousands of dollars)

ASSETS	<u>1988</u>	<u>1987</u>	EQUITY AND LIABILITIES	<u>1988</u>	<u>1987</u>
Utility plant, at original cost:					
In service	\$765,785	\$688,710	City equity	\$200,856	\$197,335
Under construction	<u>21,816</u>	<u>31,796</u>			
Total	787,601	720,506	Long-term debt	<u>517,275</u>	<u>537,153</u>
Less accumulated depreciation	<u>220,978</u>	<u>202,805</u>			
Utility plant, net	<u>566,623</u>	<u>517,701</u>	Current liabilities:		
Sinking fund, revenue bonds	<u>67,148</u>	<u>68,672</u>	Notes payable	34,375	82,900
Capital improvement funds	<u>32,230</u>	<u>85,270</u>	Current portion of long-term debt	19,878	16,129
Current assets:			Accounts payable	24,334	23,466
Cash	598	4,116	Customers' deposits	3,331	2,905
Temporary investments	<u>39,457</u>	<u>81,432</u>	Other current liabilities and deferred credits	11,582	7,800
	<u>40,055</u>	<u>85,548</u>	Accrued accounts:		
Accounts receivable:			Interest, taxes and wages	14,518	14,015
Customers	83,734	94,441	Distribution to the City	<u>3,000</u>	<u>3,000</u>
Others	1,929	1,683			
Accrued gas revenues	6,750	7,600	Total current liabilities	<u>111,018</u>	<u>150,215</u>
Accumulated provisions for uncollectible accounts	<u>(40,851)</u>	<u>(41,639)</u>	Other liabilities	<u>6,855</u>	<u>4,822</u>
Accounts receivable, net	51,562	62,085	Commitments and contingencies (Note 9)	<u>-</u>	<u>-</u>
Materials and supplies	47,419	43,094			
Other current assets	<u>12,048</u>	<u>8,936</u>	Total equity and liabilities	<u>\$836,004</u>	<u>\$889,525</u>
Total current assets	<u>151,084</u>	<u>199,663</u>			
Unamortized bond issuance costs	<u>4,999</u>	<u>5,695</u>			
Unamortized losses on reacquired debt	<u>8,249</u>	<u>9,318</u>			
Other assets	<u>5,671</u>	<u>3,206</u>			
Total assets	<u>\$836,004</u>	<u>\$889,525</u>			

STATEMENTS OF INCOME

for the years ended August 31, 1988 and 1987

(thousands of dollars)

	<u>1988</u>	<u>1987</u>
Operating revenues:		
Nonheating	\$ 93,115	\$ 87,461
Heating	372,007	363,057
Unbilled gas adjustment	(850)	300
Total gas revenues	<u>464,272</u>	<u>450,818</u>
Other operating revenues	<u>5,295</u>	<u>5,625</u>
Total operating revenues	<u>469,567</u>	<u>456,443</u>
Operating expenses:		
Natural gas	229,284	221,119
Other raw material	549	1,814
Gas processing	24,062	18,899
Customer service	20,786	20,858
Distribution	16,562	14,350
Collection	8,277	8,316
Meter reading	6,035	5,662
Appropriation for uncollectible reserve	20,698	22,237
Customer relations	8,677	8,191
Customer accounting	3,168	3,231
Marketing	4,331	3,812
Administrative and general	28,413	26,112
Pensions	17,016	16,763
Taxes	<u>6,398</u>	<u>5,808</u>
Total except depreciation	<u>394,256</u>	<u>377,172</u>
Depreciation	23,615	21,707
Less depreciation distributed through clearing accounts	<u>2,460</u>	<u>2,245</u>
Total	<u>21,155</u>	<u>19,462</u>
Total operating expenses	<u>415,411</u>	<u>396,634</u>
Operating income	54,156	59,809
Other income	<u>15,940</u>	<u>12,295</u>
Income before interest	<u>70,096</u>	<u>72,104</u>
Interest:		
Long-term debt	42,474	37,911
Other	7,291	6,874
Allowance for funds used during construction	<u>(1,190)</u>	<u>(660)</u>
Total interest	<u>48,575</u>	<u>44,125</u>
Net income	21,521	27,979
Distribution to City of Philadelphia	<u>18,000</u>	<u>18,000</u>
Transferred to City equity	<u>\$ 3,521</u>	<u>\$ 9,979</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN CITY EQUITY
for the years ended August 31, 1988 and 1987
(thousands of dollars)

	<u>1988</u>	<u>1987</u>
Balance, beginning	\$197,335	\$187,356
Transferred from statement of income	<u>3,521</u>	<u>9,979</u>
Balance, ending	<u>\$200,856</u>	<u>\$197,335</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended August 31, 1988 and 1987
(thousands of dollars)

	<u>1988</u>	<u>1987</u>
Source of funds:		
Net income	\$ 21,521	\$ 27,979
Depreciation and amortization	28,405	25,125
Appropriation to reserve for injuries and damages	3,640	1,766
Allowance for funds used during construction	<u>(1,625)</u>	<u>(1,034)</u>
Working capital provided by operations	51,941	53,836
Proceeds from sale of equipment	82	69
Increase in long-term debt	-	226,845
Costs of long-term debt issuances and losses on reacquired debt	170	(13,231)
Sinking fund withdrawals	1,524	-
Capital improvement funds withdrawals	53,040	-
Contributions in aid of construction	5,213	2,382
Decrease in working capital	<u>9,382</u>	<u>4,798</u>
	<u>\$121,352</u>	<u>\$274,699</u>
Applications of funds:		
Construction expenditures	73,388	58,054
Cost of removal of plant in service	2,819	1,469
Reduction of long-term debt	20,840	129,615
Payment of injuries and damages claims	3,143	2,723
Distribution to City of Philadelphia	18,000	18,000
Sinking fund deposits	-	9,359
Capital improvement fund deposits	-	51,943
Payment of waste removal costs	<u>3,162</u>	<u>3,536</u>
	<u>\$121,352</u>	<u>\$274,699</u>
Summary of net changes in working capital:		
Increase (decrease) in current assets:		
Cash and temporary investments	(45,493)	3,170
Accounts receivable	(10,523)	430
Materials and supplies	4,325	(2,489)
Other current assets	<u>3,112</u>	<u>1,331</u>
	<u>(48,579)</u>	<u>2,442</u>
Increase (decrease) in current liabilities:		
Notes payable	(48,525)	-
Current portion of long-term debt	3,749	450
Accounts payable	868	2,410
Customers' deposits	426	351
Other current liabilities and deferred credits	3,782	3,799
Accrued interest, taxes and wages	<u>503</u>	<u>230</u>
	<u>\$(39,197)</u>	<u>\$ 7,240</u>
	<u>\$ (9,382)</u>	<u>\$ (4,798)</u>

See notes to financial statements.

PHILADELPHIA GAS WORKS

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 1988 and 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods employed by the Philadelphia Gas Works (Company) are prescribed by the City of Philadelphia (City), and in all material respects are in accordance with generally accepted accounting principles. The principal accounting policies within this framework are described as follows:

Utility Plant

Utility plant is stated at original cost. Utility plant in service includes a Synthetic Natural Gas Plant (SNG), portions of which are in use, the remaining portions are available for use. The SNG plant is being maintained primarily in a reserve status. At August 31, 1988 and 1987, the net book value of the SNG plant was \$53,239,000 and \$56,928,000, respectively.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is an estimate of the cost of funds used for construction purposes. The AFUDC as calculated on borrowed funds reduces interest expense, and that derived from internally generated funds is reported as other income. The AFUDC rate applied to construction work in progress in 1988 was 7.56% and 7.85% in 1987.

Property Additions, Retirements, Sales, and Maintenance

The cost of additions, replacements and betterments are capitalized and included in the utility plant accounts. Costs of depreciable units of property sold or retired are eliminated from the utility plant accounts and charged to accumulated depreciation. Gains and losses on sales of utility plant are included in other income. Normal repairs, maintenance, and the cost of minor property items are charged to operating expenses.

Depreciation

Depreciation is provided on a straight-line method using rates applied to each asset category. A depreciation study undertaken in 1987 and implemented during the year ended August 31, 1987 established rates depreciating utility plant over its revised remaining useful life and includes a net salvage component.

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd)

Accrued Gas Revenues

Estimated revenues from gas distributed and unbilled at the close of the accounting period are accrued and included in income.

Gas Cost Rate (GCR)

The GCR is designed to provide a mechanism to recover, on an annualized and level basis, the estimated difference between actual purchased gas and raw material cost and the amount of cost included in base rates. This results in an underbilling or overbilling of costs at the end of a fiscal period. Overbillings are liabilities at the end of the fiscal year in which they occur. Underbillings are revenues when billed. The GCR is adjusted in the subsequent fiscal year to reflect the underbillings or overbillings. Changes in the GCR rate offset the amounts of gas revenues and natural gas operating expenses but do not affect operating income or net income.

In August, 1987 the Company presented a proposal to the Philadelphia Gas Commission (PGC) to change the GCR rate from a negative \$.2443/Mcf to a negative \$.4419/Mcf. This rate was adopted on November 10, 1987 and became effective as of December 1, 1987.

In August, 1988 the PGC authorized changing the GCR rate from a negative \$.4419/Mcf to a negative \$.0655/Mcf. This rate was approved on August 15, 1988 with an effective date of September 1, 1988.

Materials and Supplies

Materials and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements and spare parts, are stated at the lower of average cost or market.

Debt Discount and Expense

Discount and expenses arising from the issuance of revenue bonds are amortized in direct proportion to the reduction of the outstanding balances over the term of the particular bond.

Loss on Reacquired Debt

Losses on reacquired debt are deferred and amortized to interest expense over the life of the refunding issue as permitted by the PGC.

NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd)

Pensions

The Company has a noncontributory pension plan covering substantially all employees and providing for retirement payments at age sixty-five or earlier under various options. In accordance with resolutions of the PGC, ordinance of City Council, and as prescribed by the City's Director of Finance, the plan is being funded with contributions by the Company to the Sinking Fund Commission of the City. In addition, current payments to retired employees and other beneficiaries are being made directly by the Company rather than from the assets of the pension fund and are included as part of pension expense.

Reserve for Injuries and Damages

The Company is principally insured through insurance carriers; however, a reserve is maintained by periodic charges to income to cover estimated losses for known occurrences which are excluded under the deductible provisions of such insurance policies and for incidents that may have occurred but have not been reported under claims-made insurance policies. Charges against the reserve are made as claims are settled.

2. OWNERSHIP AND MANAGEMENT:

The Company is owned by the City. As of January 1, 1973, under terms of a two-year agreement automatically extended for successive two-year periods unless cancelled upon 90 days notice by the City, the Company is being managed by the Philadelphia Facilities Management Corporation (PFMC). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed \$300,000 annually. The agreement requires the Company to make annual payments of \$18,000,000 to the City.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$6,306,000 in 1988 and \$5,717,000 in 1987 relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$334,000 in 1988 and \$243,000 in 1987.

Certain activities of the Philadelphia Gas Commission are paid for by the Company. Such payments totaled \$605,000 in 1988 and \$699,000 in 1987.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. OWNERSHIP AND MANAGEMENT: (Cont'd)

Company employees are subject to payroll withholding taxes imposed by the City. Withholding taxes paid to the City totaled \$4,620,000 in 1988 and \$4,401,000 in 1987.

3. CASH AND INVESTMENTS:

A. Cash

The aggregated carrying amount of bank balances at August 31, 1988 and 1987 were \$312,000 and \$3,803,000, respectively. All of the deposited funds are in depositories insured by a federal agency in addition to being collateralized in accordance with City and State statutes. Federal depository insurance on these balances at August 31, 1988 and 1987 was \$134,000 and \$310,000, respectively.

B. Investments

Statutes authorize the Company to invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities, and repurchase agreements.

The Company's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Company or its agent in the Company's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Company's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Company's name. There were no Category 3 investments at August 31, 1988 and 1987.

REPURCHASE AGREEMENTS

	<u>Category</u>		<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>		
August 31, 1988	\$36,457,000	\$ 3,000,000	\$39,457,000	\$39,457,000
August 31, 1987	\$76,432,000	\$ 5,000,000	81,432,000	\$81,432,000

The Company's Sinking Fund and Capital Improvement Fund deposits are maintained by the City and are considered Category 1 investments.

NOTES TO FINANCIAL STATEMENTS (Continued)

4. DEFERRED WASTE REMOVAL COSTS:

In compliance with the rate order issued by the PGC on March 3, 1987, the Company has deferred recognition of the expense involved in removing residual waste material from the gas production plants. These costs are being amortized to expense over a three year period beginning in fiscal 1987. The unamortized remaining amount included in other assets as of August 31, 1988 and 1987 was \$3,286,000 and \$2,357,000, respectively.

5. NOTES PAYABLE:

Pursuant to the provisions of certain Ordinances and Resolutions of the City, the Company may sell short-term notes in a principal amount which, together with interest, may not exceed \$85,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and are collateralized by a subordinated security interest in the Company's revenues.

The notes outstanding at August 31, 1988 and 1987 have an average weighted interest rate of approximately 5.5% and 4.4%, respectively, and an average term to maturity of 18 days and 12 days, respectively. During the year ended August 31, 1988, the Company repaid \$48,525,000 in commercial paper. Principal amounts outstanding at August 31, 1988 and 1987 were \$34,375,000 and \$82,900,000, respectively.

6. OTHER CURRENT LIABILITIES:

During the years ended August 31, 1988 and 1987, the Company's billed revenues exceeded its operating costs under the GCR Tariff by \$1,528,000 and \$4,425,000, respectively. Accordingly, the Company deferred this excess which is included in other current liabilities and deferred credits. The GCR Tariff mechanism amortizes the liability through a reduction in rates during the subsequent fiscal year.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. LONG-TERM DEBT:

The following summary of long-term debt consists primarily of term and serial bonds issued by the City under agreements whereby the Company must reimburse the City for the principal and interest payments required by the bond ordinances:

	August 31, 1988			August 31, 1987		
	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
	(Thousands of Dollars)					
Revenue Bonds.....	\$ 20,840	\$528,750	\$549,590	\$ 17,145	\$549,590	\$566,735
Unamortized Debt Discount.	(962)	(11,475)	(12,437)	(1,016)	(12,437)	(13,453)
Total	<u>\$ 19,878</u>	<u>\$517,275</u>	<u>\$537,153</u>	<u>\$ 16,129</u>	<u>\$537,153</u>	<u>\$553,282</u>

Principal maturities during the next five years are \$20,840,000 in 1989; \$22,430,000 in 1990; \$23,915,000 in 1991; \$25,460,000 in 1992; \$27,110,000 in 1993.

Interest expense related to principal revenue bonds outstanding during the next five years is \$62,446,000 in 1989; \$62,670,000 in 1990; \$62,645,000 in 1991; \$62,656,000 in 1992; \$62,634,000 in 1993; and \$809,840,000 thereafter.

Revenue Bonds

Under the authority of the General Gas Works Revenue Bond Ordinance of 1975, the City has issued eleven series of Gas Works Revenue Bonds consisting of serial and term bonds. Proceeds of all series of Revenue Bonds were applied to reduce capital improvement loans from the City which had been previously approved by the voters, but for which bonds had not been issued, to fund future capital improvements, or to refund bonds previously issued. The serial bonds are not subject to redemption prior to maturity while the term bonds are subject to redemption at the option of the City after a designated date, either in whole or in part at varying redemption prices. In addition, the term bonds are subject to mandatory redemption after a designated date prior to maturity at a redemption price of 100% of principal amount and accrued interest. Funds deposited in a sinking fund may be used for this purpose.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. LONG-TERM DEBT: (Cont'd)

Also provided by the General Ordinance is the establishment of a sinking fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. The General Ordinance also provides that sinking fund reserves be maintained as part of the Sinking Fund, which reserves have heretofore initially been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the Bonds of each such series in any fiscal year. Monies in the Sinking Fund Reserve are to be applied to the payment of debt service if for any reason other monies in the Sinking Fund should be insufficient.

Capital improvement funds are revenue bond proceeds to be utilized for construction expenditures.

The revenue bonds are and will be equally and ratably collateralized by a security interest in all of the Company's project revenues and monies in the Sinking Fund and Sinking Fund Reserve.

On October 8, 1986 the Company issued the Tenth Series Revenue Bonds in the amount of \$88,090,000 for the purpose of providing funds, at more favorable interest rates, for the partial advanced refunding of \$75,490,000 Sixth Series Revenue Bonds. As a result, \$13,960,000 of the Sixth Series issued August 15, 1980 and maturing through 1990, remain outstanding following the refunding. The difference between the reacquisition price and the net carrying amount of the extinguished portion of the Sixth Series resulted in a loss of \$8,802,000. This advanced refunding will reduce the Company's future debt service costs by \$5,087,000.

On July 14, 1987 the Company issued the Eleventh Series Revenue Bonds in the amount of \$142,440,000. Series "A" Bonds totaling \$100,000,000 were issued for the purpose of providing funds for capital expenditures with the proceeds being deposited into the capital improvement fund. Series "B" Bonds totaling \$42,440,000 were issued for the purpose of providing funds, at more favorable interest rates, for the advance refunding of \$40,665,000 First and Second Series Revenue Bonds outstanding as of July 31, 1987. The difference between the reacquisition price and the net carrying amount of the reacquired debt resulted in a loss of \$1,327,000. The Company is amortizing this loss over the life of the Eleventh Series Revenue Bonds. This advanced refunding will reduce the Company's future debt service costs by \$1,526,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. LONG-TERM DEBT: (Cont'd)

The following is a summary of the revenue bonds:

Series	Year of Issue	Original Amount	August 31, 1988		August 31, 1987		Interest Rates	Year of Maturity	
			Current Portion	Long-Term Portion	Current Portion	Long-Term Portion			
(Thousands of Dollars)									
Third:	Term.....	1976	\$ 33,865	\$ 2,585	\$ 28,870	\$ 2,410	\$ 31,455	7.375%	1997
Fourth:	Serial...	1978	23,145	-	-	3,215	-	6.4%	1988
	Term.....	1978	46,855	3,420	43,435	-	46,855	6.8-6.875%	1998
			<u>70,000</u>	<u>3,420</u>	<u>43,435</u>	<u>3,215</u>	<u>46,855</u>		
Fifth:	Serial...	1979	16,680	2,315	-	2,175	2,315	6.20-6.3%	1989
	Term.....	1979	33,320	-	33,320	-	33,320	6.5-6.8%	1999
			<u>50,000</u>	<u>2,315</u>	<u>33,320</u>	<u>2,175</u>	<u>35,635</u>		
Sixth:	Serial...	1980	24,510	3,605	3,895	3,345	7,500	8.0-8.25%	1990
Seventh:	Term.....	1982	10,675	-	10,675	-	10,675	6.00%	2013
Eighth:	Serial...	1985	19,455	1,015	17,480	960	18,495	6.00-8.60%	2000
	Term.....	1985	70,830	-	70,830	-	70,830	8.70-8.75%	2015
			<u>90,285</u>	<u>1,015</u>	<u>88,310</u>	<u>960</u>	<u>89,325</u>		
Ninth:	Serial...	1985	37,750	1,430	29,090	1,355	30,520	6.10-9.10%	2001
	Term.....	1985	70,780	-	70,780	-	70,780	9.00-9.125%	2012
			<u>108,530</u>	<u>1,430</u>	<u>99,870</u>	<u>1,355</u>	<u>101,300</u>		
Tenth:	Serial...	1986	88,090	1,045	87,045	-	88,090	5.25-7.20%	2001
Eleventh:	Serial...	1987	62,520	5,425	53,410	3,685	58,835	5.00-7.40%	2000
	Term.....	1987	79,920	-	79,920	-	79,920	7.70-7.875%	2017
			<u>142,440</u>	<u>5,425</u>	<u>133,330</u>	<u>3,685</u>	<u>138,755</u>		
TOTAL				<u>\$ 20,840</u>	<u>\$528,750</u>	<u>\$ 17,145</u>	<u>\$549,590</u>		

NOTES TO FINANCIAL STATEMENTS (Continued)

7. LONG-TERM DEBT: (Cont'd)

From respective dates of issue, the serial bonds mature over a period of ten years to thirteen years while the term bonds mature within thirty years.

8. ACCOUNTING FOR PENSION COSTS:

A. Plan Description

The Company sponsors a public employee retirement system (PERS) to provide pension benefits for employees of the employer.

At September 1, 1986, the date of the last actuarial valuation, the Company's Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	<u>1,550</u>
Current employees:	
Vested	1,465
Nonvested	<u>1,204</u>
Total Current	<u>2,669</u>
Total Membership	<u><u>4,219</u></u>

The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- (i) 1.25% of the first \$6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over \$6,600, times Credited Service, with a maximum of 60% of the highest annual earnings during the last 10 years of Credited Service, applicable to all participants.
- (ii) 2% of total earnings received during the period of Credited Service plus 22.5% of the first \$100 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. ACCOUNTING FOR PENSION COSTS: (Cont'd)

Final-average earnings is the employee's average pay, over the highest 5 of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

Covered employees are not required to contribute to the Pension Plan. The Company is required by statute to contribute the amounts necessary to finance the Plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting Pension Plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used to Value Investments Pension Plan equity securities are reported at cost. Fixed-income securities are reported at par value; investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income securities are recognized on the transaction date.

C. Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Pension Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. ACCOUNTING FOR PENSION COSTS: (Cont'd)

The pension benefit obligation was determined as part of an actuarial valuation at September 1, 1986, certain information of which was updated at September 1, 1987. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7 percent per year compounded annually, (b) projected salary increases of 5 percent per year compounded annually, and (c) 62 as the assumed retirement age.

At September 1, 1987, the unfunded pension benefit obligation was \$88,097,000, as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$114,785,000
Current employees -	
Accumulated employee contributions including allocated investment income	None
Vested	99,013,000
Nonvested	<u>61,716,000</u>
Total pension benefit obligation	\$275,514,000
Net assets available for benefits, at market value	<u>187,417,000</u>
Unfunded pension benefit obligation	<u>\$ 88,097,000</u>

D. Contributions Required and Contributions Made

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method.

Contributions totaling \$17,016,000 were made in accordance with actuarial contribution requirements determined through an actuarial valuation performed at September 1, 1986. These contributions consisted of (a) \$7,617,000 normal cost and (b) \$9,399,000 amortization of the unfunded actuarial accrued liability.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. ACCOUNTING FOR PENSION COSTS: (Cont'd)

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

E. Post Retirement Benefit Information

In addition to providing pension benefits, the Company also provides health care and life insurance benefits to plan beneficiaries and their dependents. The Company recognizes the cost of providing these benefits, by charging the annual insurance premiums to expense. The cost of providing benefits for 1,524 beneficiaries and their dependents for the 1988 and 1987 fiscal years is not separable from the cost of providing benefits for approximately 2,700 active employees and their dependents. Total premiums incurred amounted to \$12,300,000 and \$10,400,000 for 1988 and 1987, respectively.

F. Ten-Year Historical Trend Information (unaudited)

Ten-year historical trend information designed to provide information about the Pension Plan's progress made in accumulating sufficient assets to pay benefits when due is presented below:

NOTES TO FINANCIAL STATEMENTS (Continued)

8. ACCOUNTING FOR PENSION COSTS: (Cont'd)

F. Ten-Year Historical Trend Information (unaudited)

Ten-year historical trend information designed to provide information about the Pension Plan's progress made in accumulating sufficient assets to pay benefits when due is presented below:

ANALYSIS OF FUNDING PROGRESS
(Thousands of Dollars)
(unaudited)

Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	Annual Contribution	(5) Annual Covered Payroll	Contri- bution as a % of Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (4)/(5)
1978	\$ 37,131	\$ N/A		\$ N/A	\$ 8,441	\$46,237	18.3%	
1979	46,308	N/A		N/A	9,928	49,969	19.9	
1980	57,857	139,132	41.6%	81,275	11,851	57,087	20.8	142.4%
1981	72,371	163,654	44.2	91,283	13,840	61,137	22.6	149.3
1982	91,115	190,323	47.9	99,208	15,181	67,474	22.5	147.0
1983	111,012	N/A		N/A	16,276	70,418	23.1	
1984	129,803	N/A		N/A	16,710	75,330	22.2	
1985	145,845	232,714	62.7	86,869	16,936	80,017	21.2	108.6
1986	169,936	262,394	64.8	92,458	17,571	85,537	20.5	108.1
1987	187,417	275,514	68.0	88,097	16,763	90,139	18.6	97.7

N/A - Information not available for these periods.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides an indication of the Pension Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Pension Plan. Trends in unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Pension Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Pension Plan.

NOTES TO FINANCIAL STATEMENTS (Continued)

9. COMMITMENTS AND CONTINGENCIES:

Commitments for major construction and maintenance contracts were approximately \$6,752,000 and \$18,582,000 as of August 31, 1988 and 1987, respectively.

The Company is committed under various noncancellable operating lease agreements to pay minimum annual rentals as follows:

Year Ended August 31,	
1989	\$1,569,000
1990	1,134,000
1991	937,000
1992	462,000
1993	<u>60,000</u>
	<u>\$4,162,000</u>

Rent expense for the years ended August 31, 1988 and 1987 amounted to \$2,107,000 and \$2,263,000, respectively.

The Company has substantial purchase commitments for its supply of natural gas with two major interstate pipeline companies. The applicable rates are subject to periodic approval of the Federal Energy Regulatory Commission. As a result of these commitments, the Company was billed \$4,964,000 by one of its suppliers for failure to take the minimum natural gas deliveries during the periods ended October 31, 1983, 1984 and 1985. On December 16, 1986, the supplier initiated action in federal court seeking recovery of the amounts. In August, 1987, the Company agreed to pay the supplier \$450,000 in settlement of this matter. In addition, the parties mutually agreed to seek dismissal of the above mentioned court action and waive and release the Company from the claimed minimum bill liability. Settlement costs related to this matter were accrued and included in natural gas expense for the year ended August 31, 1987.

NOTES TO FINANCIAL STATEMENTS (Continued)

9. COMMITMENTS AND CONTINGENCIES: (Cont'd)

On October 31, 1986, the PGC granted the Company a rate increase to increase annual revenues \$36,000,000. Appeals processed through the legal system overturned the PGC's original rate order. On March 3, 1987, the PGC revised its original order and approved a \$28,650,000 rate increase for the Company retroactive to January 1, 1987.

The Company's proposed operating budget for the fiscal year ending August 31, 1988 assumed that the increase in the base rates approved by the PGC would remain in effect. For the full fiscal year, the increase was projected to produce additional revenue of approximately \$45,000,000. In connection with the PGC's review of the operating budget, Community Legal Services filed a petition to have the \$28,650,000 rate increase applied to the entire year. On September 16, 1987, the PGC, in effect, granted this petition by ordering a 4% reduction in the Company's base rate, which had the effect of reducing the Company's revenues for the 1988 fiscal year by an estimated \$17,000,000. The Company's petition with the Court of Common Pleas seeking to vacate the PGC's order was denied on October 14, 1987.

On June 3, 1988 the Company filed with the PGC its fiscal year 1989 operating budget and a request to increase annual base revenues \$49,000,000. Also, on July 26, 1988 the Company filed with the PGC its annual request to reset the GCR billing rate to a negative \$.0337/Mcf for the fiscal year commencing September 1, 1988.

On August 15, 1988, the PGC issued a rate order eliminating the Company's projection of gas cost increases and established a GCR billing rate at a negative \$.0655/Mcf to be effective September 1, 1988. This increasing of the GCR credit by the PGC is expected to reduce revenue \$1,900,000 in the 1989 fiscal year. However, any revenue shortfall which may result from the elimination of projected natural gas cost increases is recoverable in future GCR filings through the normal over/under cost recovery of the GCR tariff.

On October 13, 1988, the PGC rejected the Company's June 3, 1988 request for a \$49,000,000 base rate increase and established rates reflecting a \$2,000,000 decrease in base rate. On October 28, 1988, the Company filed a petition for reconsideration with the PGC for the review of certain aspects of its decision. The outcome of this petition of reconsideration is unknown. The PGC actions did not have a significant impact on the financial statements at August 31, 1988.

APPENDIX II

**SUMMARIES OF LEGISLATION
AUTHORIZING THE ISSUANCE
OF GAS WORKS REVENUE BONDS**

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APPENDIX II

SUMMARIES OF LEGISLATION AUTHORIZING THE ISSUANCE OF GAS WORKS REVENUE BONDS

The following are summaries of certain provisions of The First Class City Revenue Bond Act (the "Act") and the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "General Ordinance"), which authorize the issuance of Gas Works Revenue Bonds generally, and the Eleventh Supplemental Gas Works Bond Ordinance (the "Eleventh Supplemental Ordinance"), which authorizes the issuance of the Eleventh Series Bonds, including the Eleventh Series C Bonds. The summaries are not and should not be regarded as complete statements of the provisions of this legislation or of the portions thereof summarized. Reference is made to the Act, the General Ordinance and the Eleventh Supplemental Ordinance, copies of which are available from the Office of the Director of Finance, Room 1420, Municipal Services Building, Philadelphia, Pennsylvania 19107, for the complete terms and provisions thereof. Certain terms used in this summary are defined below. Other terms used herein are defined in the Act, the General Ordinance and the Eleventh Supplemental Ordinance and, unless otherwise stated, shall have the meanings set forth therein.

THE FIRST CLASS CITY REVENUE BOND ACT

(Act 234 of the General Assembly of the Commonwealth,
approved October 18, 1972, P.L. 955; 53 P.S. §§15901-15924)

General Authorization Definitions: Bonds to be Special Obligations

The Act is intended to provide a comprehensive authorization to the City of Philadelphia (the "City") and any other Pennsylvania city of the first class to issue revenue bonds ("Bonds") to finance various types of projects and to issue Bonds to refund previously issued Bonds.

"Project" is defined to include, inter alia, any building, structure, facility or improvement of a public nature, the related land and rights or leasehold estates therein and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease, operate, maintain or support; any item of construction, acquisition or extraordinary maintenance or repair thereof; the City's share of the cost of any of the foregoing undertaken jointly with others; and any combination of the foregoing or any undivided portion of the cost of any of the foregoing as may be

designated a "project" by the City for financing purposes and in respect of which the City may reasonably be expected to receive Project Revenues.

"Project Revenues" mean, in respect of a project, all rents, rates, tolls or charges imposed or charged for the use or product of or services generated from the project to the ultimate users or customers thereof, all payments under bulk contracts with municipalities, government instrumentalities or other bulk users, all subsidies or payments payable by Federal, state or local governments or governmental agencies on account of the cost of operation of the project, or the payment of the principal of or interest on moneys borrowed to finance the cost of the project, and may include reasonable estimates of all interest on and profits from investment of moneys derived from the foregoing.

Bonds issued under the Act are required to be payable solely from Project Revenues and to be secured solely by such revenues and by any reserve funds which may be created or funded in connection with the Bonds. The Bonds are not permitted to pledge the credit or taxing power of the City, to create a debt or charge against the tax or general revenues of the City, or to create a lien against any City property other than the Project Revenues pledged therefor and the reserve funds established in respect of the Bonds. The amount of the Bonds does not constitute a debt of the City and is excluded from the calculation of the City's debt-incurring capacity under the Pennsylvania Constitution.

Estimate of Future Revenues

In order to establish that Project Revenues will be sufficient to amortize all Bonds outstanding, the Act requires a finding to be made in the ordinance authorizing the issuance of the Bonds that the pledged Project Revenues will be sufficient to pay any prior parity charges on such pledged Project Revenues and the principal of and interest on the Bonds. This finding is to be based on a report of the chief fiscal officer of the City filed with the City Council and supported by appropriate schedules and summaries. The report of the chief fiscal officer of the City may be based on the final report of the head of the department or agency of the City having jurisdiction over the project involved or on a certificate of registered engineers engaged by the City to compile relevant data.

For the purpose of estimating future Project Revenues, the Act provides that only the following shall be included: (i) those rents, rates, tolls or charges to the general public which, under existing authorizations, are or will be in effect and will be reasonably collectible during the Fiscal Year under the rate schedule which is or will be in

effect during such Fiscal Year, or which may be imposed by administrative action without future legislation; (ii) those bulk payments which may be imposed under existing legislation or which are provided under existing agreements or are the subject of an expression of intent by the prospective obligor deemed reliable by the chief fiscal officer of the City; and (iii) those governmental subsidies or payments which, under existing legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annual or more frequently recurring nature, are payable in such year.

Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall fix the aggregate amount of Bonds to be issued and determine, or designate officers of the City to determine, the form and details of the Bonds. Subject to applicable constitutional provisions, the City may include in its bond ordinance various covenants with bondholders, including covenants governing the imposition, collection and disbursement of Project Revenues, project operation and maintenance, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and reserves, the issuance of additional priority or parity Bonds, the redemption of Bonds and such other provisions as the City deems necessary or desirable in the interests or for the protection of the City or of such bondholders. Under the Act such covenants, terms and provisions of the bond ordinance constitute contractual obligations of the City subject to modification, with such limitations as may be specified in the bond ordinance, by agreement with a majority in interest of the bondholders or such larger portion thereof as may be provided in the bond ordinance.

Sinking Fund

The Act requires that the bond ordinance shall provide for the establishment and maintenance of a sinking fund or shall designate a previously established fund for the payment of the principal of and interest on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established as and when the same shall become due and payable. The sinking fund shall be managed by the chief fiscal officer of the City and moneys therein to the extent not currently required shall be invested, subject to limitations established by the bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund shall be added to such fund and may be applied in reduction of or to complete required

deposits to the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or as otherwise provided in the bond ordinance. All moneys deposited in the sinking fund, including the Sinking Fund Reserve established by the General Ordinance, are subject to a perfected security interest for the Bonds for which the fund is established until properly disbursed.

Refunding

Bonds from time to time outstanding under the Act or other bonds issued for purposes for which Bonds are issuable under the Act, whether issued before or after the effective date of the Act, may be refunded by Bonds issued under the Act and are subject to the same protections and provisions required for the issuance of an original issue of Bonds. Bonds will no longer be deemed to be outstanding obligations when the City shall have deposited with a bank, bank and trust company or trust company funds represented by demand deposits, interest-bearing time accounts, savings deposits, certificates of deposit (insured or secured as public funds) or specified obligations of the United States or of the Commonwealth of Pennsylvania, the principal and interest of which are sufficient to effect, and which are irrevocably pledged to, the redemption or payment of such Bonds and, in the case of redemption, notice of such redemption or irrevocable instructions to give such notice shall have been duly given.

Validity of Proceedings; Suits and Limitations Thereon

Prior to the delivery of any Bonds, the City must file with the court of common pleas a transcript of the proceedings authorizing the issuance of the Bonds. If no action asserting the invalidity of such proceedings or of the Bonds, is brought on or before the twentieth day following the date of recording of the transcript, the validity of the proceedings, the City's right to issue the Bonds, the lawful nature of the purpose for which the Bonds are issued, and the validity and enforceability of the Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly or collaterally, except where a constitutional question is involved.

Exemption From State Taxation

The Commonwealth pledges with the holders from time to time of Bonds issued under the Act that such Bonds, their transfer and the income therefrom, including any gains made on the sale thereof (other than underwriting profits in a distribution thereof), shall at all times be free from

taxation within and by the Commonwealth of Pennsylvania, but this exemption does not extend to underwriting profits or to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds, the receipt of income therefrom or the realization of gains on the sale thereof.

Defaults and Remedies

If the City should fail to pay the principal of or interest on any Bond when the same shall be due and payable, the remedy provisions of the Act permit the holder of such Bond, subject to the limitations described below, to recover the amount due in an action in Philadelphia Common Pleas Court; however, a judgment rendered in favor of the bondholder in such an action is collectible only from Project Revenues. The holders of 25% in aggregate principal amount of Bonds which are in default, whether because of failure of timely payment which is not cured within 30 days or failure of the City to comply with any other provisions of the Bonds or any bond ordinance, may appoint a trustee to represent them. On being appointed, the trustee shall be the exclusive representative for the affected bondholders. The trustee may, and upon written request of the holders of 25% in aggregate principal amount and on being furnished with indemnity satisfactory to it, shall, take one or more of the following actions, which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual holders of Bonds: enforce, by proceedings at law or in equity, all rights of the holders of the Bonds; bring suit on the Bonds; bring suit in equity to require the City to make an accounting for all pledged Project Revenues received and to enjoin unlawful action or action in violation of the holders' rights; and, after 30 days' written notice to the City, declare the unpaid principal of the Bonds to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and upon the curing of all defaults, to annul such declaration. In any suit, action or proceeding by or on behalf of holders of defaulted Bonds, trustee fees and expenses, including operating costs of a project and reasonable counsel fees, and all such costs and disbursements allowed by the Court, shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the holders of the Bonds. The General Ordinance limits any such recovery to Project Revenues. The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding With General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues pledged for the payment of Bonds have

become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, but not required, subject to applicable Pennsylvania constitutional debt limitation, to authorize the issuance and sale of general obligation refunding bonds of the City, without limitation as to rate of interest, in such principal amount (subject to the aforesaid limitations on indebtedness) as may be required, together with other available funds, to pay and redeem such Bonds, together with interest to the redemption date and redemption premium, if any.

THE GENERAL ORDINANCE.

(Ordinance of City Council approved May 30, 1975 - Bill No. 1871, as amended by Ordinance of the City Council approved July 26, 1979 - Bill No. 2068, Ordinance of the City Council approved July 31, 1980 - Bill No. 274, Ordinance of the City Council approved September 22, 1982 - Bill No. 1316 and Ordinance of the City Council approved May 17, 1985 - Bill No. 534)

Pursuant to the authorization contained in the Act, the City has adopted the General Ordinance. The City has made a pledge of, and has granted a security interest in, all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues for the security and payment of all Bonds issued under the General Ordinance.

Definitions

"City Charges" are defined to be the proportionate charges for services performed for the Gas Works by all officers, departments, boards or commissions of the City which are contained in the computation of Operating Expenses of the Gas Works, including, without limitation, the expenses of the Gas Commission and the base payments to the City contained in the agreement between the City and the manager of the Gas Works and all other payments made to the City from Project Revenues.

"Fiscal Year" is defined as the fiscal year for the Gas Works as provided in any ordinance of the City from time to time enacted and, if no other fiscal year is established by ordinance, it shall mean the fiscal year of the City.

"Net Operating Expenses" are defined to be Operating Expenses exclusive of City Charges.

"Operating Expenses" are defined to be all costs and expenses of the Gas Works necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year including, without limitation, the manager's fee, salaries and wages, purchases of services by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Gas Works, which does not have a probable useful life of at least five years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted municipal accounting principles consistently applied, but shall exclude depreciation and interest and sinking fund charges.

"Project Revenues" are defined to include all rents, rates and charges imposed or charged by the City upon the owners or occupants of properties connected to, and upon all users of, gas distributed by the Gas Works and all other Project Revenues (as such term is defined in the Act) derived from the Gas Works, and all accounts, contract rights and general intangibles representing the Project Revenues.

Additional Bonds

Bonds may be issued in one or more series as the City may from time to time determine by supplemental ordinance (a "Supplemental Ordinance"). The General Ordinance provides for the method of setting the details and terms of the Bonds authorized by such Supplemental Ordinance. The General Ordinance sets forth the manner of making payment of principal, interest and premium, the requirements governing such payment, the rules regarding registration, transfer and exchange of Bonds, and general provisions governing redemption and the effect thereof. The General Ordinance authorizes the issuance of definitive and temporary Bonds, provides for the execution of the Bonds and provides for the issuance of Bonds to replace mutilated, destroyed, lost or stolen Bonds.

Purposes For Which Bonds May Be Issued, Conditions of Issuance - Engineering Report

Bonds may be issued to (1) pay the cost of projects related to the Gas Works, (2) reimburse any City fund from which such costs shall have been paid or advanced, (3) fund any such cost for which the City shall have outstanding bond anticipation notes or other obligations, (4) refund any Bonds of the City issued for the foregoing purposes under the Act, or (5) refund any general obligation bonds of the City issued for the foregoing purposes. However, the City also covenants that it will not refund by the issuance of Bonds

general obligation bonds or notes issued prior to January 1, 1974.

The City covenants that so long as any Bonds shall remain outstanding, no Bonds will be issued unless the financial report of the City's chief fiscal officer required by the Act to be filed with the City Council in connection with such issuance shall be accompanied by an engineering report of an independent consulting engineer or an independent firm of consulting engineers, in either case having broad experience in the design and analysis of the operation of gas works or gas distribution systems of the magnitude and scope of the Gas Works and a favorable reputation for competence in such field. The report must contain a statement that the engineers have made an investigation of the physical properties and of the books and records of the Gas Works. Also, prior to the issuance of the Bonds, a transcript of the proceedings authorizing the issuance of the Bonds shall also be filed with the Fiscal Agent, together with a copy of the engineering report.

On the basis of such investigation, the engineering report must contain the same matters, statements and opinions as are required to be contained in the report of the chief fiscal officer to the City Council, namely: (1) a brief description of the project or projects for which the Bonds are to be issued; (2) a statement identifying the sources from which the pledged Project Revenues are to be derived; (3) a statement that, on the basis of actual and estimated future annual financial operations of the project from which the pledged Project Revenues are to be derived, the project will, in the opinion of the engineers, yield pledged Project Revenues over the amortization period of such Bonds sufficient to meet the payment or deposit requirements of operating expenses, reserve requirements, debt service of all Bonds outstanding for which Project Revenues are pledged and surplus requirements fixed by the General Ordinance, or the Supplemental Ordinance authorizing the issuance of any series of Bonds, and (4) that the revenues upon which the preceding statements are based comply with the definition of "Project Revenues" contained in the Act. The General Ordinance also requires that the engineering report state that the pledged Project Revenues are currently and will be sufficient to comply with the Rate Covenant and that the Gas Works are in good operating condition or that adequate steps are being taken to make them so.

Security

The Bonds are and will be equally and ratably secured by a pledge of and a security interest in all Project Revenues and the Sinking Fund, including the Sinking Fund Reserve.

Priority in Application of Project Revenues

Prior to default, the General Ordinance establishes the following priorities in the application of Project Revenues during each Fiscal Year:

First, to Net Operating Expenses;

Second, to required payments into the Sinking Fund to pay the principal of and interest on all Bonds issued under the General Ordinance and to accumulate, or to restore any deficiency in, the Sinking Fund Reserve;

Third, to the payment of general obligation bonds which have been adjudged to be self-liquidating on the basis of expected revenues from the Gas Works.

Fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for the Gas Works; and

Fifth, to the payment of City Charges.

The balance of the Project Revenues in any Fiscal Year may be, upon the approval of the Gas Commission, paid to the City, provided that in a given Fiscal Year the balance so paid does not exceed the amount of earnings on the Sinking Fund Reserve transferred and paid to PGW's operating funds during the same Fiscal Year. The General Ordinance does not require the segregation of revenues upon their collection prior to default. An ordinance adopted by the City in September of 1983 allows the issuance of Gas Works Revenue Notes secured by Project Revenues, payment of which Notes shall be subordinated to the payments listed in clauses First through Fourth above.

Rate Covenant

The City covenants that it has authorized the imposition of rates and charges by the Gas Commission sufficient to comply with the Rate Covenant in the General Ordinance, and that it will not repeal or materially adversely dilute such authorization.

The Rate Covenant requires the City, at a minimum, to impose, charge and collect in each Fiscal Year such gas rates and charges as shall, together with all other Project Revenues to be received in such Fiscal Year, equal not less than the greater of:

A. The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) 150% of the amount required to pay Sinking Fund requirements for the principal of and interest on all Bonds issued and outstanding under the General Ordinance which will become due and payable during such Fiscal Year; and

(iii) the amount, if any, required to be paid into the Sinking Fund Reserve during such Fiscal Year; or

B. The sum of:

(i) all Net Operating Expenses payables during such Fiscal Year; and

(ii) all Sinking Fund deposits required during such Fiscal Year in respect of all outstanding Bonds and in respect of all outstanding general obligation bonds issued for improvements to the Gas Works and all amounts, if any, required during such Fiscal Year to be paid into the Sinking Fund Reserve.

Additional Covenants

The City further covenants: that it will pay or cause to be paid from the Project Revenues the principal of, premium, if any, and interest on all Bonds as the same shall become due and payable; that it will continuously maintain in good condition and operate the Gas Works; and that it will not in any Fiscal Year pay from Project Revenues any City Charges or deposit from the Project Revenues in the general sinking fund of the City any sinking fund charges in respect of general obligation bonds of the City unless prior to or concurrently with such payment it shall satisfy all Sinking Fund requirements on Bonds outstanding under the General Ordinance for such Fiscal Year.

Report Requirements

The City shall file with the Fiscal Agent not later than 120 days after the close of each Fiscal Year a report of the operation of the Gas Works, including specified financial data, showing compliance with the Rate Covenant and accompanied by a certificate of the manager of the Gas Works

that the Gas Works are in good operating condition and a certificate of the Director of Finance that as of the date of such report the City has complied with all covenants and requirements of the General Ordinance and Supplemental Ordinances. Copies of such report will be available to bondholders and may be inspected and copied at all reasonable times by bondholders or their representatives.

General Obligation Bonds - Junior Lien Revenue Bonds

The City reserves the right to finance Gas Works projects by issuing general obligation bonds or revenue bonds under authorization other than the Supplemental Ordinances, for the payment of which Project Revenues may be pledged, provided that such pledge is subject and subordinate to the prior payments in each Fiscal Year of all Sinking Fund requirements of all Bonds issued under the General Ordinance.

Sinking Fund and Sinking Fund Reserve

A Gas Works Revenue Bond Sinking Fund is established for the benefit of all Bonds issued under the General Ordinance, which shall be held in an account separate and apart from all other accounts of the City. On or before each interest and principal payment date for the Bonds, the Director of Finance shall deposit in the Sinking Fund from Project Revenues the amount sufficient, together with interest and profits on investments held therein, to pay the principal of and interest on the Bonds. The General Ordinance authorizes the appointment, in accordance with legal procedures, of one or more banks to act as Fiscal Agent and/or paying agent for all Bonds or for any series of Bonds issued thereunder and reserves to the City the right to appoint other or additional banks, from time to time. The Fiscal Agent for any particular series will act as registrar and Sinking Fund Depository for that series. The moneys in the Sinking Fund are required to be secured and invested and reinvested under the management of the Director of Finance.

The Sinking Fund Reserve is established as a separate account in the Sinking Fund and is to be held by the Sinking Fund Depository. The Sinking Fund Reserve shall be funded from the proceeds of each series of Bonds in an amount equal to the maximum amount required in any Fiscal Year to pay the debt service on the Bonds of such series becoming due and payable in such Fiscal Year.

The moneys and investments (valued at market) in the Sinking Fund Reserve shall be maintained in an amount equal at all times to the maximum principal and interest requirements in any subsequent Fiscal Year of all Bonds issued and outstanding under the General Ordinance; provided, however,

that the Supplemental Ordinance authorizing the issuance of any such series may provide for the funding of such amount from Project Revenues over a period of not more than six Fiscal Years after the issuance and delivery of such Bonds. If at any time the moneys in the Sinking Fund, other than in the Sinking Fund Reserve, are insufficient to pay when due the principal of (and premium, if any) or interest on any Bond or Bonds, the Sinking Fund Depository shall withdraw from the Sinking Fund Reserve and pay to the Fiscal Agent the amount of such deficiency. If by reason of such withdrawal or for any other reason there shall be a deficiency in the Sinking Fund Reserve, the City covenants to restore such deficiency by daily deposits of at least 50% of Project Revenues.

Transfer of Income on Sinking Fund Reserve

The General Ordinance provides that all interest and income earned on moneys held in the Sinking Fund Reserve may, to the extent not required to comply with the requirements of the General Ordinance relating to the Sinking Fund Reserve, be transferred to the operating funds of the Gas Works to be applied as Project Revenues in accordance with the terms of the General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues, such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given Fiscal Year such balance does not exceed the amount of Sinking Fund Reserve Earnings transferred to the operating funds during the same Fiscal Year.

Remedies; Limitations on Liabilities of City

In addition to the remedies provided by the Act, if the City shall fail or neglect to make deposits into the Sinking Fund, including the Sinking Fund Reserve, in the amounts and at the times required by the General Ordinance or if for any reason moneys in the Sinking Fund shall be insufficient to pay debt service on any Bonds, the City shall immediately and without notice deposit on a daily basis 50% of all Project Revenues, or such greater percentage thereof as the Director of Finance shall determine, in the Sinking Fund, so long as the default or deficiency shall continue. The General Ordinance provides that all remedies are enforceable only against pledged Project Revenues and investments thereof, and that no decree or judgment against the City on an action brought under the provisions of the General Ordinance shall order, or be construed to permit, the occupation, attachment, seizure or sale upon execution of any other property of the City.

Amendments

The General Ordinance and any Supplemental Ordinance may be amended without the consent of any bondholders to cure ambiguities, formal defects or omissions, or to grant to bondholders or any trustee therefor additional rights, remedies, powers or security, to comply with mandatory provisions of state or Federal law or with permissive provisions of such law which do not substantially impair the security or right to payment of bondholders. The General Ordinance may be amended in such other respects as may be authorized by 67% in principal amount of the holders of Bonds outstanding and affected, but no alteration of the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or of the redemption provisions may be made without the consent of the holders of all Bonds outstanding and affected.

Amendments Not Affecting Outstanding Bonds

The General Ordinance or any part thereof may be amended and the foregoing covenants (including the Rate Covenant) may be rescinded, amended or supplemented by further covenants and agreements, from time to time by Supplemental Ordinance, but no such amendments or further provisions, terms, covenants or agreements contained in a Supplemental Ordinance, other than those permitted by and adopted pursuant to Section 8.01 of the General Ordinance governing amendments generally, which shall be inconsistent with, or would impair a prior covenant in, the General Ordinance as at the time amended or supplemented, shall become effective until all Bonds the holders of which are entitled to the protection of, or to enforce compliance with, such prior provisions or covenants, shall cease to be outstanding.

THE ELEVENTH SUPPLEMENTAL ORDINANCE

(Ordinance of City Council approved May 26, 1987
Bill No. 1248)

The Eleventh Supplemental Ordinance authorizes the Mayor, City Controller and City Solicitor (the "Bond Committee"), or a majority of them, to sell, in one or more series, Gas Works Revenue Bonds in the maximum principal amount of \$275,000,000, provided that such maximum principal amount may be increased to reflect sales of such Bonds at discounts which are in lieu of periodic interest, and authorizes a majority of the Bond Committee to establish the terms and provisions of such Bonds.

The Eleventh Supplemental Ordinance states that the Bonds issued thereunder are to be issued for any or all of the following purposes: (i) acquiring and constructing the capital improvements included in the capital program of PGW as from time to time included in the capital budgets of PGW, as approved by City Council; (ii) the refunding of the City's Gas Works Revenue Bonds, First Series, the City's Gas Work Revenue Bonds, Second Series and certain maturities of the City's Gas Work Revenue Bonds, Ninth Series or such other series as shall be designated by the Director of Finance; (iii) paying the costs of issuing the Bonds, and making any required deposit to the Sinking Fund Reserve; and (iv) paying any other Project costs (as defined in the Act).

Based on the report of the Director of Finance filed with City Council pursuant to the Act, the Eleventh Supplemental Ordinance determines that Project Revenues will be sufficient to comply with the Rate Covenant contained in the General Ordinance and also to pay other costs, expenses and payments required to be paid therefrom in their order of priority as set forth in the General Ordinance.

The City covenants in the Eleventh Supplemental Ordinance that the proceeds of the sale of the Bonds issued thereunder for refunding of prior Bonds shall be deposited in an escrow or similar account with the Fiscal Agent, separate and apart from any other account of the City or the Gas Works and further covenants that the proceeds of such Bonds available for payment of costs of capital improvements shall be deposited and held in and disbursed from one or more unsegregated accounts of PGW which shall be separate and apart from and not commingled with the consolidated cash account of the City or any other account of the City not held exclusively for Gas Works purposes.

The City covenants in the Eleventh Supplemental Ordinance that, so long as any Bonds issued thereunder remain unpaid, it shall make payments or cause payments to be made out of the Sinking Fund at such times and in such amounts as shall be sufficient to pay interest on and principal of any Bonds when due.

It authorizes the Director of Finance and any member of the Bond Committee to make such covenants as may be necessary or advisable to assure that the Bonds issued thereunder will not be "arbitrage bonds" as defined in the Internal Revenue Code of 1986, as amended.

The Eleventh Supplemental Ordinance authorizes the City to accumulate from Project Revenues over a period of not more than six Fiscal Years from the date or dates of issuance and delivery of the Bonds issued thereunder the amount required to be deposited in the Sinking Fund Reserve in respect thereof.

APPENDIX III
CITY OF PHILADELPHIA
GENERAL INFORMATION

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CITY OF PHILADELPHIA GENERAL INFORMATION

General

The Eleventh Series C Bonds are revenue bonds payable solely from monies derived, directly or indirectly, from the Project Revenues of PGW. The Eleventh Series C Bonds do not pledge the credit or the taxing power of the City of Philadelphia or create any debt or charge against its tax or general revenues or create any lien against any City property other than the Project Revenues of PGW as is more fully described in the Official Statement. The information below regarding the City is provided in summary form for general informational purposes. More complete information regarding the City and its finances can be obtained by writing the City of Philadelphia, Office of the Director of Finance, 1420 Municipal Services Building, Philadelphia, PA 19102.

The City

The City of Philadelphia was founded in 1682. In 1854, the City and County of Philadelphia were merged. Today the boundaries of the City include an area of approximately 129 square miles with a resident population of approximately 1.6 million people. The City is governed largely under the 1951 Philadelphia Home Rule Charter, which provides for the election, organization, powers and duties of the legislative branch (the "Council"); the powers and duties of the executive and administrative branch; and fiscal and budgetary matters, contracts, procurement, property and records.

Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to succeed himself for one consecutive term. Each of the seventeen members of the Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation as to the number of terms which may be served by members of the Council. Of the seventeen members of the Council, ten are elected from districts and seven at large, with a minimum of two of the seven representing other than the majority party. Also elected at the same time are the Clerk of Quarter Sessions, the Sheriff, and the members of the Board of Elections. Elected at the mid-point of the term of these officials are the District Attorney and the City Controller. In the performance of his Home Rule Charter-mandated pre-audit functions, the City Controller, who has a staff of approximately 150 persons, reviews each transaction involving a disbursement of City moneys. The City Controller also reviews competitive bidding, which is required for all City purchases in excess of \$2,000 except in the purchase of unique articles or articles which for any other reason cannot be obtained in the open market.

The principal officers of the City's government appointed by the Mayor are the Managing Director, the Director of Finance who is the chief financial and budget officer and is selected from three names submitted to the Mayor by a Finance Panel, the City Solicitor who is head of the Law Department, the City Representative and the Director of Commerce. These officials and the Housing Director currently constitute the Mayor's Cabinet which together with the Mayor constitutes the major policy making group in the City's government. The Office of the Managing Director of the City is responsible for supervising the departments and agencies of the City which render the various municipal services provided by the City. The City Representative is charged with giving wide publicity to any items reflecting the activities and accomplishments of the City, its inhabitants, commerce and industry, and the Director of Commerce is charged with promoting and developing commerce and industry. The City Solicitor's Office acts as legal advisor to the Mayor, the Council, and all the agencies of the City government. It is responsible for all of the City's civil litigation, the preparation and the approval as to form of all of the City's contracts and bonds, and assisting Council, the Mayor and City agencies in the preparation of ordinances for introduction into Council. The Director of Housing is responsible for developing an overall City housing plan and for supervising the housing programs operated by the City or by delegated agencies funded by and under contract with the City.

Under the Home Rule Charter, the great majority of the financial functions of the City are placed under the Office of the Director of Finance. The Director of Finance is responsible for development of financial policy, development of the annual operating budget, assistance in the development of the

capital budget and the capital program, supervision of the execution of the operating budget and the financial aspects of the capital budget, development and administration of the accounting system, collection of revenues through the Department of Revenue, supervision of purchasing and some aspects of property management through the Procurement Department, oversight of pension administration as Chairman of the Board of Pensions and Retirement, development and execution of the City's program of temporary and long-term borrowing, direction of the treasury functions handled by the City Treasurer appointed by him and general coordination of other financial matters.

The Board of Revision of Taxes, which administers the assessment of real and personal property taxes, is appointed by the Board of Judges of the Court of Common Pleas.

Governmental Services

Municipal services provided by the City include police and fire protection; health care; construction and maintenance of streets, highways and bridges; trash collection and disposal; provision for recreational programs and facilities; water and sewer systems; acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. Funding for most public assistance benefits or payments is provided by the Commonwealth of Pennsylvania ("Commonwealth") and of Dependent and Neglected Children Program and the Mental Health Program.

The Philadelphia Gas Works (hereinafter "PGW" or "Gas Works") supplies approximately 530,000 residential, commercial and industrial customers in the City, and is the sole gas distribution utility within a service area which is coextensive with the geographical limits of the City. The Gas Works is owned by the City and is operated by Philadelphia Facilities Management Corporation ("PFMC"), a nonprofit corporation specifically organized to manage and operate the Gas Works for the benefit of the City. Rates and charges of the Gas Works are fixed by the Philadelphia Gas Commission and not by the Public Utility Commission of the Commonwealth. The revenues of the Gas Works are segregated from other funds of the City.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental nonprofit corporations which provide services within the City.

The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the Southeastern Pennsylvania region. As of January 1, 1983, SEPTA's Regional High Speed Line Division assumed direct operations of the commuter rail system formerly operated under contract by Conrail.

LITIGATION AND OTHER MATTERS

The following discussion concerning litigation, prepared by the Law Department of the City, relates to the City and does not include information concerning litigation of the Gas Works, which is operated independently of the City by the Philadelphia Facilities Management Corporation, or of the School District, which is a separate governmental entity.

The City is represented in its litigation by the City Solicitor and his staff which comprise the Law Department. The Law Department does not represent the Gas Works or the School District; however, the Law Department acts on behalf of the City and the School District in respect of matters arising from the selection of subjects of taxation and rates of taxation by City Council and collection of taxes by the City for the School District.

Generally, claims against the City are payable out of the General Fund, although claims against the City's Water Department are paid out of the Water Fund and only secondarily out of the General Fund. Unless specifically noted otherwise, all claims hereinafter discussed are payable out of the

General Fund or the Water Fund. The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act," establishes a \$500,000 aggregate limitation on damages arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation was recently upheld by the United States Supreme Court.

Various claims have been asserted against the City from time to time, and in some cases suits thereon have been instituted, for which the City may be liable if these claims are reduced to judgment or otherwise settled in a manner requiring payments by the City. As of January 1989, the estimate of the aggregate loss which would result from lawsuits in which some amount of loss is deemed to be probable was approximately \$34,000,000. The City believes that these claims will not have a material adverse effect on the financial position of the City. Included among these claims are several actions involving catastrophic injuries. The potential exposure in many of these cases is well in excess of \$500,000, and in certain of these cases the City may be liable in such amounts, notwithstanding the \$500,000 limitation on cases brought under the Political Subdivision Tort Claims Act mentioned above.

Not included in the above discussed claims are the following matters:

On December 1, 1988, the Supreme Court of Pennsylvania ordered the City to spend an additional \$54 million to fund the operations of the Philadelphia court system during fiscal year 1989. The order was entered in an Action in Mandamus against the City initiated in June 1988 by the Court of Common Pleas of Philadelphia County, other local judicial agencies, and the sheriff, encaptioned *Bradley, et al. v. Goode, et al.*, June Term 1988, No. 5132. The same plaintiffs had also filed an action in Mandamus against the Commonwealth of Pennsylvania in the Commonwealth Court, encaptioned *Bradley et al., v. Casey, et al.*, No. 1573, C.D. 1988, seeking to enforce compliance with a December 1987 decision of the Pennsylvania Supreme Court (*County of Allegheny v. Commonwealth*, Pa. , 534 A.2d 760) requiring that the Commonwealth fully fund local judicial systems. On consolidated hearing of both Actions in Mandamus, the Commonwealth Court held that the Commonwealth is not responsible to provide funding for the Philadelphia judicial system for this current fiscal year, determined the "reasonable and necessary" funding for that system, and barred the City from presenting evidence of its overall financial situation as a factor in determining "reasonable and necessary" funding. The Supreme Court's Order of December 1, 1988 was entered on the City's and Common Pleas Court's appeals from the Commonwealth Court's decisions.

As a part of the City's budget adoption process for the 1989 fiscal year beginning July 1, 1988, the City Council enacted an ordinance increasing the City realty transfer tax by 1.57% of the value of the property. The increase is calculated to yield an additional \$33 million per year in realty transfer tax revenues. On June 24, 1988, a taxpayer and a consumer activist organization filed suit in the Court of Common Pleas of Philadelphia County (June Term 1988, No. 3659), alleging that the tax increase ordinance was improperly enacted. On June 30, 1988, the Court granted a preliminary injunction restraining implementation of the tax increase pending full hearing of the case. The injunction was upheld on appeal by the Commonwealth Court on November 15, 1988. The City filed an immediate petition with the Pennsylvania Supreme Court for permission to appeal to that Court. Both the original plaintiffs and the Philadelphia Board of Realtors, who have joined as plaintiffs in the suit, filed briefs in opposition. The Realtors are also seeking to have the Supreme Court rule that in the interim no stay is in effect and that the City may not continue to collect the tax. The City has filed an answer opposing the Board of Realtors on the stay issue and expects to prevail and to be able to continue collecting the tax until a final ruling is issued by the Supreme Court. It is probable that the Supreme Court will decide the substantive issue of whether the tax ordinance is valid and that further proceedings in the Court of Common Pleas will not be necessary. The City will vigorously defend the validity of the tax increase ordinance and believes that its position is supported by persuasive legal precedent. In the event the ordinance is eventually held invalid, the City may be required to reduce fiscal year 1989 spending to compensate for any lost revenues not made up from other revenue sources and may be required to rebate all or a portion of such amounts collected.

The largest City employees' union, District Council #33, American Federation of State, County and Municipal Employees, AFL-CIO ("District Council #33"), and the Trustees of that union's Health and Welfare Fund, instituted three suits against the City in the Court of Common Pleas of Philadelphia

County alleging underpayment by the City in its contributions to the District Council #33 Health and Welfare Fund. The first suit (C.P. January Term 1983, No. 3504), relating to payments due under the collective bargaining agreement in force between July 1, 1982 and June 30, 1984, was litigated through the appellate courts and ultimately resulted in court-ordered payments by the City totaling \$27.2 million, including \$3.9 million being withheld pending resolution of a dispute over proper allocation of attorneys' fees. Still being litigated are the second suit (C.P. May Term 1985, No. 4134), concerning an agreement in force between July 1, 1984 and June 30, 1986, in which District Council #33 seeks damages described in the Complaint as in excess of \$17 million, and the third suit (C.P. June Term 1986, No. 5932), concerning an agreement in force between July 1, 1975 and December 31, 1982, in which District Council #33 seeks damages described in the Complaint as in excess of \$20 million. The City is vigorously defending the suits still in litigation which, though involving legal issues similar to those decided in the first suit, involve substantial issues of proof as to Health and Welfare Fund expenditures during the subject periods.

On December 26, 1985, the City was served with a complaint alleging sex discrimination in its employment practices. The suit was filed in the U.S. District Court for the Eastern District of Pennsylvania (C. A. No. 85-7418) by District Council #33 and ten individual City employees. The Complaint was not accompanied by any request for preliminary relief. On August 14, 1986, the City's motion to dismiss the complaint was denied. On January 20, 1988, a class was certified and discovery has begun.

On May 13, 1985, when City Police were attempting to serve warrants on members of the radical organization known as "MOVE", a fire occurred which destroyed approximately 60 homes and caused damage to numerous others. The City has rebuilt the destroyed homes, repaired the damaged homes and resolved most of the property damage claims. To date, 37 lawsuits have been filed arising out of the fire, 17 of which have been settled, withdrawn or dismissed. Of the 20 active cases, 12 are pending in federal district court (exclusive of 4 cases dismissed in December 1988 and as to which dismissal the period for taking an appeal has not yet expired) and 8 in state court. The federal court cases involve two class actions, filed on behalf of all persons (except MOVE members) who lived in the sixty homes and sustained damage as a result of the fire and have not yet reached settlement with the City; 2 cases involving persons who have opted out of the class; 6 suits filed on behalf of persons who died in the fire; and a suit by each of the two surviving residents of the MOVE house. All federal court actions seek compensatory and punitive damages in an unspecified amount in excess of \$75,000 in addition to attorneys' fees and costs, for claimed violations of federal constitutional law and state law. In the state court, 6 of the 8 actions were commenced by summons only and were brought on behalf of persons who died in the fire. The seventh action, brought by the child of a deceased MOVE member and the child's father, seeks compensatory damages in an unspecified amount in excess of \$20,000 in addition to attorneys' fees and costs, for claimed violations of state law, and it duplicates an action brought in federal court. The eighth action seeks a sum less than \$20,000 and was filed by the owner of a house that was only damaged by the fire. Since more than three years have now passed from the date of the incident, the City does not expect any more suits to be filed. While participating fully in relief efforts, the City also intends to defend vigorously all claims asserted in the described suits. On the basis of information currently available, the City does not expect any litigation or other claims arising from this incident to have a material adverse effect on the financial condition of the City.

The City is currently engaged in litigation arising from the rebuilding of 61 homes on Osage Avenue after the fire of May 13, 1985. (City v. G & V General Contractors, Inc., Case No. 14-110-003 S7 B/J, before the American Arbitration Association.) The City is seeking to recover approximately \$2.5 million representing costs incurred and/or paid by the City as a result of: delays in construction, a contingent completion fund made available to assist the contractor in completing construction, the contractor's failure to correct defects which arose in the first year after construction, significant rebuilding of the roofs, failure to build in accordance with plans and specifications, and other breaches of contract. G & V General Contractors, Inc. ("G & V") has asserted a counterclaim against the City for approximately \$4,000,000, alleging that the City promised to pay whatever it cost G & V to build the project, no matter whether the costs were properly incurred or within the limits of the contract. The City has also filed suit against G & V's bonding company, Fidelity and Deposit Company of Maryland.

That action is currently pending in the U.S. District Court for the Eastern District of Pennsylvania. (C.A. No. 87-2101.) The bonding company has filed a counter claim alleging that the bond was procured by fraud and misrepresentation.

In April 1986, a class action was filed against the City in the U.S. District Court for the Eastern District of Pennsylvania (*Savior et al. v. City*, C.A. No. 86-1493) on behalf of all retarded citizens placed in licensed privately-owned facilities and for whom the City acts as representative payee with respect to their federally funded, state disbursed, Supplemental Security Income ("SSI") payments. Plaintiffs allege that the City wrongfully withheld certain monies from SSI payments in violation of state and federal regulations. The plaintiffs and the City have agreed to a settlement of the matter whereby the City will pay approximately \$1.2 million, over a period of eight years, in compensation to all members of the plaintiff class.

In July, 1986, an action was instituted against the City in the U.S. District Court for the Eastern District of Pennsylvania, *Walton v. City et al.* (C.A. No. 86-3954), asserting liability on the part of the City in excess of \$3 million in connection with a particular case of child abuse involving permanent brain injury. The asserted City liability is premised upon alleged negligence and violation of the child's civil rights by failing to protect the child from parental abuse. The City denies any liability in this matter. Proceedings in *Walton v. City* have been suspended by the District Court pending a decision by the United States Supreme Court in a related case. The City expects the suspension to continue until at least the summer of 1989.

On November 17, 1988, in the matter of *Philadelphia Police and Firefighters Assoc. v. City of Philadelphia*, C.A. No. 85-5305, the U.S. District Court for the Eastern District of Pennsylvania entered a permanent injunction ordering the City to continue providing and the Commonwealth of Pennsylvania to continue funding certain "community services" to retarded persons living in their own homes. The City had begun to reduce and/or terminate those services in July 1988 after the Commonwealth failed to appropriate the funds necessary for their continuation. Thereafter, representatives of the class of services recipients brought the subject lawsuit. As of January 1989, the Commonwealth is refusing to provide additional funding for the City-provided services, with the possible result that the City will have to spend an additional \$6.8 million of City revenues to provide the court-ordered retardation services.

The following water and sewer related matters are currently being litigated:

Consumer Education and Protective Association v. Philadelphia Water Department is an appeal by ratepayers from the Water Commissioner's 1985 rate determination, which challenges the constitutional validity of the administrative rate determination procedure as well as the appropriateness of the rates. The Court of Common Pleas dismissed the appeal on August 3, 1988. The Consumer Education and Protective Association has appealed this ruling.

United States of America v. City of Philadelphia, C.A. No. 88-6791 is a federal civil enforcement action in which EPA seeks penalties for the discharge of pollutants into the Delaware River from the City's Southwest Water Pollution Control Plant in amounts alleged to be in excess of those allowable. The City answered the complaint on October 21, 1988.

In *Stella Contracting Inc. v. City of Philadelphia*, the contractor has sued the City in the U.S. District Court for the Eastern District of Pennsylvania (C.A. Nos. 88-0195, 88-5889) for a total of \$2.1 million for various breaches of sludge processing contracts.

Contractor Curtis T. Bedwell and Sons Inc. has initiated four actions in the Court of Common Pleas against the City for \$7 million in contract disputes over four major construction projects at wastewater plants. Bedwell alleges, among other things, that the City wrongfully withheld liquidated damages to compensate for Bedwell's delay. The City denies liability and will counterclaim in these actions.

The City is the defendant in litigation instituted by certain private parties in the U.S. District Court for the Eastern District of Pennsylvania docketed as C.A. No. 85-14, concerning odors alleged to be emitted from the Water Department's Northeast Philadelphia water pollution control plant. The

plaintiffs are nearby residents. By order dated July 25, 1986, the District Court enjoined maintenance or operation of the plant in any manner which causes odor emission violative of state or city pollution control laws and ordered the City to proceed with "debugging" of pollution control equipment incorporated into the plant. Following hearing concerning alleged odor incidents subsequent to the July 1986 order, the court held the City to be in contempt of the order and directed, by order dated January 28, 1987, that with respect to odor incidents occurring thereafter, any issuance of three pollution law violation notices within a thirty day period shall be deemed a violation of the injunction for which the City shall pay a \$10,000 penalty. The January 28, 1987 order also directs the City to contract for an independent study of the plant and odor problem. On March 31, 1988, the United States Court of Appeals for the Third Circuit denied the City's appeal from the District Court's January 28, 1987 order and in September 1988, the City's petition for writ of certiorari was denied by the U.S. Supreme Court.

The City is involved as a defendant or potential defendant in matters involving certain sites alleged to be polluted. All of the enforcement and litigation matters mentioned below are still in various early stages.

Claims of City responsibility in connection with the Gems Landfill, located in Gloucester County, New Jersey, arise primarily out of the action of a subcontractor of one of the City's contractors in placing on the site as a closure material residue from dismantled City Water Department "Imhoff" tanks, a substance approved for such use by the New Jersey Department of Environmental Protection. Accordingly, the City strenuously denies that the material in question is a "hazardous substance" and denies any responsibility for necessary site clean-up or site-related alleged injury to private parties. The City is named as an additional insured under policies of insurance obtained by the City's contractor providing coverage of approximately \$11 million, and applicable in the City's opinion to the claims now made. The contractor is also contractually obligated to indemnify the City for any loss suffered as a consequence of such claims and in connection with award of the subject contract, filed a performance bond in the amount of \$28.9 million payable to the City. With respect to the Gems Landfill, the City is currently a defendant in site clean-up proceedings instituted by the New Jersey Department of Environmental Protection wherein claims relating to the City's use of the site for trash and incinerator residue disposal for three months during 1980 have also been raised, a named defendant in at least seven private suits for damages in the federal trial courts, and a named defendant in at least nine private actions for damages in the New Jersey state courts including two class actions.

With respect to a site known as the Paoli Yard, located in Chester County, Pennsylvania, Amtrak has been granted leave of the Court to file an amended third-party complaint naming the City as a third-party defendant in a suit instituted in the U.S. District Court for the Eastern District of Pennsylvania (C.A. 86-1094) by EPA against Amtrak, Conrail and SEPTA, for clean-up of the Paoli, Pennsylvania railroad yard. While EPA has not announced any estimated PCB clean-up cost, SEPTA has estimated the cost to be approximately \$30 million. The City denies any responsibility for the Paoli Yard pollution. In addition, the City has been named as a defendant or third-party defendant in at least sixty-three private suits for damages and equitable relief, based upon the same alleged site pollution, also pending in the U.S. District Court and in one such private suit pending in the Court of Common Pleas of Philadelphia County. The City denies any liability in these private suits.

With respect to the Clearview site, a landfill located in Delaware County, Pennsylvania, the City has been named as a defendant in two suits for damages in the Court of Common Pleas of Philadelphia County. The suits, brought in April 1985 and January 1986, respectively, name approximately one hundred nearby residents as plaintiffs. The site has not been declared as a hazardous site by either federal or state agencies and the suits are still in their earliest stages. The City believes that it has very strong defenses, including immunity under state law against certain types of claims which characterize the suits.

With respect to the Global Landfill site, located in Old Bridge, New Jersey, the City has been named as a defendant in a private action instituted in the New Jersey Superior Court. The complaint alleges injury resulting from the disposal of sewage sludge containing "PCBs" at the site. The City has never disposed of any sewage sludge at the site and expects to be successful on its pending motion to be dismissed from the case.

The City was recently named a third-party defendant in federal "Superfund" litigation involving the Buzby Brothers Landfill in Voorhees, New Jersey. The complaint does not specify any basis for City liability and the City is not aware of any possible basis for such liability. The City denies any liability in this matter.

A putative class action against the City was filed in the Court of Common Pleas of Philadelphia County, encaptioned *James J. Passalacqua v. City of Philadelphia*. The Action has been removed to federal court and relates to the Northwest Incinerator. Plaintiff seeks to certify a class of "all persons residing in zip codes 19127 or 19128 who have sustained cancer or brain tumors or who have died therefrom." Damages have been alleged to be in excess of \$20,000. The City has denied all liability.

In October 1988, the United States Environmental Protection Agency ("EPA") served upon the City three complaints concerning violation of the Toxic Substance and Control Act. The complaints arise out of a December 1987 inspection of transformers in City Hall, City Hall Annex and Municipal Services Building. Most of the violations cited pertain to reporting and labelling requirements under PCB regulations. The proposed penalties for the three facilities are \$80,000; \$58,000; and \$76,000, respectively.

In June, 1987, the Southeastern Pennsylvania Transportation Authority instituted an action against the City and against Urban Engineers, a private engineering firm, asserting that one or both of the defendants are responsible for the removal of loose asbestos alleged to be presented as insulation on pipes located in certain tunnels beneath Suburban Station railroad station. The suit brought in the Court of Common Pleas of Philadelphia County (June Term 1987, No. 5781) alleges that the subject tunnels were incorporated into the ventilation system for an underground rail link, known as the Center City Commuter Tunnel, constructed by the City. Because of the presence of the asbestos, the ventilation system has not been put into operation. The cost of asbestos removal is alleged by SEPTA to be in excess of \$3 million. The City denies any liability in the matter and disputes the alleged cost of removal.

The City and School District receive significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and federal revenue sharing entitlements. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit. Any disallowed claims resulting from such audits and relating to the City could become a liability of the General Fund or other applicable funds. In the opinion of City officials the only significant contingent liabilities related to matters of compliance are the costs questioned in The Single Audit of Federal Financial Assistance for the fiscal year ended June 30, 1987, which for all open program years amounted to \$31.7 million.

SOCIOECONOMIC INFORMATION

Introduction

The City of Philadelphia ("City") includes within its boundaries an area of approximately 129 square miles and a resident population of over 1.6 million people. The City is in the heart of an eight-county metropolitan area with approximately 4.8 million residents. Air, rail, highway and water routes provide easy access to the City.

Philadelphia is strategically located on the East coast with easy access to markets, resources, government centers, and transportation. The Philadelphia metropolitan area is the 4th largest market in the United States. More than one-half of the population of the United States lives within an over-night drive.

Quality of Life

In a recent survey (Places Rated Almanac) to determine the nation's most liveable places, conducted by Rand McNally, the Philadelphia region ranked among the top five. According to government statistics, Philadelphia is among the safest cities in the country. Of the 10 largest cities in America, Philadelphia has the lowest crime rate.

The City is rich in history, art, architecture and entertainment. Cultural and historic attractions include the Philadelphia Orchestra, Rodin Museum, Academy of Music, Pennsylvania Ballet, Pennsylvania Academy of Fine Arts, Philadelphia Museum of Art, Mann Music Center, and Opera Company of Philadelphia. The South Philadelphia Sports Complex, consisting of Veterans Stadium, the Spectrum, and JFK Stadium, is home to the Philadelphia Phillies, 76ers, Flyers, and Eagles. Philadelphia also offers its residents the Independence National Historical Area, which includes Independence Hall and the Liberty Bell, and one of the largest urban park systems in the world, the 8,000 acre Fairmount Park, containing the country's first zoo.

Philadelphia is a center for health, education, and science facilities. Its fifty-two hospitals, six medical schools, and two dental schools make it one of the largest health care centers in the world.

The city has thirty-one institutions of higher education with a total enrollment of over 110,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle College. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College and the Camden Campus of Rutgers University. The undergraduate and graduate programs at these institutions help provide highly educated and trained employees to the Philadelphia Community.

The City also has major research facilities, including those located at its universities, the teaching medical schools, the Franklin Research Center, and the University City Science Center. The Science Center is the first urban high technology center in the United States, consisting of offices and research buildings located between the University of Pennsylvania and Drexel University. An advanced Technology Center has been established at the Science Center with funding from the state-sponsored Benjamin Franklin Partnership, a series of programs that link private sector and educational resources to promote new business development. The Center provides research and development opportunities in new technology areas such as biomedical research, advanced computer software development, and data processing. The goal of the center is to incubate new businesses and to spin off development using the thirty-one universities and colleges in the area as resources.

Demographics

During the ten year period between 1970 and 1980, the average age of the City's population increased. This trend toward an older population is consistent with the population patterns in the U.S. as a whole.

TABLE A-1
Population, City, PMSA & Nation

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Philadelphia	1,658,300	1,650,339	1,647,600	1,646,840	1,642,900
Philadelphia (PMSA)(1)	4,751,000	4,768,400	4,784,200	4,825,700	4,825,800
United States (Thousands) ..	234,400	236,478	239,283	241,596	244,680

Source: Wharton Econometrics and U.S. Dept. of Commerce, Bureau of the Census

(1) PMSA: Primary Metropolitan Statistical Area is, by definition of the Bureau of the Census, a large urbanized county, or cluster of counties, with very strong internal economic and social links. A PMSA must have a combined total population of one million or more. In addition, a PMSA must also be comprised of counties that conform to: (a) a total population of at least 100,000; (b) a population that is at least 60% urban; and (c) a population where less than 50% of the resident workers commute to jobs outside of the county. The Philadelphia, Pa.-N.J. PMSA includes the counties of Bucks, Chester, Delaware, Montgomery and Philadelphia in Pennsylvania and the counties of Burlington, Camden and Gloucester in New Jersey.

TABLE A-2
Population Age Distribution, U.S. and City of Philadelphia

<u>Age</u>	<u>U.S.</u> <u>1984</u>	<u>%</u> <u>of Total</u>	<u>Phila.</u> <u>1984</u>	<u>%</u> <u>of Total</u>
0-24	91,917	38.87%	633,899	38.41%
25-44	71,777	30.35%	435,458	26.39%
45-64	44,811	18.95%	340,744	20.65%
65-84	25,349	10.72%	219,272	13.29%
85	2,624	1.11%	20,966	1.27%
ALL AGES.....	236,478		1,650,339	

U.S. Figures in Thousands, Phila. Figures actual

Source: U.S. Dept. of Commerce, Bureau of the Census

The Economy

The Philadelphia economy is composed of a diversity of industries. Virtually all classes of industrial and commercial business are represented. Philadelphia is a major business and personal service center with strengths in insurance, law, finance, health, and education. When the Industrial Revolution transformed America, Philadelphia earned the title of "Workshop of the World". Now the service industry is changing the way America works and, once again, Philadelphia is responding with substantial growth in the service sector.

The cost of living in Philadelphia is relatively moderate compared to other major metropolitan areas. Along with a relatively low cost of living, Philadelphia also offers a generally lower cost for business operations. Philadelphia is one of the country's education capitals and as such offers the business community a large, diverse and industrious labor pool. Office occupancy rates are among the best in the country at 88.5 percent, and the average cost per square foot for office space also compares favorably.

TABLE A-3
Average Cost Per Square Foot of Office Space
in Selected Cities, Spring/Summer 1987

	Existing Buildings		Under Construction
	<u>Rental</u>	<u>Operating</u>	<u>Rental</u>
Philadelphia.....	23.50	8.00	33.00
Chicago	25.86	8.20	31.34
Boston	31.00	7.70	40.00
Washington.....	32.00	8.20	33.00
Los Angeles	28.00	8.00	30.00
San Francisco.....	23.34	10.00	***
New York (Manhattan).....	40.15	13.00	49.10

*** Rental figure not available

Source: International Office Market Report, the Office Network Spring/Summer 1987

Employment

Philadelphia's 1986 non-farm payroll employment represented approximately 36 percent of the metropolitan area's (Philadelphia PMSA) total employment. The employment changes with the City principally have been due to declines in the manufacturing sector and the relatively stronger performance of the service industries. Overall employment in Philadelphia has increased each year since 1983.

TABLE A-4
Labor Force Data

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1986</u>
Philadelphia (000) **				
Labor Force	694.7	692.9	700.6	728.6
Employment	634.5	622.1	636.5	678.6
Unemployment	60.3	70.8	64.0	50.0
Unemployment Rate (%)	8.7	10.2	9.1	6.9
Philadelphia, PA - NJ PMSA (000) **				
Labor Force	2,173.5	2,207.4	2,253.9	2,364.9
Employment	2,025.9	2,018.3	2,101.1	2,241.8
Unemployment	147.6	189.2	152.7	123.2
Unemployment Rate (%)	6.8	8.6	6.8	5.2
United States (000,000)				
Labor Force	107.0	110.3	113.5	117.8
Employment	99.3	100.4	105.0	109.6
Unemployment	7.7	8.3	8.5	8.2
Unemployment Rate (%)	7.2	7.6	7.5	7.0

** Re-benchmarked Figures

Source: Commonwealth of Pennsylvania Department of Labor and Industry, Office of Employment Security (Research and Statistics) and Wharton Econometrics

TABLE A-5
City of Philadelphia-Non-Farm Payroll Employment in Thousands

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>June 1988 Final</u>
Total Employment	743.1	752.4	755.5	762.6	774.7	775.3
Manufacturing	109.2	109.2	103.2	100.0	96.0	94.7
Non-Manufacturing	633.9	643.8	652.3	662.6	678.7	680.6
Construction	17.0	17.2	17.5	18.5	17.7	17.8
Transportation/Public Facilities	46.6	46.4	45.2	44.8	45.0	45.4
Trade	142.5	145.0	145.7	148.3	148.6	152.2
Finance/Insurance/Real Estate	64.7	66.4	66.6	69.4	73.3	73.8
Services	225.0	228.5	235.9	242.3	250.8	248.7
Government	138.1	140.3	141.5	139.2	143.3	142.7

Source: Commonwealth of Pennsylvania Department of Labor and Industry, Office of Employment Security (Research and Statistics)

TABLE A-6
**Top 15 Non-Governmental Employers in the
City of Philadelphia as of December 31, 1986**

<u>Rank</u>	<u>Firm name</u>	<u>Number of Employees</u>
1	Trustees of the University of Pennsylvania	12,753
2	SEPTA	9,263
3	Temple University	8,235
4	Bell Atlantic Corporation	7,556
5	Thomas Jefferson University	7,000
6	Consolidated Rail Corporation	6,000*
7	Philadelphia Electric Company	5,252
8	CIGNA	4,500
9	Hahnemann University	4,033
10	Strawbridge and Clothier	4,000*
11	Albert Einstein Medical Center	3,725
12	Smithkline Beckman Corporation	3,700
13	Corestates Financial Corporation	3,541
14	Mellon Bank Corporation	3,498
15	Sears Roebuck and Company	3,086*

* As of December 31, 1985

Source: Commonwealth of Pennsylvania, Department of Labor and Industry, Office of Employment Security

Income

The following table shows comparable data relating to personal and disposable income for the City, the Philadelphia PMSA, and the United States.

TABLE A-7
Income Statistics

	<u>1984</u>	<u>1985</u>	<u>1986</u>
Personal Income (Billions\$)			
Philadelphia	18.6	19.6	20.5
Philadelphia PMSA.....	65.5	70.1	74.5
United States.....	3,012.1	3,314.5	3,485.7
Per Capita Personal Income (\$)			
Philadelphia	11,247.3	11,928.9	12,473.1
Philadelphia PMSA.....	13,736.3	14,652.4	15,438.2
United States.....	12,683.0	13,582.0	14,381.3
Disposable Personal Income Billions\$)			
Philadelphia	15.5	16.4	17.4
Philadelphia PMSA.....	56.5	60.3	64.2
United States.....	2,576.8	2,828.0	2,971.6
Disposable Personal Income Per Capita (\$)			
Philadelphia	9,407.7	9,974.3	10,556.7
Philadelphia PMSA.....	11,848.8	12,604.0	13,151.4
United States.....	10,850.0	11,818.0	12,307.3

Source: Wharton Econometrics

Retail Sales

The following table compares retail sales activity between the City, the City's PMSA, and the United States.

TABLE A-8
Retail Sales

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Philadelphia (Billions)				
Durable Goods	1.3	1.4	1.2	1.1
Non-Durable Goods.....	5.0	5.1	5.3	5.1
Total	6.3	6.5	6.5	6.2
Total Per Capita (\$)	3,799.1	3,938.6	3,956.2	3,770.9
Philadelphia PMSA (Billions)				
Durable Goods	7.1	8.4	9.8	11.9
Non-Durable Goods.....	14.8	16.0	17.3	18.0
Total	21.9	24.4	27.1	30.1
Total Per Capita (\$)	4,619.0	5,125.0	5,659.9	6,246.5
United States PMSA (Billions)				
Durable Goods	395.8	463.0	511.3	562.8
Non-Durable Goods.....	775.6	830.9	866.5	882.7
Total	1,171.4	1,293.9	1,377.9	1,445.5
Total Per Capita (\$)	4,997.0	5,448.0	5,740.0	5,983.1

Source: Wharton Econometrics

Infrastructure

The residents of the City and surrounding counties are served by a commuter system operated by the Southeastern Transportation Authority ("SEPTA"). This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City to the surrounding counties and other areas of the City. A direct high speed train line runs from southern New Jersey to

Center City and is operated by the Delaware River Port Authority ("DRPA"). An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Philadelphia International Airport in 1985, which places the airport less than 25 minutes from the Center City business district and connects directly with the commuter rail network and the site of the planned Convention Center. More than 100 truck lines serve the Philadelphia area. One major line has added eight terminals in less than seven years.

The opening of the commuter rail tunnel in 1984 provided a unified city transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines and the high speed line to New Jersey and the airport high speed line.

Amtrak, SEPTA, Conrail and CSX provide inter-city, commuter, and freight rail services connecting Philadelphia to the other major cities and markets in the United States.

The City owns the Philadelphia International Airport located eight miles southwest of Center City and a smaller airport in Northeast Philadelphia. The International Airport is accessible by major highways within the City and from surrounding communities. The International Airport annually provides its 15 million passengers with service from 11 domestic air carriers, 14 commuter airlines, 5 foreign flagcarriers, 5 charter airlines, and 9 all cargo carriers. US Air has hub operations in Philadelphia and a terminal with 11 new gates for both international and domestic operations is currently under construction.

The City's port is the world's largest freshwater port and one of its highest tonnage ports. It is one of the distribution centers for Northeastern United States imports and is utilized for the cruise business as well. Port facilities can be purchased or leased in the foreign trade zone for international business. General cargo facilities, including two modern container terminals, are publicly owned and privately operated. A recently completed auto import/export terminal further contributes to the port's economic diversity. Plans to update and modernize existing facilities are now being implemented.

The water and wastewater systems of Philadelphia are owned by the City and operated by the City's Water Department. The water system provides water to the City (130 square mile service area) and a relatively smaller quantity of water to the Bucks County Water and Sewer Authority. The City obtains approximately 60 percent of its water from the Delaware River and the balance from the Schuylkill River. The System serves over 500,000 households through 3,300 miles of mains and provides fire protection through more than 26,700 fire hydrants.

The wastewater system services a total of 279 square miles of which 130 square miles are within the City and 149 square miles are in suburban areas. The total population served is approximately 2,354,900 according to the 1980 Census. The wastewater system contains three water pollution control plants, 16 pumping stations and approximately 2,920 miles of sewers. By order of the Delaware River Basin Commission, the City is required to achieve effluent limitations which are considered more stringent than those required to achieve secondary treatment levels as defined in the Federal Water Pollution Control Act Amendments of 1972.

The City is responsible for collecting solid wastes from sources other than industrial or commercial. Approximately 3,200 tons per day of solid waste is collected by the City. Municipal solid waste is disposed of at various landfills operated outside City limits. The City has entered into an agreement for up to six years with a major private contractor for landfill space.

Each year the City adopts a capital program which provides for the construction and rehabilitation of various projects. The Capital Improvement Program for Fiscal Year 1989 - 1994 calls for an overall commitment of \$2.119 billion over the six-year period. Of this total amount, \$258 million will be raised from tax-supported city loans.

Some elements of the City's capital plant are aged and in need of repair, maintenance and/or reconstruction. The City Planning Commission's recommended capital improvement program for 1989-94 addresses this need. The City's capital improvement requirements are dictated by the need to provide services and maintain the existing infrastructure. Rebuilding the City's infrastructure is the first priority. New projects have been recommended only if they enhance the City's economy, protect

public health and safety, improve the City's neighborhoods, make government more efficient, leverage other government and private funds or preserve unique resources. Under the first priority are projects such as the construction of a new International Terminal at the Philadelphia International Airport, the improvements at the Port, upgrading police and fire facilities, improvement of housing services, libraries, health facilities, the transit system, and numerous projects to enhance the City's industrial and commercial development. Also included in the capital budget are the City's museums, recreation facilities, and parklands.

Housing

Philadelphia boasts a diversity of neighborhoods and housing opportunities. There are over 100 neighborhoods, some of which trace their origin to the eighteenth century and the early settlements of Philadelphia. An impressive 61 percent of the city's housing units are owner-occupied.

Housing costs are relatively lower than in other metropolitan areas, with the City offering a wide spectrum of residential possibilities. The major factor in Philadelphia's low Consumer Price Index ("CPI") is the comparatively inexpensive housing in the City.

TABLE A-9
Housing Affordability in Major Cities

<u>City</u>	<u>Percentage (1)</u>
San Diego	33.3%
New York City Area	33.1
Boston Area	32.9
Los Angeles Area	31.7
San Francisco Bay Area	28.2
Phoenix	28.2
U.S. Average	28.0
Washington	27.5
Atlanta	27.3
Baltimore	27.1
Dallas-Ft. Worth	27.0
Houston Area	25.3
Philadelphia Area	25.1
Chicago	24.8
Detroit-Ann Arbor	23.4
Kansas City	22.9
Miami-Ft. Lauderdale	22.1
Cleveland Area	20.2
St. Louis	18.2

Source : U.S. Housing Markets/The Lomas & Nettleton Co.

(1) Represents the percent of average income in each market needed for payments on an average conventionally financed house bought in 1987.

Real Estate

While the City's housing market has remained fairly stable, there has been significant development in the commercial area. The tables below summarize certain information concerning real estate assessments and construction activity.

TABLE A-10
Ten Highest Certified Market and Assessment Values
For Tax Year 1987 of Fully Taxable Properties

<u>Location</u>	<u>Market Value</u>	<u>Assessment Value</u>
1500-12 Market Street	\$184,935,700	\$58,538,974
1414-38 S. Penn Square	95,067,850	27,125,004
1700-40 Market Street	74,300,000	23,415,876
1801-21 Market Street	70,000,000	23,800,000
1601-23 Market Street	68,961,800	21,197,716
10 Independence Mall	63,711,990	20,858,288
2000-24 Market Street	63,000,000	19,288,865
1824-50 Market Street	62,601,700	18,455,827
200 N. 16th Street	61,764,700	21,000,000
123-51 S. Broad Street	60,000,000	18,413,094

Source : City of Philadelphia, Board of Revision of Taxes

TABLE A-11
Ten Highest Certified Market and Assessment Values
For Tax Year 1987 of Real Estate Tax Abated Properties

<u>Location</u>	<u>Market Value</u>	<u>Taxable Assessment Value</u>	<u>Exempt Assessment Value</u>
1600-22 Market Street	\$115,000,000	\$1,920,593	\$26,652,198
1835 Market Street	75,000,000	1,948,502	23,551,498
130 N. 18th Street	70,000,000	1,161,129	19,772,888
1101-11 Market Street	70,000,000	1,397,900	22,402,100
1601-29 J.F.K. Blvd	51,766,440	7,787,000	9,813,590
124-48 S. 6th Street	50,000,000	8,500,000	8,500,000
2001-51 Market Street	50,000,000	6,984,705	10,015,295
1624-44 Market Street	44,716,203	4,127,076	11,076,432
819-41 Chestnut Street	35,000,000	5,000,000	3,178,660
144 N. 18th Street	32,045,800	2,587,861	8,307,711

Source: City of Philadelphia, Board of Revision of Taxes

TABLE A-12
Construction Authorized by Building Permit

	Declared Valuation (Millions of Dollars)				Total	New Housing Units Authorized
	Residential	Commercial	Industrial	Other(a)		
1977	\$ 68.5	\$ 35.3	\$11.0	\$ 75.6	\$190.4	2,439
1978	57.0	99.8	20.6	164.9	342.3	2,970
1979	56.9	122.1	9.6	138.4	327.0	2,190
1980	116.2	128.2	18.8	372.2(b)	635.4	2,704
1981	99.1	160.9	16.0	151.9	427.9	2,060
1982	88.0	111.4	11.3	166.9	377.6	1,768
1983	56.6	124.2	16.0	125.8	322.6	1,152
1984	66.7	197.0	44.2	233.7	541.7	1,498
1985	147.7	317.7	32.0	94.8	592.2	3,027
1986	113.6	197.7	37.8	281.4	630.8	2,592

(a) Includes construction by government, medical and educational units.

(b) Major projects were undertaken by the Water Department, the Community College, the City (Commuter Tunnel) and various hospitals.

Source: City of Philadelphia, Department of Licenses and Inspections

Development

Since the establishment of the Center City Master Plan in the early 1960's, the Central Business District of Philadelphia has benefited from commercial and residential revitalization. The City's attractiveness to business recently has been highlighted by the decisions of CIGNA and Reading Corporation to locate their headquarters in Center City.

The City, with the cooperation of the Federal Government and the private sector, has successfully redeveloped the area adjacent to Independence Mall. This area has profited from the development of a national historic park and the construction of buildings for the U.S. Mint and the Federal Reserve Bank of Philadelphia. A Federal Courthouse, an office building complex, and the headquarters for the Rohm and Haas Corporation, as well as numerous smaller office and commercial projects, have followed.

In the Franklintown area of Center City a \$92.5 million project consisting of an office and hotel complex has been completed. The office building houses the headquarters of the Smithkline Corporation. The 800 room hotel is known as the Wyndham Franklin Plaza. The Four Seasons Hotel on adjacent Logan Circle is a major international luxury hotel recently completed.

In recent years, the largest retail development has been Gallery II by the Rouse Corporation. Its opening in 1984 added a department store and new retail shops to the existing Gallery I shopping mall. Gallery I opened in 1977 and has had one of the highest average annual sales figures in the country. The Gallery is part of the larger Market Street East Development which includes the new transportation center and the newly opened ARA Tower office building. The Market East Plan also calls for the development of two more office towers and a new Convention Center and hotel complex connected to the rehabilitated train shed of the old Reading Railroad.

The concentration of office buildings along the West Market Street corridor will be supplemented by two substantial projects now under construction: (1) Rouse & Associates' Liberty Towers, which will consist of two buildings, a 60 story office tower which has been completed and a luxury hotel and retail space, and (2) the \$300 million Commerce Square at 20th and Market Streets, containing 1 million square feet in each of two buildings, the first of which, with IBM as the prime tenant, has been completed. Two large riverfront piers have now been converted to residential and commercial use. Two hotels have opened and several marinas and a United States Coast Guard Operations Center have been added to the waterfront area.

The City is moving ahead with plans to transform the Penn's Landing waterfront development area into a state-of-the-art retail, hotel, office and residential complex. Capital funds already have been used to construct the Great Plaza and to provide road connections and utility service.

Complementing downtown commercial growth is the substantial residential reinvestment taking place in the Society Hill, Old City, Franklintown, Washington Square West and Rittenhouse Square areas of Center City. In Society Hill, most of the residential structures have been restored and many new houses have been constructed, while Old City has seen the conversion of many warehouses and commercial structures to residential units. Downtown revitalization also has encouraged residential growth in several neighborhoods adjoining Center City

Three enterprise zone areas have been named in Philadelphia's inner-city neighborhoods under the Commonwealth's enterprise zone program: American Street, West Parkside, and Hunting Park West. The Commonwealth's program provides grants and technical assistance in order to improve the business climate and create jobs in economically depressed neighborhoods. Substantial industrial growth also has occurred in the southeast and northwest sections of the city.

Significant hospital construction projects recently have been completed or are currently underway. These projects include the replacement of substantially all of the patient care rooms at Temple University Hospital, a new facility for Children's Seashore Hospital, and the construction of new buildings at Methodist Hospital, Children's Hospital of Philadelphia, Nazareth Hospital and Frankford Hospital.

Philadelphia's efforts to retain and attract industry are directed by the Philadelphia Industrial Development Corporation ("PIDC"). Established in 1958, PIDC is a non-profit partnership between the City of Philadelphia and the Greater Philadelphia Chamber of Commerce. Among the many services provided by PIDC are the administration of (1) a tax-exempt financing program that provides low interest mortgage or bond financing for real and personal property, (2) local applications for assistance under the Pennsylvania Industrial Development Authority Program, (3) the Federally funded inner-city Land Development Program, and (4) the City Wide Land Development Program, which offers 700 acres of industrial land at below appraised market values.

TABLE A-13
Recently Completed Projects

<u>Project</u>	<u>Estimate Cost</u>
Liberty Place, Phase I, Sec 17th & Market Sts	210,000,000
Commerce Square, Phase I, 20th & Market Sts	150,000,000
Two Logan Square, NWC 18th and Arch Sts	130,000,000
Mellon Independence Center, 6th & Market Sts	90,000,000
Airport High Speed Line	90,000,000
Temple University Hospital	79,000,000
Curtis Center, NWC 6th & Walnut Sts	75,000,000
11 Penn Center, NEC 19th & Market Sts	70,000,000
Benjamin Franklin House, 822 Chestnut Sts	45,000,000
Edison High School, Front and Luzerne Sts.	45,000,000
Society Hill Sheraton Hotel, 2nd & Dock Sts	41,000,000
Abbott's Square, Phase I 2nd & South Sts.	32,000,000
Graham Building (One West Penn Square) 15th & Ranstead Sts.	30,000,000
Pier 3, Delaware Waterfront	30,000,000
Philadelphia Newspapers	28,000,000
Museum Towers, 18th & Spring Garden Sts	28,000,000
Embassy Suites Hotel, Philadelphia International Airport	26,000,000
Bell of PA Corporate Computer Center, 12th & Montgomery Ave.	25,000,000
One and Olney Plaza, Front & Olney Sts.	25,000,000
Independence Place, Phase II Condominiums	25,000,000
1880 J.F.K. Blvd	25,000,000
Wharton Executive Education Center, University of PA	22,500,000
Suburban Station at One Penn Center, 16th & JFK Blvd	22,000,000
Locust Point, 25th & Locust Sts.	20,000,000
Philadelphia Marine Center, Delaware Ave. & Callowhill St	20,000,000
Arsenal Business Center, Bridge and Tacony Sts.	20,000,000
3401 Walnut Street.	18,194,000
Frankford Hospital, Frankford and Wakeling Sts.	18,000,000
Wibur Chocolate Factory, 231-47 N. 3rd St.	15,000,000
Boulevard Plaza Shopping Center, 11000 Roosevelt Blvd.	15,000,000
Market East Improvements, City Hall to Independence Mall	15,000,000
1421 Arch Street.	13,000,000
Penn's Landing (Great Plaza and Viaduct Link)	12,600,000
The Drake Hotel, 1516 Spruce Street	12,000,000
Day's Inn, Philadelphia International Airport	12,000,000
1515 Market Street.	12,000,000
Quality Inn, Chinatown.	12,000,000
5 Penn Center, NWC 16th & Market Sts	12,000,000
2130 Arch Street.	10,000,000
Atlantic Building, NWC Broad & Spruce Sts	10,000,000
The Colonnade, 1601 Spring Garden St.	10,000,000
Sheridan Building	10,000,000
The Lofts at Logan View, 1666 Callowhill St	10,000,000
U.S. Coast Guard Operations Center, Delaware River at Washington Ave.	10,000,000
Comfort Inn, Delaware Ave.	10,000,000
3550 Market Street	9,100,000
Parkway Corporation, SWC Broad & Race Sts.	9,000,000
Jefferson University Medical Office Building, 1100 Walnut St.	8,500,000

Source: Philadelphia City Planning Commission

TABLE A-14
Projects in Progress

<u>Project</u>	<u>Estimated Cost</u>
Two Liberty Place, 17th and Chestnut Streets.....	\$310,000,000
Bell Atlantic Tower, 18th and Arch Streets.....	200,000,000
Mellon Bank Center, 17th and Market Streets.....	200,000,000
John Wanamaker Department Store.....	185,000,000
Vine Street Expressway, 17th St. to I-95.....	155,000,000
Blue Cross/Linpro Tower, Phase I, NWC 19th & Market Sts.	150,000,000
Center City Criminal Justice Center.....	142,000,000
Hospital of the University of Pennsylvania.....	100,000,000
International Terminal, Phila. International Airport.....	80,000,000
Walnut Towers, SEC 9th & Walnut Sts.....	70,000,000
Hotel Rittenhouse, 210 W. Rittenhouse Square.....	70,000,000
Bellevue Stratford.....	40,000,000
One Franklinton Blvd., Callowhill St. & Franklinton Blvd.....	33,000,000
Pier 5, Delaware Waterfront.....	30,000,000
Omni Hotel, 4th & Chestnut Streets.....	25,000,000
Reading Headhouse, NEC 12th & Market Streets.....	23,000,000
American College of Physicians, 6th & Race Streets.....	17,000,000
City Hall Tower.....	15,000,000
Schuylkill River Park.....	14,800,000
Jefferson Hospital Radiation Therapy Center.....	12,000,000
Greenshire, 28th Street & Pennsylvania Ave.....	7,000,000
Veterans Nursing Home, University Ave. & Civic Center Blvd.	6,300,000

Source: Philadelphia City Planning Commission

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APPENDIX IV
MUNICIPAL BOND INSURANCE POLICY

MUNICIPAL BOND INSURANCE POLICY

Payment Pursuant to Municipal Bond Insurance Policy

AMBAC Indemnity Corporation ("AMBAC Indemnity") has made a commitment to issue a municipal bond insurance policy relating to the Eleventh Series C Bonds (the "Municipal Bond Insurance Policy") effective as of the date of issuance of the Eleventh Series C Bonds. Under the terms of the Municipal Bond Insurance Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Eleventh Series C Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). AMBAC Indemnity will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or the fifth (5th) business day next following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the Fiscal Year. The Municipal Bond Insurance Policy will extend for the term of the Eleventh Series C Bonds and, once issued, cannot be cancelled by AMBAC Indemnity.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. It will not insure payment on acceleration, as a result of a call for redemption (other than sinking fund redemption) or as a result of any other advancement of maturity, nor will it insure the payment of any redemption, prepayment or acceleration premium or any risk other than Nonpayment. In the event of any acceleration of the principal of the Eleventh Series C Bonds, the payments insured will be made at such times and in such amounts as would have been made had there not been an acceleration.

The Municipal Bond Insurance Policy will not insure against nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any, or the Insurance Trustee. If the Eleventh Series C Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Eleventh Series C Bonds, AMBAC Indemnity will remain obligated to pay principal of and interest on outstanding Eleventh Series C Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event the Trustee has notice that any payment of principal of or interest on an Eleventh Series C Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Eleventh Series C Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of AMBAC Indemnity. Payment of interest pursuant to the Municipal Bond Insurance policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the Eleventh Series C Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Eleventh Series C Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

AMBAC Indemnity Corporation

AMBAC Indemnity is a Wisconsin-domiciled stock insurance company, regulated by the Insurance Department of the State of Wisconsin, and licensed to do business in various states, with admitted assets (unaudited) of approximately \$1,065,000,000 and statutory capital (unaudited) of approximately \$670,000,000 as of September 30, 1988. Statutory capital consists of AMBAC Indemnity's statutory contingency reserve and policyholders' surplus. AMBAC Indemnity is a wholly-owned sub-

subsidiary of AMBAC Inc., a financial holding company which is owned by Citibank, N.A., the employees of AMBAC Indemnity, Xerox Financial Services, Inc. and Stephens Inc. Neither AMBAC Inc. nor its shareholders are obligated to pay the debts of or claims against AMBAC Indemnity. Standard & Poor's Corporation and Moody's Investors Service, Inc. have assigned their ratings of "AAA" and "Aaa", respectively, to the claims paying ability of AMBAC Indemnity. Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

AMBAC Indemnity has entered into quota share reinsurance agreements under which a percentage of the insurance or reinsurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by such reinsurers.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

AMBAC Indemnity makes no representation regarding the Eleventh Series C Bonds or the advisability of investing in the Eleventh Series C Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented herein and under the heading "MUNICIPAL BOND INSURANCE".

Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
222 W. Washington Ave., Madison, WI 53703
Administrative Office:
One State Street Plaza, New York, N.Y. 10004

Issuer:

Policy Number:

Bonds:

Premium:



AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

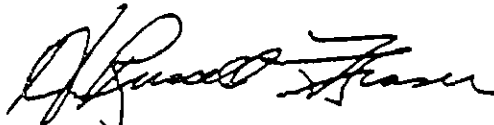
AMBAC will make such payments to the Insurance Trustee within 5 days following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all of the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.


As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appurtenant to a Bond. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any redemption, prepayment or acceleration premium which at any time may become due in respect of any Bond, nor against risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.


President




Secretary

Effective Date:

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form # 66-0003 (11/87)

Authorized Representative


Authorized Officer



EXHIBIT A

PROPOSED OPINION OF CO-BOND COUNSEL

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, 1989

City of Philadelphia
1420 Municipal Services Building
Philadelphia, PA 19102

Re: \$132,520,000 City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Eleventh Series C

Gentlemen:

We have acted as co-bond counsel in connection with the authorization, issuance and sale of \$132,520,000 in principal amount of City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Eleventh Series C (the "Eleventh Series C Bonds") under and pursuant to authority contained in the Act of the General Assembly of the Commonwealth of Pennsylvania of October 18, 1972 (P.L. 955) (the "Act"), the City of Philadelphia's General Gas Works Revenue Bond Ordinance of 1975, as amended, (the "General Ordinance") and the Eleventh Supplemental Ordinance thereto approved May 26, 1987 (the "Eleventh Supplemental Ordinance"). The Eleventh Series C Bonds have been issued for the purpose of providing funds to advance refund certain of the City of Philadelphia Gas Works Revenue Bonds, Eighth and Ninth Series, to make a deposit to the sinking fund reserve created under the General Ordinance and to pay a portion of the costs of issuance of the Eleventh Series C Bonds.

Eleven series of Gas Works Revenue Bonds have heretofore been issued pursuant to the General Ordinance and approximately \$549,590,000 in aggregate principal amount of such bonds are presently outstanding. The Eleventh Series C Bonds are equally and ratably secured with all such prior bonds and will be equally and ratably secured with all bonds issued in the future under the General Ordinance (all such prior bonds, the Eleventh Series C Bonds and all bonds to be issued under the General Ordinance in the future, collectively, the "Bonds").

The City of Philadelphia (the "City") has made a pledge of, and granted a security interest in, all Project Revenues (as defined in the General Ordinance) and all accounts, contract rights and general intangibles representing Project Revenues to secure the payment of the Bonds. Prior to default, the General Ordinance establishes the following priorities in application of the Project Revenues: (1) Net Operating Expenses, as defined therein; (2) required payments into the sinking fund to pay principal of and interest on the Bonds and to accumulate, or to restore any deficiency in, the

sinking fund reserve in respect thereof; (3) payment of general obligation bonds which have been adjudged to be self-liquidating on the basis of expected revenues from the Philadelphia Gas Works ("PGW"); (4) payment of interest and sinking fund charges of other general obligation debt incurred for PGW; and (5) payment of City Charges, as defined therein. Under certain circumstances, the remaining balance may be applied to other proper purposes of the City. In the Eleventh Supplemental Ordinance, the City has covenanted that, so long as any of the Eleventh Series C Bonds remain outstanding, all Project Revenues shall be deposited in, held in and disbursed from one or more unsegregated accounts of PGW which shall be separate from and not commingled with moneys or accounts of the City not held exclusively for PGW purposes.

We have examined (a) such constitutional provisions, statutes and regulations as we deemed necessary, including the Act, the General Ordinance and the Eleventh Supplemental Ordinance, (b) the proceedings authorizing the issuance and sale of the Eleventh Series C Bonds, and (c) such certificates, opinions, receipts and other documents as we have considered relevant, including a non-arbitrage certificate of the City. We have also examined an executed Eleventh Series C Bond authenticated by the Fiscal Agent and assume that all other Eleventh Series C Bonds have been similarly executed and authenticated. We have assumed the genuineness of all signatures and documents examined by us.

On the basis of the foregoing, we are of the opinion that:

1. The City has the power to perform its obligations under the General Ordinance, the Eleventh Supplemental Ordinance and the Eleventh Series C Bonds and is authorized to issue the Eleventh Series C Bonds.

2. The terms of the Eleventh Series C Bonds comply with the requirements of the Act, the General Ordinance, the Eleventh Supplemental Ordinance and the purposes for which the Eleventh Series C Bonds have been issued are lawful purposes under the Act and the General Ordinance.

3. The Eleventh Series C Bonds constitute valid, legal and binding obligations of the City, enforceable in accordance with their terms (subject to any applicable bankruptcy, insolvency, moratorium or other laws or equitable principles affecting the enforcement of creditors' rights generally).

4. Under existing law as presently enacted and construed, interest on the Eleventh Series C Bonds (including any original issue discount properly allocable to the owners thereof), is excluded from gross income for Federal income tax purposes and is not a preference item for

purposes of determining the Federal alternative minimum tax imposed on corporations and individuals; however, interest on the Eleventh Series C Bonds may be subject to the application of the alternative minimum tax and the environmental tax when held by certain corporations and the application of the foreign branch profits tax when held by foreign corporations. In rendering this opinion, we have assumed continuing compliance by the City with tax covenants contained in the Bond Authorization relating to the Eleventh Series C Bonds.

5. Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Eleventh Series C Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Eleventh Series C Bonds and the gain from the sale thereof are exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

We draw your attention to the fact that the Eleventh Series C Bonds constitute limited obligations of the City and are payable solely from the Project Revenues, as defined in the General Ordinance, and amounts in the sinking fund, including the sinking fund reserve, created under the Act and the General Ordinance. The Eleventh Series C Bonds do not pledge the credit or taxing power of the City or create any debt or charge against property of the City other than the Project Revenues and amounts in such sinking fund, including the sinking fund reserve.

Very truly yours,

DRINKER BIDDLE & REATH

HWANG & ASSOCIATES, A
Professional Corporation

OFFICIAL STATEMENT

NEW ISSUE

In the opinion of Co-Bond Counsel, interest on the Twelfth Series A Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the conditions described in "TAX MATTERS" herein, and interest on the Twelfth Series A Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of the individual and corporate alternative minimum taxes. However, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the Twelfth Series A Bonds. Under the laws of the Commonwealth of Pennsylvania, the Twelfth Series A Bonds, their transfer and the income therefrom (including any profits made on the sale thereof) are exempt from personal property taxes in Pennsylvania, the Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" herein.

\$50,420,551.45

City of Philadelphia, Pennsylvania Gas Works Revenue Bonds, Twelfth Series A

Current Interest Bonds dated March 1, 1990
Capital Appreciation Bonds dated date of delivery

Due: May 15, as shown below

The Twelfth Series A Bonds consist of Current Interest Bonds and Capital Appreciation Bonds. The Current Interest Bonds shall be issuable as fully registered bonds maturing in the aggregate principal amounts and bearing interest at the rates set forth below in the denomination of \$5,000 principal amount or any whole multiple thereof (the "Current Interest Bonds"). The Capital Appreciation Bonds shall be issuable in fully registered form in the denomination of \$5,000 Maturity Amount or any whole multiple thereof payable on the dates and in the amounts set forth below (the "Capital Appreciation Bonds"). The principal or redemption price of the Twelfth Series A Bonds is payable at the principal corporate trust office of The Philadelphia National Bank, Philadelphia, Pennsylvania, Fiscal Agent, Sinking Fund Depository and Escrow Agent. Interest on the Current Interest Bonds is payable initially on May 15, 1990 and thereafter semiannually on each May 15 and November 15 by check mailed by the Fiscal Agent to the persons in whose names the Current Interest Bonds are registered on the 15th day preceding each interest payment date. Registered owners of at least \$1,000,000 principal amount of Current Interest Bonds may elect to receive interest payments by wire transfer.

Payment of the principal of and interest on the Twelfth Series A Bonds when due will be insured by a municipal bond insurance policy to be issued by **AMBAC** simultaneously with the delivery of the Twelfth Series A Bonds.

The Current Interest Bonds are subject to redemption prior to maturity as described herein under the heading "DESCRIPTION OF THE TWELFTH SERIES A BONDS."

THE TWELFTH SERIES A BONDS DO NOT PLEDGE THE CREDIT OR TAXING POWER OF THE CITY OF PHILADELPHIA OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY OR CREATE ANY LIEN AGAINST ANY CITY PROPERTY OTHER THAN CERTAIN REVENUES AND FUNDS OF THE PHILADELPHIA GAS WORKS REFERRED TO HEREIN.

\$42,025,000 CURRENT INTEREST BONDS

Maturity	Amount	Interest Rate	Price or Yield	Maturity	Amount	Interest Rate	Price or Yield
1991	\$ 940,000	5.90%	100	1996	\$1,265,000	6.40%	100
1992	1,000,000	6	100	1997	1,345,000	6.55	100
1993	1,055,000	6.10	100	1998	1,435,000	6.70	100
1994	1,120,000	6.20	100	1999	1,530,000	6%	100
1995	1,190,000	6.30	100	2000	1,635,000	6.80	100

\$29,510,000 6% Term Bonds due 2012 Price 86.50

(plus accrued interest)

\$8,395,551.45 CAPITAL APPRECIATION BONDS

Maturity	Initial Principal Amount	Yield	Maturity Amount
2001	\$ 824,687.00	6.85%	\$1,745,000
2002	766,473.80	6.90	1,745,000
2003	1,900,487.80	6.95	4,660,000
2004	1,761,033.05	7	4,655,000
2005	1,631,949.90	7.05	4,655,000
2006	1,510,919.90	7.10	4,655,000

(interest accretes from date of delivery)

The Twelfth Series A Bonds are offered when, as and if issued and received by the Underwriters and subject to the approval of the legality of the issuance of the Twelfth Series A Bonds by Dilworth, Paxson, Kalish & Kauffman and Hope C. Lefebvre, Esquire, Co-Bond Counsel, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the Underwriters by Fineman & Bach, P.C. and Evans & Williams, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor and for the Philadelphia Gas Works by Obermayer, Rebmann, Maxwell & Hippel, Philadelphia, Pennsylvania. It is anticipated that the Twelfth Series A Bonds will be available for delivery in New York, New York on or about March 29, 1990.

The First Boston Corporation

Grigsby Brandford Powell Inc.

Wheat, First Securities, Inc.

Commonwealth Securities And Investments, Inc.

PaineWebber Incorporated

Prescott, Ball & Turben, Inc.

A.H. Williams & Co.
INCORPORATED

Dean Witter Reynolds Inc.

The date of this Official Statement is March 15, 1990

CITY OF PHILADELPHIA

**MAYOR
HONORABLE W. WILSON GOODE**

MAYOR'S CABINET

Charisse R. Lillie City Solicitor
Elizabeth C. Reveal Director of Finance
Edward A. Schwartz Director of Housing
Gerri H. Walker City Representative and Director of Commerce
James Stanley White Managing Director

City Treasurer and Deputy Director of Finance

Benjamin Blakney

City Controller

Jonathan A. Sidel

President of City Council

Honorable Joseph E. Coleman

PHILADELPHIA GAS WORKS

Alfred P. Degen, Executive Vice President
Sydney M. Avent, Senior Vice President and General Counsel
Thomas F. Bonner, Senior Vice President and Chief Operating Officer
Joseph G. Horan, Senior Vice President
Harry A. Connelly, Vice President—Rates and Federal Regulatory Affairs
A. Jack Egan, Vice President—Support Services
Thomas J. Hanna, Vice President—Technical Services
Don C. Kenley, Vice President—Public Affairs
Terri M. Maloney, Vice President—Customer Activities
Lorina L. Marshall, Vice President—Government and Community Affairs
Edward H. Morris, Jr., Vice President and Chief Financial Officer
Dennis E. Stinson, Vice President—Marketing

FINANCIAL ADVISOR

P.G. Corbin & Company, Inc.

FISCAL AGENT

The Philadelphia National Bank

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OFFICIAL STATEMENT

of the

CITY OF PHILADELPHIA, PENNSYLVANIA

respecting its

\$50,420,551.45 Gas Works Revenue Bonds, Twelfth Series A

INTRODUCTION

General

This Official Statement, including the cover page, table of contents, tables and appendices, sets forth information with respect to the issuance by the City of Philadelphia, Pennsylvania (the "City") of its \$50,420,551.45 Gas Works Revenue Bonds, Twelfth Series A (the "Twelfth Series A Bonds") consisting of \$42,025,000 aggregate principal amount of Current Interest Bonds dated March 1, 1990 and \$8,395,551.45 initial principal amount of Capital Appreciation Bonds dated date of delivery. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE TWELFTH SERIES A BONDS ARE PAYABLE SOLELY FROM MONIES DERIVED FROM THE REVENUES OF THE PHILADELPHIA GAS WORKS. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF PHILADELPHIA IS PLEDGED TO ANY SUCH PAYMENT. PERSONS CONSIDERING A PURCHASE OF TWELFTH SERIES A BONDS SHOULD READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY.

The Twelfth Series A Bonds are being issued to advance refund certain of the City's Gas Works Revenue Bonds, Eighth Series (the "Eighth Series Bonds"). The Twelfth Series A Bonds are being issued pursuant to The First Class City Revenue Bond Act of the Commonwealth of Pennsylvania (the "Act"), the General Gas Works Revenue Bond Ordinance of 1975, as amended (the "General Ordinance"), and the Twelfth Supplemental Gas Works Revenue Bonds Ordinance (the "Twelfth Supplemental Ordinance"). Bonds of all series issued or to be issued under the General Ordinance are parity bonds (herein referred to as the "Bonds" or as "Gas Works Revenue Bonds"). Eleven series of Gas Works Revenue Bonds have been issued under the General Ordinance and appropriate supplemental ordinances. As of December 31, 1989, \$547,475,000 aggregate principal amount of Gas Works Revenue Bonds of such series were outstanding.

Any quotations from and summaries and explanations of the constitution and laws of the Commonwealth of Pennsylvania (the "Commonwealth" or the "State") and ordinances of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Twelfth Series A Bonds are qualified in their entirety by reference to the definitive forms of the Twelfth Series A Bonds. All capitalized terms used herein shall have the meanings ascribed to them in the Act and the General Ordinance (see Appendix B). Copies of the Act, the General Ordinance and the Twelfth Supplemental Ordinance are available from the Office of the Director of Finance, Room 1420, Municipal Services Building, Philadelphia, Pennsylvania 19102.

Philadelphia Gas Works

The Philadelphia Gas Works ("PGW") consists of all real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of gas within the City and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof.

PGW serves the entire 129 square mile area contained within the boundaries of the City and is the sole supplier of gas in the City. Outside the City limits, PGW has no distribution mains and serves no customers. As of December 31, 1989, PGW served approximately 528,000 customers.

The Philadelphia Home Rule Charter provides for a Gas Commission to be so constituted and appointed and to exercise such power and perform such duties as may from time to time be provided in contracts between the City and the operator of PGW, or, in the absence of a contract, as may be provided by ordinance. (For details of the Gas Commission's various responsibilities and oversight of the operations of PGW, see "THE GAS COMMISSION.")

Since January 1, 1973, PGW has been managed by the Philadelphia Facilities Management Corporation ("PFMC"), a not-for-profit corporation, pursuant to an agreement between the City and PFMC dated December 29, 1972, as amended, authorized by ordinances of City Council (the "Management Agreement").

Rates, including the Gas Cost Rate, and charges of PGW are fixed by the Gas Commission and not by the Public Utility Commission of the Commonwealth (see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME - Gas Cost Rate"). The Court of Common Pleas of Philadelphia County has ruled that decisions of the Gas Commission regarding PGW rate increases are subject to court review. For a discussion of recent rate actions by the Gas Commission see "PGW RATES AND CHARGES."

The Financial Statements of PGW for the years ended August 31, 1989 and 1988 are presented in Appendix A.

The offices of PGW are located at 800 W. Montgomery Avenue, Philadelphia, Pennsylvania 19122. The telephone number is (215) 236-0500.

Outstanding Indebtedness

The outstanding Gas Works Revenue Bonds and all Gas Works Revenue Bonds which may be issued in the future under the Act and the General Ordinance are parity bonds payable, directly or indirectly, solely from Project Revenues (as defined in the General Ordinance). The City expects to issue \$75,000,000 of Gas Works Revenue Bonds, Twelfth Series B Bonds (the "Twelfth Series B Bonds") to be used for PGW's ongoing capital program during fiscal year 1990 and it is expected that the capital improvements program of PGW will require the issuance of additional Bonds in subsequent fiscal years.

The City also had outstanding as of December 31, 1989, \$81,300,000 aggregate principal amount of tax-exempt notes (the "Gas Works Notes") which are payable out of Project Revenues. The Gas Works Notes are issued pursuant to The City of Philadelphia Municipal Utility Inventory and Receivables Financing Act of the Commonwealth of Pennsylvania (the "Inventory and Receivables Financing Act") and the General Inventory and Receivables Gas Works Revenue Note Ordinance of 1983, Bill No. 1746, approved September 26, 1983 (the "Note Ordinance"). The Notes are junior in priority of payment to the Twelfth Series A Bonds (see "SECURITY - Subordinated Short-Term Borrowings - Gas Works Notes").

The City had outstanding as of December 31, 1989, \$25,000,000 aggregate principal amount of debt obligations pursuant to a lease entered into in connection with the issuance of the Philadelphia Gas Works Lease Revenue Bonds, Series of 1989 issued by The Philadelphia Municipal Authority (see "SECURITY - Subordinated Long-Term Debt - Lease Revenue Bonds"). These rental obligations are payable out of Project Revenues and are junior in priority of payment to the Twelfth Series A Bonds and the Notes.

Segregation of Accounts

The City has covenanted that so long as any Twelfth Series A Bonds remain outstanding, all Project Revenues shall be deposited and held in and disbursed from one or more unsegregated accounts of PGW which shall be separate from and not commingled with monies or accounts of the City not held exclusively for PGW purposes.

Certain Information Relating to the City

Additional information regarding the City is presented in Appendix C — City of Philadelphia — General Information. The City Controller has not participated in the preparation of any of the financial data contained in this Official Statement.

SECURITY

The Twelfth Series A Bonds are secured solely by monies derived, directly or indirectly, from PGW's Project Revenues as provided in the Act, the General Ordinance and the Twelfth Supplemental Ordinance. Such Project Revenues include principally the rents, rates and charges imposed or charged by the City on the users of gas distributed by PGW. Reference is made to Appendix B for summaries of the Act, the General Ordinance and the Twelfth Supplemental Ordinance, including definitions of certain terms used herein.

Pledge of Revenues and Funds

In the General Ordinance, the City has pledged and granted a security interest in all Project Revenues and all accounts, contract rights and general intangibles representing Project Revenues and, in each case, the proceeds of the foregoing, for the security and payment of all Bonds issued under the General Ordinance.

The General Ordinance subjects all monies deposited in the Sinking Fund, including the Sinking Fund Reserve, to a security interest for the Bonds until such moneys are properly disbursed and provides that no bonds issued under the Act shall pledge the credit or taxing power of the City or create any debt or charge against the tax or general revenues of the City or create any lien against any property of the City other than Project Revenues and monies deposited in the Sinking Fund.

Priority in Application of Project Revenues

The General Ordinance creates a lien on and pledge of all Project Revenues of PGW for the benefit of the holders of Gas Works Revenue Bonds and together with the Note Ordinance creates a priority in application of Project Revenues in each fiscal year as follows:

First, to Net Operating Expenses of PGW;

Second, to required payments into the Sinking Fund to pay the principal of and interest then due on all Bonds issued and outstanding under the General Ordinance and to accumulate, or to restore, any deficiency in the Sinking Fund Reserve;

Third, to the payment of general obligation bonds which have been adjudged to be self-liquidating on the basis of expected revenues from PGW;*

Fourth, to the payment of interest and sinking fund charges of other general obligation debt incurred for PGW;*

* The last general obligation debt of the City related to PGW was paid in full in fiscal year 1987. No general obligation debt of the City described in items Third and Fourth above is currently outstanding.

Fifth, to the payment of the principal of and interest on the Gas Works Notes and any amounts owed to the issuer of the credit facility established with respect to the Gas Works Notes; and

Sixth, to the payment of the City Charges, including the Base Payment (currently \$18,000,000) and the payment of rentals under the hereinafter defined Lease on a parity basis after the payments listed in items First through Fifth above.

City Charges include charges for services performed for PGW by various City departments including the expenses of the Gas Commission. During PGW's fiscal years 1986-1989, City Charges exclusive of the \$18,000,000 Base Payment and of rate hearing charges have averaged approximately \$844,000 per year. The cost of the rate hearings conducted by the Gas Commission are included in City Charges. The rate hearings conducted in 1988 resulted in additional City Charges of approximately \$275,000.

The General Ordinance provides that all interest and income earned on moneys held in the Sinking Fund Reserve may, to the extent not required to comply with the requirements of the General Ordinance relating to the Sinking Fund Reserve, be transferred to the operating funds of the Gas Works to be applied as Project Revenues in accordance with the terms of the General Ordinance. To the extent that in any Fiscal Year a balance remains in the Project Revenues, such balance, upon approval of the Gas Commission, may be paid to the City, provided that in a given fiscal year such balance does not exceed the amount of Sinking Fund Reserve Earnings transferred to the operating funds of PGW during the same fiscal year. The City requested and received a transfer of excess Project Revenues in the amount of \$6,500,000 in fiscal year 1986 but no additional transfers have been requested by or made to the City since then. The City has not requested, during the 1990 fiscal year to date, that any excess Project Revenues be transferred to it.

Subordinated Short-Term Borrowings – Gas Works Notes

The City is authorized by the Inventory and Receivables Financing Act and the Note Ordinance to issue tax-exempt notes from time to time in amounts, as approved by the Gas Commission, not to exceed \$100,000,000 aggregate principal amount at any one time outstanding in order to finance inventory and accounts receivable. The Gas Commission has approved a maximum amount at any time outstanding for such notes of \$85,000,000. The City had outstanding as of December 31, 1989, \$81,300,000 aggregate principal amount of tax-exempt notes (the "Gas Works Notes") which are payable out of Project Revenues. (For a further discussion of the issuance of tax-exempt notes, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME.")

The Note Ordinance establishes a sinking fund for the benefit and security of the holders of the Gas Works Notes. The City covenants to deposit in the sinking fund for the Gas Works Notes from PGW's revenues such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to pay, on or before each payment date of the Gas Works Notes, the amounts required, after taking into account any other available amounts, to pay the Gas Works Notes then becoming due and payable.

Subordinated Long-Term Borrowings – Lease Revenue Bonds

The Philadelphia Gas Works Lease Revenue Bonds, Series of 1989 (the "Lease Revenue Bonds") were issued in August 1989 by The Philadelphia Municipal Authority (the "Authority"). The proceeds of the Lease Revenue Bonds were used by the Authority to acquire the headquarters and administrative office building of PGW (the "Facility") at 800 West Montgomery Avenue, Philadelphia, Pennsylvania, from the City. The amount received from the Authority has been used in PGW's ongoing capital program. The Authority and the City entered into a Lease dated as of August 1, 1989 (the "Lease") whereby the City leased the Facility back from the Authority and agreed to maintain the Facility and pay out of Project Revenues of PGW rentals sufficient to pay all debt service

on the Lease Revenue Bonds and other obligations of the Authority incurred in connection with the issuance of the Lease Revenue Bonds, the Lease and the transactions contemplated therein.

Rental payments by the City under the Lease are made solely from Project Revenues, to the extent such Project Revenues are available. The payment of rentals by the City under the Lease out of the Project Revenues is subject and subordinate to payment of the Gas Works Revenue Bonds and the Gas Works Notes issued by the City and certain other debt obligations relating to PGW. The City has covenanted in the Lease that it will not in any fiscal year of PGW, if and for so long as a default exists under the Lease, pay out of Project Revenues any portion of the Base Payment unless and until all rentals due under the Lease for such fiscal year shall have been paid.

Rate Covenant and Rate Requirements

The General Ordinance includes a rate covenant (the "Rate Covenant") which requires that, so long as Gas Works Revenue Bonds are outstanding, the City impose, charge and collect in each fiscal year such gas rates and charges as shall, together with all other Project Revenues to be received in such fiscal year, be sufficient to provide, after meeting any Sinking Fund Reserve requirements, the greater of (a) the sum of all Net Operating Expenses payable during such fiscal year plus 150% of the debt service requirements for such year on all outstanding Gas Works Revenue Bonds or (b) the sum of all Net Operating Expenses payable during such fiscal year plus the debt service requirements for such year on all outstanding Gas Works Revenue Bonds and all outstanding City general obligation bonds issued for improvements to PGW. (For a further discussion of the Rate Covenant and other rate requirements applicable to PGW, see "PGW RATES AND CHARGES.")

Covenant Against Commingling with Other City Funds

The City has covenanted that so long as any of the Twelfth Series A Bonds remain outstanding all Project Revenues shall be deposited, held and disbursed in and from one or more unsegregated accounts of PGW which shall be separate from and not commingled with monies or accounts of the City not held exclusively for PGW purposes.

Additional Parity Bonds

The General Ordinance permits the issuance of additional Bonds which shall be parity bonds, provided, among other requirements, that an independent engineer determines that estimated Project Revenues will be sufficient to meet the Rate Covenant. See the material under the caption "The General Ordinance" in Appendix B for a discussion of the provisions relating to the issuance of additional Bonds. The Twelfth Supplemental Ordinance authorizes the issuance of up to \$135,000,000 million aggregate principal amount, or in the case of Capital Appreciation Bonds initial principal amount of Bonds, in one or more series, to fund capital improvements and to advance refund certain outstanding Bonds. (See Appendix B.) In accordance with the Twelfth Supplemental Ordinance the Twelfth Series A Bonds are being issued to advance refund certain Eighth Series Bonds. It is anticipated that \$75,000,000 of Twelfth Series B Bonds shall be issued to fund capital improvements by the end of fiscal year 1990.

Sinking Fund

Pursuant to the Act, the General Ordinance establishes a Sinking Fund for the benefit and security of the holders of all Bonds to be held separate and apart from all other accounts of the City, and directs the Director of Finance to deposit therein from the Project Revenues in each fiscal year such amounts as will, together with interest and profits earned and to be earned on investments held therein, be sufficient to accumulate, on or before each interest and principal payment date of the Bonds, the amounts required to pay the principal of and interest on the Bonds then coming due and payable. It is the current practice of the City to make deposits in the Sinking Fund on or immediately prior to the

date on which debt service payments are due. To the extent monies are on deposit in the Sinking Fund which are not currently required for the payment of debt service, such monies shall be invested at the direction and under the management of the Director of Finance. Interest and profit from any such investment shall be added to the Sinking Fund and credited in reduction of or to satisfy required deposits into the Sinking Fund.

Sinking Fund Reserve

The General Ordinance establishes a Sinking Fund Reserve as part of the Sinking Fund. The City is required to deposit in the Sinking Fund Reserve from the proceeds of sale of each series of Bonds issued under the General Ordinance an amount equal to the maximum amount required in any fiscal year to pay the principal of and interest on the Bonds of such series coming due and payable in that fiscal year unless the Supplemental Ordinance authorizing the series of Bonds authorizes the accumulation from Project Revenues of a reserve of such amount over a period of not more than six fiscal years after the issuance and delivery of the Bonds. Although the Twelfth Supplemental Ordinance has authorized an accumulation from Project Revenues, the Sinking Fund Reserve requirement will be fully funded by proceeds from the Twelfth Series A Bonds. The money and investments (valued at market) in the Sinking Fund Reserve must at all times be held and maintained in an amount equal to the maximum of the principal and interest requirements of all outstanding Bonds in any subsequent fiscal year. As of December 31, 1989, the value of the funds and investments on deposit in the Sinking Fund Reserve was required to be at least \$62,474,350 and the amount in the Sinking Fund Reserve met this requirement. If, at any time, the monies in the Sinking Fund (other than the Sinking Fund Reserve) are insufficient to pay, as and when due, debt service on any Bond or Bonds, the Sinking Fund Depository is required to pay over to the Fiscal Agent from the Sinking Fund Reserve the amount of the deficiency. The Sinking Fund and Sinking Fund Reserve are managed by, and invested and reinvested under the direction of, the Director of Finance of the City. The General Ordinance provides that interest and income earned on monies held in the Sinking Fund Reserve may be transferred and paid by the Director of Finance to the operating funds of PGW and applied as Project Revenues in the manner described under "SECURITY — Priority in Application of Project Revenues."

Required Deposit to Sinking Fund From Project Revenues

The City has covenanted in the General Ordinance that, if the City shall fail to make required deposits into the Sinking Fund, including the Sinking Fund Reserve, or if, for any reason, there shall be a deficiency in the Sinking Fund Reserve, it will immediately upon such failure or deficiency and without notice thereof from any Bondholder, fiscal agent, paying agent or sinking fund depository, and so long as such failure or deficiency shall continue, deposit in the Sinking Fund, including the Sinking Fund Reserve, on a daily basis, 50% of all Project Revenues or such greater percentage thereof as the Director of Finance shall determine. This obligation is specifically enforceable by the trustee for bondholders appointed in accordance with the Act or, if none is appointed, by any bondholder (see "REMEDIES OF BONDHOLDERS").

MUNICIPAL BOND INSURANCE

The City has received a commitment from the AMBAC Indemnity Corporation ("AMBAC") for a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Twelfth Series A Bonds, effective as of the date of issuance of the Twelfth Series A Bonds.

Under the terms of the Municipal Bond Insurance Policy, AMBAC will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Twelfth Series A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). AMBAC will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or the fifth (5th) day next following the date on which AMBAC shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Twelfth Series A Bonds and, once issued, cannot be cancelled by AMBAC.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. It will not insure payment on acceleration, as a result of a call for redemption (other than sinking fund redemption) or as a result of any other advancement of maturity, nor will it insure the payment of any redemption, prepayment or acceleration premium or any risk other than Nonpayment. In the event of any acceleration of the principal of the Twelfth Series A Bonds, the payments insured will be made at such times and in such amounts as would have been made had there not been an acceleration.

The Municipal Bond Insurance Policy will not insure against nonpayment of principal or interest caused by the insolvency or negligence of any Fiscal Agent, if any. If the Twelfth Series A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Twelfth Series A Bonds, AMBAC will remain obligated to pay principal of and interest on outstanding Twelfth Series A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event the Fiscal Agent has notice that any payment of principal of or interest on a Twelfth Series A Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC to the extent of such recovery if sufficient funds are not otherwise available.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Twelfth Series A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Twelfth Series A Bonds to be registered in the name of AMBAC. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC.

Upon payment of the insurance benefits, AMBAC will become the owner of the Twelfth Series A Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

AMBAC Indemnity Corporation

AMBAC is a Wisconsin-domiciled stock insurance company, regulated by the Insurance Department of the State of Wisconsin, and licensed to do business in various states, with admitted assets (unaudited) of approximately \$1,203,000,000 and statutory capital (unaudited) of approximately \$732,600,000 as of December 31, 1989. Statutory capital consists of AMBAC's statutory contingency reserve and policyholders' surplus. AMBAC is a wholly-owned subsidiary of AMBAC Inc., a financial holding company which is wholly-owned by Citibank, N.A. Neither AMBAC

Inc. nor its shareholders are obligated to pay the debts of or claims against AMBAC. Standard & Poor's Corporation and Moody's Investors Service, Inc. have assigned their ratings of "AAA" and "Aaa", respectively, to the claims paying ability of AMBAC. Citicorp, the parent company of Citibank, N.A., issued a press release on March 5, 1990 stating that as part of Citicorp's effort to strengthen its capital base, it is considering the possible sale of AMBAC. Both Moody's Investors Service Inc. and Standard & Poor's Corporation have publicly stated that the possible sale of AMBAC will not impact AMBAC's claims-paying ratings of Aaa and AAA, respectively. Any sale of AMBAC would be subject to the prior approval of the Wisconsin Insurance Department. Furthermore, Citicorp has stated that "AMBAC . . . will not be sold unless an attractive proposal is made by a high quality, well-capitalized institution with a long-term perspective on its investment in AMBAC." Copies of AMBAC's financial statements prepared in accordance with statutory accounting standards are available from AMBAC. The address of AMBAC's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

AMBAC has entered into quota share reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Twelfth Series A Bonds.

AMBAC makes no representation regarding the Twelfth Series A Bonds or the advisability of investing in the Twelfth Series A Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC presented in this section.

Appendix D contains a copy of the text of the Municipal Bond Insurance Policy and a summary of the rights of holders of the Twelfth Series A Bonds with respect to the Municipal Bond Insurance Policy. A Statement of Insurance containing a summary of the Municipal Bond Insurance Policy will be printed on the Twelfth Series A Bonds. The City has not made any independent investigation of AMBAC or of its financial condition.

DESCRIPTION OF THE TWELFTH SERIES A BONDS

The Twelfth Series A Bonds are being issued pursuant to the Act, the General Ordinance and the Twelfth Supplemental Ordinance. The Twelfth Series A Bonds are being issued for the purpose of providing funds to advance refund certain of the City's Gas Works Revenue Bonds, Eighth Series. The Act authorizes the City to issue revenue bonds to finance revenue producing projects and to refund bonds issued for such purpose, but such bonds must be payable, directly or indirectly, solely from Project Revenues (as defined in the Act). The General Ordinance is the governing ordinance under which all Gas Works Revenue Bonds are issued.

The Current Interest Bonds

The Current Interest Bonds will be dated March 1, 1990 and will bear interest from such date, payable on May 15, 1990 and on each May 15 and November 15 thereafter. The Current Interest Bonds will be issued as fully registered bonds in the aggregate principal amount set forth on the cover page hereof in the denomination of \$5,000 principal amount each or any integral multiple thereof. The principal of, and premium, if any, on the Current Interest Bonds will be payable at the principal corporate trust office of The Philadelphia National Bank in Philadelphia, Pennsylvania. Interest on the Current Interest Bonds, when due, will be paid by check, mailed by the Fiscal Agent to the persons in

whose names the Current Interest Bonds are registered on the 15th day preceding each interest payment date, except that if any such interest payment date is not a business day, then such interest check shall be mailed on the next succeeding business day. Business Day shall mean any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed. Registered owners of at least \$1,000,000 principal amount of the Current Interest Bonds may elect to receive interest payments by wire transfer.

Optional Redemption

The Current Interest Bonds maturing on or before May 15, 2000 are not subject to redemption prior to maturity. The Current Interest Bonds maturing on May 15, 2012 will be subject to redemption on or after May 15, 2000 at the option of the City in whole or in part by lot at any time, in denominations of \$5,000 or integral multiples thereof, at the redemption prices, expressed as percentages of the principal amount of Current Interest Bonds to be redeemed, set forth below, plus accrued interest to the redemption date:

<u>Redemption Period (both dates inclusive)</u>	<u>Redemption Price</u>
May 15, 2000 through May 14, 2001	102%
May 15, 2001 through May 14, 2002	101
May 15, 2002 and thereafter	100

Mandatory Redemption

The Current Interest Bonds maturing on May 15, 2012 are subject to mandatory redemption, in part, by lot, at the times and in the amounts set forth below at a price equal to 100% of the principal amount of such Current Interest Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Date (May 15)</u>	<u>Principal Amount</u>
2007	\$4,660,000
2008	4,940,000
2009	5,235,000
2010	5,545,000
2011	5,880,000
2012	3,250,000

Notice of Redemption of Current Interest Bonds

Notice of redemption of Current Interest Bonds shall be made not less than thirty nor more than sixty days before the date fixed for redemption, by first class mail, postage prepaid, to the registered owners, appearing on the bond register, of the Current Interest Bonds to be redeemed. Failure to mail such notice, or any defect therein, shall not affect the validity of the proceedings for redemption of Current Interest Bonds for which such notice has been properly given. Notice having been so given and provision having been made for redemption from funds on deposit with the Fiscal Agent or Sinking Fund Depository, all interest on the Current Interest Bonds called for redemption accruing after the date fixed for redemption shall cease, and the registered owners of the Current Interest Bonds called for redemption shall have no security, benefit or lien under the General Ordinance or any rights thereunder, except to receive payment of the redemption price.

The Capital Appreciation Bonds

The Capital Appreciation Bonds are payable at maturity in an amount (the "Maturity Amount") equal to the principal amount of such Capital Appreciation Bonds at delivery (the "Initial Principal Amount"), plus interest from the date of delivery of such Capital Appreciation Bonds compounded on May 15 and November 15 of each year. The Capital Appreciation Bonds are issuable as fully registered bonds in the denomination of \$5,000 Maturity Amount or any integral multiple thereof. The Capital Appreciation Bonds are payable on the dates and in the amounts set forth below at the principal corporate trust office of The Philadelphia National Bank in Philadelphia, Pennsylvania.

<u>Due May 15</u>	<u>Initial Principal Amount</u>	<u>Maturity Amount</u>	<u>Approximate Yield to Maturity</u>
2001	\$ 824,687.00	\$1,745,000	6.85%
2002	766,473.80	1,745,000	6.90
2003	1,900,487.80	4,660,000	6.95
2004	1,761,033.05	4,655,000	7.00
2005	1,631,949.90	4,655,000	7.05
2006	1,510,919.90	4,655,000	7.10

The Capital Appreciation Bonds are not subject to redemption prior to maturity.

Transfer of Twelfth Series A Bonds

The Twelfth Series A Bonds are transferable and exchangeable by the registered owners thereof at the principal corporate trust office of the Fiscal Agent in Philadelphia, Pennsylvania in the manner and subject to the limitations contained in the General Ordinance. The City and the Fiscal Agent shall not be required to issue or to register the transfer of or exchange any Twelfth Series A Bond during a period beginning at the close of business on the seventh (7th) day next preceding any date of selection of Twelfth Series A Bonds to be redeemed and ending at the close of business on the date on which the applicable notice of redemption is given, or to register the transfer of or to exchange any Twelfth Series A Bond, or portion of any Twelfth Series A Bond, selected for redemption in whole or in part until after the redemption date.

Accreted Value

The Accreted Value per \$5,000 Maturity Amount of each Capital Appreciation Bond on the date of original issuance and on each May 15 and November 15 is as set forth on the table below. The Accreted Value of Capital Appreciation Bonds on any other date will be calculated based on an assumption that such Accreted Value increases in equal daily amounts on the basis of a 360 day year consisting of twelve 30 day months.

City of Philadelphia, Pennsylvania
Gas Works Revenue Bonds, Twelfth Series A
Accreted Value Per \$5,000 Maturity Amount of
Capital Appreciation Bonds

Date	Accreted Value					
	Bonds Due in 2001	Bonds Due in 2002	Bonds Due in 2003	Bonds Due in 2004	Bonds Due in 2005	Bonds Due in 2006
March 29, 1990	2,363.00	2,196.20	2,039.15	1,891.55	1,752.90	1,622.90
May 15, 1990	2,383.45	2,215.30	2,057.05	1,908.25	1,768.50	1,637.40
November 15, 1990	2,465.05	2,291.75	2,128.55	1,975.05	1,830.85	1,695.55
May 15, 1991	2,549.50	2,370.80	2,202.50	2,044.15	1,895.40	1,755.75
November 15, 1991	2,636.80	2,452.60	2,279.05	2,115.70	1,962.20	1,818.05
May 15, 1992	2,727.15	2,537.20	2,358.25	2,189.75	2,031.35	1,882.60
November 15, 1992	2,820.55	2,624.75	2,440.20	2,266.40	2,102.95	1,949.45
May 15, 1993	2,917.15	2,715.30	2,524.95	2,345.75	2,177.10	2,018.65
November 15, 1993	3,017.05	2,808.95	2,612.70	2,427.85	2,253.85	2,090.30
May 15, 1994	3,120.40	2,905.90	2,703.50	2,512.80	2,333.30	2,164.50
November 15, 1994	3,227.25	3,006.15	2,797.45	2,600.75	2,415.55	2,241.35
May 15, 1995	3,337.80	3,109.85	2,894.65	2,691.80	2,500.70	2,320.95
November 15, 1995	3,452.10	3,217.15	2,995.25	2,786.00	2,588.85	2,403.35
May 15, 1996	3,570.35	3,328.15	3,099.35	2,883.50	2,680.10	2,488.65
November 15, 1996	3,692.65	3,442.95	3,207.05	2,984.45	2,774.60	2,577.00
May 15, 1997	3,819.10	3,561.75	3,318.50	3,088.90	2,872.40	2,668.50
November 15, 1997	3,949.90	3,684.60	3,433.80	3,197.00	2,973.65	2,763.20
May 15, 1998	4,085.20	3,811.75	3,553.15	3,308.90	3,078.45	2,861.30
November 15, 1998	4,225.15	3,943.25	3,676.60	3,424.70	3,186.95	2,962.90
May 15, 1999	4,369.85	4,079.30	3,804.40	3,544.55	3,299.30	3,068.05
November 15, 1999	4,519.50	4,220.00	3,936.60	3,668.65	3,415.60	3,177.00
May 15, 2000	4,674.30	4,365.60	4,073.40	3,797.05	3,536.00	3,289.75
November 15, 2000	4,834.40	4,516.25	4,214.95	3,929.95	3,660.65	3,406.55
May 15, 2001	5,000.00	4,672.05	4,361.40	4,067.50	3,789.70	3,527.50
November 15, 2001		4,833.25	4,512.95	4,209.85	3,923.30	3,652.70
May 15, 2002		5,000.00	4,669.80	4,357.20	4,061.60	3,782.40
November 15, 2002			4,832.05	4,509.70	4,204.75	3,916.65
May 15, 2003			5,000.00	4,667.55	4,353.00	4,055.70
November 15, 2003				4,830.90	4,506.40	4,199.70
May 15, 2004				5,000.00	4,665.25	4,348.80
November 15, 2004					4,829.75	4,503.15
May 15, 2005					5,000.00	4,663.00
November 15, 2005						4,828.55
May 15, 2006						5,000.00

Sources and Uses of Proceeds

The sources and uses of proceeds of the Twelfth Series A Bonds are estimated to be as follows:

Sources of Proceeds

Bond Proceeds	\$50,420,551.45
Less Original Issue Discount on Current Interest Bonds	(3,983,850.00)
Sinking Fund Reserve from the Eighth Series Bonds	<u>6,468,022.11</u>
	<u>\$52,904,723.56</u>

Use of Proceeds

Eighth Series Escrow Account	\$45,226,626.11
Sinking Fund Reserve Deposit (1)	6,431,000.00
Costs of Issuance (2)	605,748.04
Underwriters' Discount	<u>641,349.41</u>
Total Uses of Funds	<u>\$52,904,723.56</u>

- (1) The deposit to the Sinking Fund Reserve from the proceeds of the Twelfth Series A Bonds is equal to the maximum annual debt service requirement on the Twelfth Series A Bonds. See "SECURITY - Sinking Fund Reserve."
- (2) Includes premium for Municipal Bond Insurance Policy (net of premium rebate on the refunded Eighth Series Bonds).

Plan of Refunding

Pursuant to an Escrow Deposit Agreement to be dated as of March 1, 1990 certain proceeds of the Twelfth Series A Bonds, together with certain funds transferred from the Sinking Fund Reserve for the Eighth Series Bonds, will be deposited with The Philadelphia National Bank (the "Escrow Agent") and invested in government obligations, or other permitted investments, the principal of and interest on which will be sufficient to: (a) pay the interest due on all refunded Eighth Series Bonds from May 15, 1990 to May 15, 1995, inclusive; and (b) pay the refunded Eighth Series Bonds called for redemption on May 15, 1995 (the "Redemption Date") at 102½% of par.

REMEDIES OF BONDHOLDERS

Remedies under the Act and the General Ordinance available to Bondholders, including the holders of the Twelfth Series A Bonds, and to any trustee for Bondholders appointed by the holders of 25% in principal amount of any series of Bonds in default are described in the summaries contained in Appendix B hereof. Also, Bondholders or a trustee therefor are entitled to the remedies of secured parties in respect of the Project Revenues and the funds on deposit in the Sinking Fund, including the Sinking Fund Reserve.

Limitation Under Federal Bankruptcy Code

The rights and remedies of Bondholders are subject to various provisions of Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"), which permits, under certain circumstances, a political subdivision or public agency or instrumentality of a state to file a voluntary petition in bankruptcy in the nature of a plan for adjustment in the repayment of debts, if it is insolvent or unable to meet its debts as they mature. Such a petition may be filed by a political subdivision only if the state legislature has generally authorized the entity to be a debtor under Chapter 9 of the Bankruptcy Code or a governmental officer or organization empowered by state law to give such authorization has done so. With respect to the City, the Financially Distressed Municipalities Act, Act No. 1987-47 of the

Commonwealth of Pennsylvania, approved July 10, 1987 (the "Distressed Municipalities Act"), empowers the Department of Community Affairs of the Commonwealth to declare certain municipalities financially distressed upon the occurrence of certain events and the making of certain determinations by such Department. The Distressed Municipalities Act also provides, among other things, the method by which municipalities are permitted to apply for relief under the Federal Bankruptcy Code (the "Bankruptcy Code"). No authorization to be a debtor under Chapter 9 of the Bankruptcy Code has ever been sought or granted with regard to the City. Should the City ever file under Chapter 9 of the Bankruptcy Code, the rights and remedies of the Bondholders may be adversely affected.

The enforceability of the rights and remedies of Bondholders may also be limited by bankruptcy, insolvency or other laws now or hereafter in effect affecting the rights and remedies of creditors generally, or be subject to principles of equity, if equitable remedies are sought.

PHILADELPHIA GAS WORKS

General

PGW consists of all the real and personal property owned by the City and used for the acquisition, manufacture, storage, processing and distribution of gas in the City, and all property, books and records employed and maintained in connection with the operation, maintenance and administration thereof. Included in such assets, in addition to an extensive distribution system, are facilities for the production of gas to supplement the natural gas supply from pipeline transmission companies and facilities for storage. Such facilities include a liquified natural gas ("LNG") plant, a substitute natural gas ("SNG") plant and a liquid propane gas ("LPG") plant. The possibility of selling PGW has been examined by the City and PFMC, including, most recently, by City Council in a committee hearing. However, no plans or discussions regarding a sale or other disposition of PGW are presently under consideration by the City or PFMC and the City anticipates no change in its ownership or operation of PGW.

Of total gas revenues for the twelve month period ended August 31, 1989, 72% was derived from residential customers, 23% was derived from commercial and industrial customers and 5% was derived from City agencies.

Recent operating results for PGW and debt service coverages are shown below under the heading "HISTORICAL REVENUES AND DEBT SERVICE COVERAGE." For further explanation of revenues and expenses, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME." See also the table entitled "Debt Service Requirements" below for a forecast of future projected debt service payments.

PGW Service Area

PGW, the nation's largest municipally-owned gas utility, purchases, sells and distributes gas within the limits of the City of Philadelphia. The City's boundaries enclose a predominantly urbanized area of 129 square miles in southeastern Pennsylvania along the Delaware River. Within these boundaries PGW maintains a distribution system with approximately 6,000 miles of gas mains and service pipes serving slightly more than a half million customers.

The City's central business district and the surrounding neighborhoods have experienced substantial revitalization in recent years, including the construction of new office buildings and hotels and the renovation of existing structures. PGW anticipates that it will benefit from the growth in commercial and office space but it does not foresee any substantial change in sales to residential customers. The mix of residential and commercial customers during the last five years is shown in the following table:

**Percent of Gas Sales
Years Ended August 31**

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Residential	66.0	66.1	67.4	65.6	67.2
Industrial and commercial	29.2	28.9	27.7	29.5	28.1
City Agencies	<u>4.8</u>	<u>5.0</u>	<u>4.9</u>	<u>4.9</u>	<u>4.7</u>
Total	100.0	100.0	100.0	100.0	100.0

For discussion of PGW's sales, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME" and "PGW BUDGET AND RATE INCREASES—Sales".

Management Agreement

PFMC has operated PGW pursuant to the Management Agreement since January 1, 1973. Under the Management Agreement, various aspects of PFMC's management of PGW are subject to review and approval by the Gas Commission and, where authorization of City Council is required, recommendation of the City's Director of Finance or the Gas Commission or, as appropriate, both. The Gas Commission has various responsibilities for the oversight of the operations of PGW; the Director of Finance oversees certain financial practices of PGW and the operations of its pension plan; and the City's Law Department is designated as the legal advisor to the Gas Commission and PGW. See "The GAS COMMISSION" and "PGW RATES AND CHARGES" for a discussion of the Gas Commission and rate proceedings.

The term of the Management Agreement commenced on January 1, 1973 for a period of two years. In the absence of notice of cancellation the term is automatically extended for additional two year periods. The term is subject to cancellation by the City at any time, or upon the expiration of the two year period upon ninety days notice. No cancellation will be effective unless and until approved by resolution or ordinance of City Council.

Management

PFMC is responsible for providing executive management of PGW under the Management Agreement. The Management Agreement states that PFMC shall provide a chief executive officer, chief operating officer and chief financial officer and other personnel as deemed appropriate by PFMC. All PFMC personnel are subject to the approval of the Gas Commission. PFMC's officers also serve as officers of PGW.

The position of President and Chief Executive Officer has been vacant since July 14, 1989 and a search is being conducted.

The following brief resumes provide pertinent information on the major management qualifications of the senior officers of PFMC and PGW:

Alfred P. Degen, Executive Vice President

Mr. Degen joined PGW in 1968 and has held management positions in the Finance, Customer Activities and Administrative areas of PGW, including the positions of Assistant Vice President—Customer Activities, Vice President—Administration and Senior Vice President and Chief Financial Officer. He is a member of the Managing Committee of American Gas Association's Finance and Administrative Section, and The Society of Gas Lighting.

Sydney M. Avent, Senior Vice President and General Counsel

Ms. Avent joined PGW in January 1984 as Staff Attorney, was named Senior Attorney in December 1984, Corporate Counsel in October 1985, and Senior Vice President and General Counsel in January 1988. Ms. Avent is the past president of the Women Lawyers Division of the National Bar

Association; a trustee of the Philadelphia Bar Foundation; and a member of the American, Pennsylvania and Philadelphia Bar Associations, and the Barristers Association of Philadelphia. She also is a member of the American Association of Blacks in Energy.

Thomas F. Bonner, Senior Vice President and Chief Operating Officer

Mr. Bonner joined PGW in 1970 as an engineering assistant in the Customer Service Department, and rose through the ranks to become: Vice President—Operations and Engineering in 1982; Vice President—Customer Activities and Administration in 1984; Senior Vice President—Operations and Engineering in 1985; and Senior Vice President and Chief Operating Officer in January 1988. He is a member of the Managing Committee of the Operating Section of the American Gas Association, the American Public Works Association, and the Society of Gas Operators.

Joseph G. Horan, Senior Vice President

Mr. Horan joined PGW in 1956 and has held management positions in the Operations, Customer Activities and the Corporate Planning and Development areas, including the positions of Vice President—Operations and Vice President—Customer Activities. He was named Senior Vice President—Corporate Planning & Development on March 1, 1986 and Senior Vice President in January 1988. He is a member of the American Gas Association and the Society of Gas Operators and serves on the Executive Committee of the Associated Gas Distributors.

Edward H. Morris, Jr., Vice President and Chief Financial Officer

Mr. Morris joined PGW as Assistant Vice President of Finance in 1984, was named Vice President of Finance in 1986 and became Vice President and Chief Financial Officer in January 1988. He has overall responsibility for PGW's Operating Budget. He is a member of the American Gas Association and the Government Finance Officers Association.

Employee Relations

At December 31, 1989, PGW employed 2,447 people. Presently, approximately 74% of PGW's employees are represented by the Gas Workers Employees' Union Local 686, approximately 2% are represented by the United Plant Guard Workers of America, Local 506 and 24% are unaffiliated management.

Following the second work stoppage in PGW's history on April 15, 1989, agreement was reached with the Gas Worker's Employees' Union Local 686 bargaining committee and accepted by the membership on May 15, 1989 resulting in a four-year agreement which is one year longer than any previous agreement.

Facilities

Production Facilities

The principal PGW natural gas facilities include eight city gate stations and two major gas production plants, Richmond and Passyunk. Located at these plants are two liquefied natural gas (LNG) plants, a gas control center, a propane/air plant, a decommissioned substitute natural gas (SNG) plant and two gas holders.

Natural gas is received through eight city gate stations from two pipeline transmission companies—Texas Eastern Transmission Corporation (TETCO) and Transcontinental Gas Pipe Line Corporation (TRANSCO). The facilities at each of the city gate stations perform two basic functions, metering the flow of gas and controlling the pressure delivered to PGW's distribution system.

The gas control dispatchers, located at the Richmond Plant, monitor and control gas flow and pressure from the eight city gate stations to the high pressure distribution system. The gas control dispatchers also provide direction to the production plant operators concerning startup, shutdown and

gas flow output from the LNG and propane/air plants. Operations are facilitated through the use of a computer system which includes a backup unit and an auxiliary power supply.

The LNG storage and vaporization facility at the Passyunk plant receives its liquefied gas supply from the Richmond plant via cryogenic trailer trucks. The Passyunk LNG facility consists of one LNG storage tank of 3,060,000 gallons (i.e., the equivalent of 253,000 million cubic feet (mcf) of natural gas) and three LNG vaporizers, each having a capacity of 45,000 mcf per day.

The Richmond LNG plant has facilities for liquefaction in addition to storage and vaporization. During the non-heating season, PGW uses the Richmond LNG plant to liquefy and store natural gas from the pipeline. The plant has the capacity to liquefy and store approximately 25,000 mcf per day and the two storage tanks have a combined capacity of 48,970,000 gallons of LNG (4,046,000 mcf). Regasification of the liquid is accomplished with six 100,000 mcf per day vaporizers.

The Passyunk propane/air plant has the air compression and propane vaporization capacity to produce 60,000 dekatherms (Dth) of propane/air mix per day and has a liquid propane storage capacity of approximately 660,000 gallons.

The Passyunk plant SNG facility is inoperative. However, many components of the plant including a water demineralization unit, boilers, and air compressors are being retained and are utilized in the day-to-day operations of other portions of the Passyunk plant.

Both the Richmond and Passyunk plants have a low pressure gas holder. Holders are used for keeping daily pipeline purchases within contract limitations and for hourly peak shaving requirements. These holders have operating capacities of 3,000 mcf and 6,000 mcf for the Richmond and Passyunk plants, respectively. The holders were installed in the manufactured gas era and are in good working order.

Distribution Facilities

The principal gas distribution facilities consist of approximately 3,029 miles of main, 504,275 service pipes, 205 regulator stations, 521,233 meters, miscellaneous valves, instruments and other appurtenances. There are five different operating pressure systems; each system is connected to the others by control regulators. The high pressure systems operate at approximately 100, 60, and 35 pounds per square inch of gas (psig); the intermediate pressure system operates at 5 psig; the low pressure system operates between 6 and 9 inches of water column (approximately .25 psig). The majority of customers are served from the low pressure system.

Approximately 64 percent of the gas mains are cast iron pipe, 31 percent steel pipe and 5 percent ductile iron pipe. Approximately 70 percent of the service laterals are steel and 30 percent plastic. That part of the system subject to corrosion is cathodically protected.

Other Facilities

PGW's executive and operating offices are located at 800 W. Montgomery Avenue which is a new 150,000 square foot office building completed in 1988. The old office building houses distribution and customer service dispatch centers, service stations, and warehouses, as well as management information systems and a metal fabrication shop. Additional facilities include eight district offices and four operating stations for customer service and distribution crews. In addition, there are a meter repair shop, two warehousing facilities and an automotive maintenance and repair facility. The automotive maintenance and repair facility is responsible for the upkeep of PGW's fleet of approximately 1,068 vehicles and equipment. PGW also maintains minor automotive repair facilities at three of its operating stations.

SUMMARY STATEMENTS OF INCOME

The summary statements of income set forth below should be read in conjunction with the audited financial statements and notes included in Appendix A hereto.

	(Dollar Amounts in Thousands) Fiscal Years Ended August 31,					3 Months Ended November 30, (3)	
	1985	1986	1987	1988	1989	1988	1989
Operating revenues	\$495,286	\$477,127	\$456,443	\$469,567	\$472,706	\$91,937	\$95,789
Natural gas	289,383	266,029	221,119	229,284	238,087	47,574	49,434
Other raw materials	748	1,003	1,814	549	(155)	(75)	1
Gas processing	16,356	18,726	18,899	24,062	24,565	6,124	4,479
Customer service	19,455	20,306	20,858	20,786	20,382	5,998	5,786
Distribution	13,048	13,411	14,350	16,562	16,244	3,842	4,512
Customer activities	49,491	47,309	51,449	51,186	46,652	10,646	14,262
Administrative and general	19,647	25,068	26,112	28,413	27,185	4,759	6,178
Pensions	16,936	17,571	16,763	17,016	21,497	4,116	4,773
Taxes, other than income	5,037	5,430	5,808	6,398	5,831	1,635	1,517
Depreciation	14,490	14,553	19,462	21,155	19,015	6,024	6,392
Total operating expenses	444,591	429,406	396,634	415,411	419,303	90,643	97,334
Operating income (loss)	50,695	47,721	59,809	54,156	53,403	1,294	(1,545)
Other income	15,906	15,643	12,295	15,940	12,858	3,627	3,495
Income before interest expense	66,601	63,364	72,104	70,096	66,261	4,921	1,950
Interest expense	40,766	44,244	44,125	48,575	47,736	11,999	11,814
Income (loss) before extraordinary loss	25,835	19,120	27,979	21,521	18,525	(7,078)	(9,864)
Loss on extinguishment of debt (2)	8,488	0	0	0	0	0	0
Net income (loss) (1)	<u>\$ 17,347</u>	<u>\$ 19,120</u>	<u>\$ 27,979</u>	<u>\$ 21,521</u>	<u>\$ 18,525</u>	<u>\$ (7,078)</u>	<u>\$ (9,864)</u>

(1) Net Income (loss) is before payment of Base Payment portion of City Charges.

(2) In fiscal year 1985, PGW recorded an extraordinary charge against earnings of \$8,488,000, which recognized the increase in the debt outstanding net of related issuance and discount costs between the Ninth Series Bonds and the defeased maturities of the Seventh Series Bonds. Due to the reduced interest costs, debt service payments over the life of the Ninth Series Bonds compared to the defeased maturities of the Seventh Series Bonds were lowered by approximately \$6.6 million.

In fiscal year 1987, PGW received approval from the Gas Commission to permit the amortization of (a) the loss incurred in the issuance of the Tenth Series Bonds over the life of the Tenth Series Bonds and (b) the loss incurred in the issuance of the Eleventh Series B Bonds over the life of the Eleventh Series B Bonds. Due to the reduced interest rates achieved by the refundings, debt service payments over the life of the Tenth Series Bonds compared to the defeased maturities of the Sixth Series Bonds were lowered by approximately \$4.4 million and debt service payments over the life of the Eleventh Series B Bonds compared to the defeased maturities of the First and Second Series Bonds were lowered by approximately \$1.5 million.

In fiscal year 1989, the City issued Eleventh Series C Bonds on behalf of PGW for the purpose of refunding certain of the Ninth Series and certain of the Eighth Series Gas Works Revenue Bonds. The Gas Commission authorized the amortization of the loss incurred in the issuance of the Eleventh Series C Bonds over the life of the Eleventh Series C Bonds in conjunction with the approval of the 1990 operating budget. Due to the reduced interest rates achieved by this refunding, debt service payments over the life of the Eleventh Series C Bonds compared to the defeased maturities of the Eighth and Ninth Series Bonds were lowered by approximately \$11.1 million.

(3) Interim results are not necessarily indicative of results for a fiscal year as revenues and expenses are seasonal.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENTS OF INCOME

General Considerations

During the five fiscal years ended August 31, 1989 (presented in the foregoing Summary Statements of Income), PGW experienced fluctuating natural gas sales caused, in part, by changing winter weather conditions, conservation efforts on the part of PGW's customers and a reduction in the number of customers PGW serves. PGW's annual sales of natural gas varied from a high of 75.4 billion cubic feet (bcf) in 1988 to a low of 69.9 bcf in 1985. Sales for the 1989 fiscal period totaled 72.5 bcf. PGW successfully adapted its rate structure and marketing program to meet the ever changing supply of and demand for natural gas. Despite fluctuations in gas sales over the past 5 years, PGW has been able to maintain profitability and rate stability through Gas Cost Rate adjustments and control of operating expenses (see "Gas Cost Rate" below). To increase gas sales and profit margins, PGW has directed its marketing efforts towards attracting new, large volume commercial and industrial customers and retaining current customers.

Other major factors which influenced natural gas sales and overall financial results during this period include: (i) volatility of natural gas costs to PGW; and (ii) concurrent decreases in the cost of alternative fuels such as oil which resulted in reduced demand and profit margins for interruptible sales (see "Five Year Summary of Gas Sales" below).

The beginning of the 1980's was marked by financial transition during which efforts were undertaken to address working capital shortfalls, which were the result of an unprecedented rise in unpaid customer accounts and of costlier supplemental fuel supplies. To fund this deficiency in working capital, PGW borrowed \$45.0 million from the City and repaid this amount in the 1983 fiscal year.

To provide a more permanent, low cost funding mechanism with which to stabilize its working capital needs, PGW established a tax-exempt commercial paper program in fiscal year 1984, which PGW continues to use. The authorized level of the tax-exempt commercial paper program is \$85.0 million (see "Tax-Exempt Commercial Paper" below).

Five Year Summary of Gas Sales

Total gas sales for PGW can be described as sales to firm or interruptible customers. Firm customers receive gas service under various schedules which anticipate no interruptions in delivery of natural gas. Firm service is sold to residential, commercial and industrial customers depending on the type of service required and represented 85% of total gas sales as of the end of fiscal year 1989. Interruptible service is offered to customers, under schedules or contracts which anticipate and permit interruptions on short notice, generally in peak-load periods. Interruptible service is sold to high volume commercial and industrial customers and represented 15% of total gas sales for the fiscal year 1989. (See "Certain Financial Data" below for a five year summary of gas sales.)

In fiscal year 1985, total gas sales were 69.9 bcf, down 8.4 bcf from the previous year. Milder than normal temperatures* during the 1985 heating season were primarily responsible for this decrease. Firm sales decreased by 7.3 bcf while firm revenues in 1985 totaled \$433.2 million, down \$28.0 million or 6.1% from fiscal year 1984. Interruptible sales declined in 1985 by 1.1 bcf, reducing interruptible revenues by \$7.8 million.

For fiscal year 1986, total gas sales were 71.9 bcf, an increase of 2.0 bcf over the previous year. Temperatures during the 1986 heating season were slightly cooler than the prior heating season. Sales

*A "normal" year has 4,600 degree days.

to firm customers, representing 84% of gas sold, totaled 60.4 bcf. This higher level of sales reflected primarily a return to a more normal heating season. Revenues from gas sales in 1986 totaled \$471.5 million, 3.6% less than the prior year, as a result of a decline in the GCR. Firm revenues decreased by \$7.8 million as the impact of additional sales of 2.0 bcf were more than offset by the downward adjustment in the GCR. Gas sales to interruptible customers were 11.5 bcf, virtually unchanged from the previous year, while revenues declined by \$10.4 million from the 1985 level due to competitive oil prices which declined sharply over the year thereby reducing profit margins.

Fiscal year 1987 resulted in total gas sales of 71.3 bcf, a decrease of .6 bcf from the previous year. Temperatures during the 1987 heating season were slightly warmer than the 1986 heating season, and 2% warmer than a normal heating season. Sales to firm customers, representing 85% of gas sold, totaled 61.0 bcf in 1987. This higher level of firm sales was principally due to additional residential sales. The demand for gas service by interruptible customers declined by 1.1 bcf from the prior year, to a level of 10.3 bcf. Total revenues from gas sales in fiscal year 1987 amounted to \$450.8 million, 4.4% less than the preceding year. Firm revenues declined by \$9.2 million as downward adjustments in the fuel component of the base rate and the GCR more than offset additional sales and the approved \$28.65 million rate increase. Interruptible revenues declined by \$11.5 million from the 1986 level due to competitive oil prices.

For the 1988 fiscal year, gas sales totaled 75.4 bcf, 4.1 bcf higher than the 1987 fiscal year. Slightly cooler than normal temperatures during the heating season produced 4,676 degree days, an increase of 76 degree days or 2% greater than normal, and 178 degree days or 4% greater than experienced in the prior year. Sales to firm customers of 62.8 bcf were 1.9 bcf higher than experienced in 1987 due to increased heating demand. Interruptible gas sales increased 21% to 12.6 bcf. Associated interruptible revenues increased 18.5% as movement of alternate fuel prices reduced profit margins.

Gas sales in 1989 totaled 72.5 bcf, a decrease of 2.9 bcf from the prior year. Temperatures during the 1989 heating season were slightly warmer than normal resulting in 4,579 degree days, a decline of 21 from normal and 97 degree days or 2% less than experienced in 1988. Sales to firm customers of 62.0 bcf were .8 bcf below the 1988 level reflecting a decrease in heating demand. Interruptible gas sales declined by 2.0 bcf to 10.5 bcf. Associated interruptible revenues decreased by 10.7% to \$36.1 million as competition from competitive fuels lowered demand for gas service.

Gas Cost Rate

Revenues in each fiscal year reflect the recovery of natural gas and raw material costs through the operation of the GCR.

The GCR is designed to routinely change customer rates to allow for the recovery of lower or higher fuel costs through the application of a levelized rate established on an annual basis, beginning September 1st of each year.

Since January 1, 1984, the GCR's have been as follows:

<u>Effective Date</u>	<u>\$/thousand cubic feet (mcf)¹</u>
January 1, 1984	(0.8948)
April 1, 1984	(0.3915)
September 1, 1984	0.3825
January 1, 1985	0.1188
April 1, 1985	(0.0590)
September 1, 1985	(0.0890)
February 1, 1986	(0.2542)
September 1, 1986	(0.2443) ²
December 1, 1987	(0.4419)
September 1, 1988	(0.0655) ³

1. Parentheses () denote a negative GCR, which is a credit on the customer's bill.
2. As of September 1, 1986, the fuel component of the base rate was reduced from \$4.2401 per mcf to \$3.6000 per mcf.
3. In August 1989, and at Quarterly Review in January 1990, the Gas Commission authorized the GCR to remain unchanged at a negative 6.55 cents per mcf.

Natural Gas

In fiscal year 1985, the downward trend in natural gas costs continued, due to the impact of deregulation, with expenses for natural gas totaling \$289.4 million compared to \$305.8 million in 1984. Also contributing to this decrease in natural gas expenditures were reduced sendout requirements stemming from a warmer heating season, and an increase in refunds received from pipeline suppliers.

Natural gas expenses were further decreased by \$23.0 million or 8% in fiscal 1986 as the result of lower pipeline prices and purchases on the spot market. These savings were offset, in part, by deferred pipeline charges of \$11.5 million as approved by the Federal Energy Regulatory Commission, and increased sendout.

In fiscal year 1987, natural gas expenses decreased by \$44.9 million or 17% from the 1986 fiscal year level. This was again a result of lower pipeline prices and purchases on the spot market combined with reduced sendout. Also, the payment of deferred pipeline charges approved by the Federal Energy Regulatory Commission was \$11.3 million lower in fiscal year 1987.

In fiscal year 1988, natural gas prices increased \$8.2 million over the 1987 level due to the cost of meeting the increased sendout requirement and the initiation of deferred fuel accounting. The deferral of the application of \$6.7 million of refunds received from pipeline suppliers into the 1989 fiscal year coupled with the increased sendout more than offset savings resulting from lower natural gas prices and economies of spot gas market purchases.

In fiscal year 1989, natural gas expenses rose by \$8.8 million or 4% from the previous year's level primarily due to higher pipeline supplier prices. These higher costs were offset, in part, by lower sendout requirements and the application of refunds deferred from the 1988 fiscal year.

Accounts Receivable

Beginning in 1982, several programs were developed by PGW, in concert with the Gas Commission, to provide for better collection policies and stabilization of accounts receivable growth. Among these programs were the following:

- PGW worked closely with the City in the establishment and promotion of energy assistance programs such as the federally funded Low Income Home Energy Assistance Program, the Philadelphia Emergency Crisis Program and the Utility Emergency Services Fund. These programs collectively provided a total of \$12.8 million of assistance to customers during fiscal year 1989.
- Accelerated collection activities were instituted to keep outstanding customer balances from reaching excessively high levels. Limitation of customer balances contributes favorably to their collectibility.
- Additional meter readers were employed during the heating season to eliminate the need for estimated billings, and collection activities were augmented in off peak periods.
- In October, 1984, PGW initiated the Limited Service Program, which offered heating service to customers who had been shut-off for nonpayment.
- To improve PGW's efforts to collect accounts receivable, the 5%-2% Repayment Agreement Plan was instituted in February, 1985. This plan permitted customers to enter into an agreement requiring an initial payment of 5% of the past-due amount, payment of 2% of the past-due amount each month and payment of current usage on a monthly budget plan.

Although the 5%-2% Repayment Agreement Plan was created to increase collections, revisions to this plan made in September, 1985 incorporating an income eligibility test and allowing for a maximum forgiveness of 50% (the "Forgiveness Repayment Agreements") limited its effectiveness. The revisions enabled the remaining customers, not meeting the income eligibility test, to make a 20% initial payment of the past-due amount with the remaining amount to be paid over a maximum of 24 months (the "20% Repayment Agreements").

The large number of both Forgiveness Repayment Agreements and 20% Repayment Agreements resulted in the reactivation of previously terminated accounts during 1985, 1986 and to a lesser extent 1987, 1988 and 1989. This reactivation is the principal reason for the increase in Accounts Receivable and the growth in the annual average number of delinquent accounts.

During the period May through August, 1987, PGW retroactively billed customers the \$28.65 million resulting from the rate increase approved for the 1987 fiscal year. The impact of this delayed billing inflated the customer accounts receivable at August, 1987 and contributed to the 11% improvement recorded in August, 1988. Through August, 1989, delinquent customers entered into 31,202 Forgiveness Repayment Agreements, of which 15,230 are currently active with a balance of \$13.6 million. Delinquent customers also entered into 101,066 20% Repayment Agreements, 36,680 of which are currently active with a balance of \$16.2 million. The total amount of active outstanding accounts under these two repayment plans is 34% of total Gas Accounts Receivable and starting in 1985, PGW has increased the reserve for uncollectible accounts to provide for these account reinstatements under the two repayment plans.

The status of Accounts Receivable during the 1985 to 1989 period is reflected in the following table:

**ACCOUNTS RECEIVABLE, ACCUMULATED
PROVISIONS FOR UNCOLLECTIBLE ACCOUNTS,
WRITE-OFF EXPENSES, DELINQUENT CUSTOMERS,
AND REVENUE STATISTICS**

	(Dollar Amounts in Thousands)				
	Fiscal Years Ended August 31,				
	1985	1986	1987	1988	1989
Reported revenues during the year	\$489,419	\$471,192	\$450,518	\$465,122	\$467,281
Accounts receivable at August 31	\$ 81,902	\$ 92,061	\$ 94,441	\$ 83,734	\$ 87,994
Accumulated provisions for uncollectible accounts at August 31	\$ 33,419	\$ 39,358	\$ 41,639	\$ 40,851	\$ 39,181
Net accounts receivable at August 31	\$ 48,483	\$ 52,703	\$ 52,802	\$ 42,883	\$ 48,813
Accumulated provisions for uncollectible accounts as a percentage of accounts receivable (%)	40.8	42.8	44.1	48.8	44.5
Write-offs during the year*	\$ 14,424	\$ 13,159	\$ 20,496	\$ 20,874	\$ 20,920
Receivables as a percentage of reported revenues during the year (%)	16.73	19.54	20.96	18.00	18.83
Delinquent customers (annual average)	141,521	153,086	156,387	148,588	141,095
Delinquent customers at August 31	125,851	135,394	148,670	124,543	121,462

* Net write-off.

Write-off of Uncollectible Accounts

In fiscal years 1985, 1986, 1987 and 1988, in recognition of the substantial number of reactivated gas accounts resulting from the two repayment plans, the reserve was increased to \$33.4 million, \$39.4 million and \$41.6 million and decreased slightly to \$40.9 million, respectively, while the amount written off, net of reactivations, was \$14.4 million in 1985, \$13.2 million in 1986, \$20.5 million in 1987 and \$20.9 million in 1988. In fiscal year 1989, net customer accounts receivable of \$20.9 million were written off while the reserve balance decreased slightly to \$39.2 million.

The following table presents information regarding the aging of Gas Accounts Receivable of PGW at August, 1989 and August, 1988:

AGING ANALYSIS OF GAS ACCOUNTS RECEIVABLE

(Dollar Amounts in Thousands)
August 31, 1989

Customer Receivables	August 31, 1989				Gas Accountants Receivable	Delinquent Accounts
	Current	30 Days	60 Days	Total 90 Days & Over		
Residential and small commercial ...	\$20,313	\$ 3,333	\$3,429	\$33,029	\$60,104	\$39,791
Industrial and large commercial	3,532	1,361	591	2,095	7,579	4,047
Final billing (a)	4,083	6,181	4,692	3,770	18,726	14,643
Total	<u>\$27,928</u>	<u>\$10,875</u>	<u>\$8,712</u>	<u>\$38,894</u>	<u>\$86,409(b)</u>	<u>\$58,481(b)</u>

August 31, 1988

Customer Receivables	August 31, 1988				Gas Accountants Receivable	Delinquent Accounts
	Current	30 Days	60 Days	Total 90 Days & Over		
Residential and small commercial ...	\$ 5,852	\$ 5,419	\$4,443	\$42,702	\$58,416	\$52,564
Industrial and large commercial	5,869	766	285	1,029	7,949	2,080
Final billing (a)	2,493	3,117	3,994	5,606	15,210	12,717
Total	<u>\$14,214</u>	<u>\$ 9,302</u>	<u>\$8,722</u>	<u>\$49,337</u>	<u>\$81,575(b)</u>	<u>\$67,361(b)</u>

(a) Gas service on these accounts has been terminated. Amounts include voluntary and involuntary termination.

(b) This amount represents Gas Accounts Receivable and does not include other miscellaneous Accounts Receivable which would be included in the Accounts Receivable figures on the preceding chart.

Capital Improvement Program

PGW's capital improvement program (the "Capital Improvement Program") generally is funded by the sale of revenue bonds and internally generated funds ("IGF"). Revenue bond sales generally are made in advance of actual expenditures, with the proceeds being placed in restricted accounts and expended solely for PGW capital purposes.

For further discussion of the Capital Improvement Program, see "PGW RATES AND CHARGES - The Capital Improvement Program."

The following table presents information regarding Net Capital Expenditures for fiscal years 1985-1989:

**FISCAL YEAR
NET CAPITAL EXPENDITURES⁽¹⁾**

	(Dollar Amounts in Thousands)				
	1985	1986	1987	1988	1989
Gas supply	\$ 4,599	\$ 2,839	\$ 3,294	\$ 6,124	\$ 6,320
Distribution	26,362	29,654	35,621	41,846	39,419
Customer service	3,657	3,856	4,546	4,426	3,004
Other	7,184	10,838	14,645	20,141	8,380
Totals.....	<u>\$41,802</u>	<u>\$47,187</u>	<u>\$58,106</u>	<u>\$72,537</u>	<u>\$57,123</u>
Internally Generated Funds to fund Capital Improvements.....	<u>\$12,400</u>	<u>\$ 6,200</u>	<u>\$21,100</u>	<u>\$19,400</u>	<u>\$ 8,200</u>

(1) Net of reimbursements, contributions and salvage.

Internally Generated Funds

Since fiscal year 1982, PGW has provided for a portion of capital costs to be funded through the use of IGF. IGF consists of funds generated by PGW net revenues. In fiscal year ended August 31, 1989, PGW generated \$8.2 million of IGF, which funded approximately 14% of the Capital Improvement Program for that year.

Tax-Exempt Commercial Paper

In 1984, PGW's ability to meet its short-term financing needs was enhanced by the institution of a tax-exempt commercial paper program (see "SECURITY - Subordinated Short-Term Borrowing - Gas Works Notes"). The resulting rate structure stability and financing flexibility have enabled PGW to meet its current operating needs. The authorized level of the tax-exempt commercial paper program was increased by the Gas Commission during the 1985 fiscal year to \$85 million from the \$75 million initially authorized.

At August 31, 1989, the amount outstanding was \$82 million as compared to \$34.4 million outstanding at August 31, 1988. This lower amount was due to timing constraints on the sale of notes. The amount outstanding at August 31, 1987, August 31, 1986, and August 31, 1985 was constant at \$83 million. At December 31, 1989, the amount outstanding was \$81.3 million.

Certain Financial Data

The following data are based upon the records of PGW. For further information, see "Appendix A - Financial Statements of PGW."

SELECTED OPERATING DATA

(Dollar Amounts in Thousands)
Years Ended August 31

	1985	1986	1987	1988	1989
DEGREE DAYS	4,428	4,536	4,498	4,676	4,579
% of normal (4,600 degree days).....	96	99	98	102	99
MAXIMUM 24-HOUR SENDOUT (mcf).....	719,133	571,751	600,858	596,889	576,771
Avg. peak-day temperature (degrees)	4	20	14	14	17
GAS REVENUES & SALES BY CUSTOMER CLASSIFICATION					
Gas operating revenues (\$ 000 omitted)					
Residential:					
Heating	\$311,011	\$306,824	\$301,984	\$306,008	\$313,722
Non-heating	31,272	30,090	28,021	26,614	25,836
Industrial and commercial:					
Firm	66,582	66,370	64,725	65,028	70,134
Interruptible	56,052	45,628	34,100	40,410	36,077
Other gas revenues (municipal, Phila. Housing Authority ("PHA") sales for resale and unbilled revenues)					
	24,352	22,630	21,988	26,212	21,211
Total gas revenues	\$489,269	\$471,542	\$450,818	\$464,272	\$466,980
Other operating revenues	6,017	5,585	5,625	5,295	5,726
Total operating revenues	\$495,286	\$477,127	\$456,443	\$469,567	\$472,706
Other income	15,906	15,643	12,295	15,940	12,858
Total revenues and other income	\$511,192	\$492,770	\$468,738	\$485,507	\$485,564

(Dollar Amounts in Thousands)
Years Ended August 31

	1985	1986	1987	1988	1989
SUMMARY OF CUSTOMERS AT					
END OF PERIOD					
Residential	500,378	499,608	496,836	497,227	497,596
Industrial and Commercial:					
Firm	18,482	18,840	19,015	19,513	20,242
Interruptible	135	164	193	259	302
Municipal and PHA	2	2	2	2	2
Total Customers	<u>518,997</u>	<u>518,614</u>	<u>516,046</u>	<u>517,001</u>	<u>518,142</u>
GAS SALES BY CLASSIFICATION					
(mmcf)					
Residential:					
Heating	42,157	43,525	44,268	45,838	45,376
Non-heating	3,947	3,956	3,790	3,667	3,354
Industrial and commercial:					
Firm	8,943	9,347	9,398	9,670	9,805
Interruptible	11,437	11,453	10,362	12,584	10,550
Other	3,367	3,576	3,520	3,667	3,448
Total gas sales	<u>69,851</u>	<u>71,857</u>	<u>71,338</u>	<u>75,426</u>	<u>72,533</u>
SUPPLY AND DISPOSITION OF GAS					
(mmcf)					
Natural gas purchased	69,998	75,383	73,944	78,178	73,769
Liquid petroleum	81	141	89	110	29
Liquefied natural gas	2,331	2,596	1,760	2,620	1,626
Total supply	<u>72,410</u>	<u>78,120</u>	<u>75,793</u>	<u>80,908</u>	<u>75,424</u>
Deduct:					
Additions to (withdrawals from)					
gas storage	(1,088)	967	75	2,502	(1,435)
PGW's use and other	3,647	5,296	4,380	2,980	4,326
Total gas sales	<u>69,851</u>	<u>71,857</u>	<u>71,338</u>	<u>75,426</u>	<u>72,533</u>
AVERAGE MONTHLY USAGE OF					
RESIDENTIAL CUSTOMERS (mcf)					
Heating	9.1	9.2	9.2	9.5	9.5
Non-heating	2.8	2.9	2.9	2.9	2.7
AVERAGE MONTHLY BILL OF					
RESIDENTIAL CUSTOMERS					
Heating	\$ 69.75	\$ 67.72	\$ 66.77	\$ 66.10	\$ 68.26
Non-heating	\$ 23.05	\$ 23.08	\$ 22.39	\$ 21.76	\$ 21.01

Three Months Fiscal Period Ended November 30, 1989 Compared to Three Months Fiscal Period Ended November 30, 1988.

Gas sales for the three months ended November 30, 1989 were 11.4 bcf, .4 bcf less than in the similar period in 1988. Sales to non-heating customers increased .4 bcf principally as the result of increased demand by interruptible customers. Sales to heating customers were .8 bcf less than in the 1988 period. This decrease reflects degree days of 822 for the period which were 6.6% less than experienced for the same period in 1988.

Operating Revenues for the 1989 period were \$95.8 million, \$3.9 million higher than those of the prior year. Non-heating revenues increased by \$3.0 million principally due to higher interruptible sales. Heating revenues declined by \$5.2 million mainly reflecting slightly warmer temperatures and a lag in cycle billings. The unbilled gas adjustment rose by \$5.9 million partially compensating for the lag in cycle billings.

Operating expenses for the three months ended November 30, 1989 were \$97.3 million, \$6.7 million or 7% higher than the 1988 period. Natural gas expenses were \$1.9 million higher than the 1988 level due chiefly to increased prices from pipeline suppliers. The appropriation to the reserve for uncollectible accounts, included in customer activities, rose by \$4.4 million as the result of a more recent evaluation of accounts receivable collectibility. Also, administrative and general expenses increased by \$1.4 million due to higher appropriations to the injuries and damages reserve in order to maintain the required balance for outstanding suits and claims. All other operating expenses decreased by \$1.0 million reflecting reduced personnel levels, non-recurring maintenance activities in the 1988 period and the effect of management initiated cost control measures. (See "Summary Statements of Income" herein.)

Subsequent Financial Results

Total operating revenues for the two month period ending January 31, 1990 were \$160.4 million or \$19.8 million higher than the prior period due to the colder than normal weather experienced during the period.

Total operating expenses for the two month period ending January 31, 1990 were \$118.6 million or \$9.4 million higher than the prior period. Natural gas expenses were \$4.5 million higher due to the increased sendout requirements related to the colder weather. Also, gas processing and distribution expenses were \$3.7 million higher due to the colder weather experienced during the period. All other operating expenses increased \$1.2 million from the prior period.

For the month of February 1990, degree days were below the forecasted level due to the slightly warmer than normal weather experienced during the month. The decline in degree days is expected to result in lower operating revenues and lower net income than the forecasted levels.

Interim results are not necessarily indicative of results for a fiscal year as revenues and expenses are seasonal. (See "PGW RATES AND CHARGES — 1990 Operating Budget.")

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE

The financial operations for the years ended August 31, 1985 through 1989 and the revenues available for debt service are shown in the following table:

(Dollar Amounts in Thousands)
Years Ended August 31

	1985	1986	1987	1988	1989
Operating revenues	\$495,286	\$477,127	\$456,443	\$469,567	\$472,706
Other income	15,906	15,643	12,295	15,940	12,858
Total revenues	511,192	492,770	468,738	485,507	485,564
Adjustments	227	2,124	527	1,837	1,581
Project revenues	511,419	494,894	469,265	487,344	487,145
Operating expenses	444,591	429,406	396,634	415,411	419,303
Less: depreciation	16,390	16,634	21,707	23,615	21,887
other adjustments	72	276	(563)	(497)	1,662
Net operating expense	428,129	412,496	375,490	392,293	395,754
Net revenues	83,290	82,398	93,775	95,051	91,391
Debt service requirements:					
Revenue bonds	47,502	51,597	50,193	59,473	57,326
General obligation bond issued for PGW*	3,440	2,549	1,729	—	—
Commercial paper notes	5,268	4,018	3,645	5,204	4,668
Total Debt Service	56,210	58,164	55,567	64,677	61,994
Net project revenues available for other purposes	<u>\$ 27,080</u>	<u>\$ 24,234</u>	<u>\$ 38,208</u>	<u>\$ 30,374</u>	<u>\$ 29,397</u>
Debt service coverage:					
Revenue bonds	1.75x	1.60x	1.87x	1.60x	1.59x
Revenue bonds and general obligation bonds	1.63x	1.52x	1.81x	1.60x	1.59x

* General obligation bonds matured in 1987 fiscal year.

Projected Debt Service

The following table presents year-by-year debt service requirements of the previously issued Gas Works Revenue Bonds (First through Eleventh Series A, B & C), excluding the refunded portion of the Seventh Series Bonds, the refunded portion of the Sixth Series Bonds, the refunded First Series Bonds, the refunded Second Series Bonds, and the refunded portion of the Eighth Series Bonds, including the Eighth Series Bonds to be refunded with a portion of proceeds of the Twelfth Series A Bonds, and the refunded Ninth Series Bonds. The table excludes the debt service on the Gas Works Notes and on the Lease Revenue Bonds.

DEBT SERVICE REQUIREMENTS GAS WORKS REVENUE BONDS

<u>Fiscal Year Ending (Aug. 31)</u>	<u>Existing Debt Service Gas Works Revenue Bonds</u>	<u>Debt Service on Twelfth Series A Bonds</u>	<u>Total Debt Service</u>
1990	\$62,342,756.25	\$ 529,199.18	\$62,871,955.43
1991	58,916,357.00	3,514,482.50	62,430,839.50
1992	58,919,171.50	3,519,022.50	62,438,194.00
1993	58,891,699.50	3,514,022.50	62,405,722.00
1994	58,877,692.50	3,514,667.50	62,392,360.00
1995	58,854,270.00	3,515,227.50	62,369,497.50
1996	56,147,260.50	3,515,257.50	59,662,518.00
1997	52,020,230.50	3,514,297.50	55,534,528.00
1998	47,310,013.75	3,516,200.00	50,826,213.75
1999	40,618,659.00	3,515,055.00	44,133,714.00
2000	36,158,021.44	3,516,780.00	39,674,801.44
2001	36,166,329.00	3,515,600.00	39,681,929.00
2002	24,770,561.00	3,515,600.00	28,286,161.00
2003	21,857,199.00	6,430,600.00	28,287,799.00
2004	21,851,601.00	6,425,600.00	28,277,201.00
2005	21,595,488.00	6,425,600.00	28,021,088.00
2006	21,579,681.75	6,425,600.00	28,005,281.75
2007	21,554,782.25	6,430,600.00	27,985,382.25
2008	21,526,906.75	6,431,000.00	27,957,906.75
2009	21,510,981.00	6,429,600.00	27,940,581.00
2010	21,485,918.25	6,425,500.00	27,911,418.25
2011	21,857,764.31	6,427,800.00	28,285,564.31
2012	24,843,943.50	3,445,000.00	28,288,943.50
2013	28,308,163.00		28,308,163.00
2014	16,979,330.75		16,979,330.75
2015	16,960,912.50		16,960,912.50
2016	8,681,019.00		8,681,019.00
2017	8,678,544.00		8,678,544.00

THE GAS COMMISSION

The Management Agreement provides for a five member Gas Commission consisting of the City Controller, two members appointed by City Council and two members appointed by the Mayor, and vests in the Gas Commission the responsibility for overseeing the operation by PFMC of PGW. The Management Agreement grants to the Gas Commission certain specified powers and duties and all other powers not specifically granted to PFMC. The powers and duties granted to the Gas Commission include fixing of PGW rates and charges, approval of personnel provided by PFMC, review of gas supply contracts for approval by City Council, approval of changes in tests and standards of gas quality and pressure, approval of the annual operating budget, review of the capital budget and recommendations thereon to City Council, approval of certain loans, access to and review of all books, records and accounts of PGW, prescription of insurance requirements, promulgation of standards for procurement and disposal of material, supplies and services, and approval of all real property acquisitions for further approval of City Council.

PGW RATES AND CHARGES

Rate and tariff changes are proposed by PGW based on anticipated revenues and expenses, required debt service coverage and need for funds for capital expenditures, among other factors. PGW submits an operating budget and capital budget for each fiscal year of PGW to the Gas Commission for review, revision and approval. The operating and capital budgets are used to help establish required rate increases.

The Gas Commission holds public hearings on proposed rate increases at which PGW and other interested parties are permitted to present evidence supporting their position with respect to the rates. Community Legal Services, Inc. was appointed by the Gas Commission in 1988 to serve as Public Advocate in rate hearings to represent residential customers. The Gas Commission issues orders based upon its findings. These orders may direct PGW to reduce expenses in certain areas or increase spending on certain items or to undertake specific projects. The Gas Commission considers all of these factors before determining whether to accept, modify or reject the rate increases proposed by PGW. The Gas Commission orders regarding rates may be appealed to the Court of Common Pleas of Philadelphia County.

The rates fixed by the Gas Commission, to be charged by PGW for providing gas and related services, are subject to various statutory provisions. The General Ordinance and the Management Agreement, the complete text of which was authorized by ordinance, each contains a rate covenant. In addition, the Philadelphia Home Rule Charter contains a rate covenant which, in the absence of any other applicable rate covenant, would govern PGW's rates. See Appendix B for details of the General Ordinance.

The Management Agreement directs the Gas Commission, without further authorization of City Council, to fix rates and charges (other than charges to the City and the Philadelphia Board of Education, which are subject to approval of City Council) which, together with other Project Revenues, will in each fiscal year produce revenues sufficient, at a minimum:

- (a) to pay all the operation and maintenance costs and expenses of PGW, including, but not limited to, depreciation, employee retirement costs and a management fee to PFMC not exceeding \$300,000 annually, and to pay interest and amortization becoming due in such fiscal year on debt incurred for PGW;
- (b) to make annual payments to the City in the aggregate principal amount of \$18 million;

(c) to provide appropriations for debt reduction and capital additions not otherwise provided which are determined by the Gas Commission to be reasonable and which are approved by City Council; and

(d) to provide reasonable additions to working capital as may be determined by PFMC and approved by the Gas Commission.

The Management Agreement provides that, for purposes of complying with such rate requirement, the amount of operating expenses which do not represent an actual outflow of funds (e.g., depreciation) may be included in revenues in determining whether revenues are sufficient to meet other costs, expenses and requirements.

The Management Agreement also requires the rate schedules to be non-discriminatory and based on a suitable and reasonable classification of the services provided, taking into consideration the nature and purpose of the use, the quantity used, the time when used, the available supply of gas and other competing fuels, the maximum demand, the State and Federal laws, regulations and guidelines. The Gas Commission has granted a 20% discount to persons 65 years of age and over for residential use.

Rate Proceedings

On May 29, 1986, PGW filed a request for a base rate increase with the Gas Commission designed to produce net additional base revenues in the fiscal year commencing September 1, 1986 of \$59 million. On March 3, 1987, the Gas Commission granted a base rate increase, which became effective May 7, 1987, designed to produce net additional base revenues for the period January 1, 1987, through August 31, 1987, the fiscal year end, of \$28.65 million. On September 16, 1987, the Gas Commission ordered that the base rate be annualized to produce the same level of base revenues for the fiscal year ending August 31, 1988. On June 3, 1988, PGW filed a rate request for a base rate increase with the Gas Commission designed to produce additional base revenues in the fiscal year commencing September 1, 1988 of \$49 million. On October 13, 1988, the Gas Commission rejected this request and established base rates reflecting a \$2 million reduction in base revenues, effective as of September 1, 1988.

In connection with its rate decision of October 13, 1988, the Gas Commission suggested certain expense reductions to allow PGW to meet its financial obligations and achieve a debt service coverage level estimated at 1.79. In response to this rate decision, PGW developed an operational plan for fiscal year 1989 which included extensive reductions in operating expenses. Personnel levels were reduced by PGW through attrition and the implementation of an early retirement program, which together were expected to result in staffing levels at fiscal year end being approximately 10% below previously budgeted levels. Actual results for fiscal year 1989 showed a decrease for personnel costs of 11.9% compared to the original budget for 1989. All other operating expenses were reviewed and selective reductions were implemented. Other reductions in operating expenses (excluding weather related raw materials) for such items as advertising, promotion, company dues and subscriptions and purchased services produced a 1.7% decrease in operating expenses from the original budget numbers. Although PGW did not achieve the debt service coverage level estimated by the Gas Commission on October 13, 1988, the foregoing initiatives and other measures did produce debt service coverage for fiscal year 1989 of 1.59.

PGW Budget and Rate Increases

The Management Agreement requires PGW to prepare an annual operating budget and an operating forecast for four years comprising the ensuing year and the three years following the budget year. The operating budget and forecast are subject to the approval of the Gas Commission. PGW also prepares annually a proposed capital budget and a forecast for six years comprising the budget year and the five years following the budget year. The capital budget and forecast are reviewed by the Director

of Finance of the City and the Gas Commission and are forwarded to City Council for approval. These forecasts are estimates and are frequently amended to accommodate changing events and the passage of time.

In August 1989, while preparing for the issuance of the Lease Revenue Bonds, PGW proposed an operating budget for fiscal year 1990 that included a base rate increase in fiscal year 1990 designed to produce additional revenues in such fiscal year of \$15,000,000. After discussion with Gas Commission representatives, PGW determined that a combination of further manpower expenditure reductions and institution of charges for customer services would enable PGW to design an operating budget requiring no base rate increase that would nevertheless satisfy the debt service coverage requirements imposed by the Rate Covenant and meet the operating needs of PGW. The budget reflected extensive operating and administrative adjustments made during the preceding two fiscal years, during which no base rate increases were implemented.

In November 1989 PGW received a management audit of its operations performed at the request of the Gas Commission by Schumaker & Company, a management consulting firm based in Ann Arbor, Michigan. The management audit included 149 recommendations to improve PGW's operations and financial results, which were accepted by the Gas Commission. The Gas Commission in November 1989 voted to implement immediately ten of those recommendations and to review the remaining recommendations for possible future implementation. The Gas Commission also appointed a task force to oversee implementation of the recommendations. Action plans have been developed by the task force for implementation of 64 recommendations contained in the Audit Report. Additional action plans will be developed by PGW for the remaining recommendations.

1990 Operating Budget

PGW revised its operating budget for fiscal year 1990 in early January 1990 to reflect the anticipated changes in income and expenses expected to occur during the remainder of fiscal year 1990 as a result of implementation of certain of the management audit recommendations, including the establishment of desktop publishing, acceleration of billing for reimbursable capital projects and reduction of time between meter reading and billing. The revised budget prepared by PGW was approved by the Gas Commission on January 9, 1990. PGW presently estimates that its financial results will be approximately equivalent to last year's performance and estimates that it will achieve debt service coverage in excess of that required by the General Ordinance, although there can be no assurance that such coverage ratio will in fact be achieved.

The approved budget assumes the issuance by the City of \$75,000,000 Gas Works Revenue Bonds, Twelfth Series B during fiscal year 1990 and reflects the partial refunding of the Eighth Series Bonds with the proceeds of the Twelfth Series A Bonds.

Operating Forecast and Rate Increases

Included in the operating forecast prepared in connection with the operating budget for fiscal year 1990 are proposed base rate increases of \$31,000,000 during fiscal year 1991 (representing an increase of 6.4% over fiscal year 1990 revenues) and of \$27,000,000 during fiscal year 1993 (representing an increase of 4.9% over fiscal year 1992 revenues). These base rate increases are estimated to be required to produce additional revenues sufficient to meet the anticipated requirements of PGW's capital improvement program, operating expenses and Rate Covenant requirements. The operating forecast does not take into account additional possible savings from implementation of the remaining recommendations of the management audit. Since the fiscal year 1990 operating budget and the fiscal year 1991-1993 operating budget forecasts are merely estimates which are subject to significant changes over time there can be no assurance that the estimated rate increases will not be subject to revision or elimination or that any rate increases proposed by PGW will be approved by the Gas Commission or implemented so as to produce the projected base rate revenue increases.

Sales

PGW's operating budget for fiscal 1990 anticipates total operating revenues from the sale of gas of \$487,102,000. The forecast of sales is based on an analysis of historical usage patterns and utilizes a normal (average) weather pattern containing 4,600 degree days. Factors considered include the actual growth or decline in number of customers, changes in rates of consumption by customers in each rate classification, the existing and anticipated price advantage of natural gas over alternative fuels, the availability of natural gas, and the likelihood of PGW's participation in new construction and rehabilitation projects. The operating budget also includes anticipated Load Balancing Service (LBS) sales which are interruptible sales to industrial and commercial users. LBS sales are based upon the availability of gas for sale at a competitive price after the demand for gas by all other classes of customers has been satisfied.

Total sales are expected to increase by 2.9 bcf in fiscal year 1990 or 4.1 percent from fiscal year 1989. Steam system conversions are partially responsible for this projected growth. Annual firm sales for fiscal 1990 are budgeted at 62.7 bcf, an increase of .7 bcf over fiscal 1989. Interruptible sales are expected to reach 12.8 bcf in fiscal 1990, representing a growth of 21.3 percent over 1989.

PGW anticipates that there will not be a significant increase in customers in the near future. The residential customer base will remain relatively stable despite the lack of growth in the City's population. Commercial and light industrial customer growth is expected to be stronger resulting from new construction, rehabilitation, conversion to gas from other sources and the introduction of new gas technologies such as air conditioning and, possibly, cogeneration. Included in PGW's sales forecast are the conversion of primarily commercial customers from the Philadelphia center city steam loop. PGW's Marketing Department estimates that approximately 50% of the steam loop will be converted to gas by 1994. To enhance this effort, PGW has recently begun to market gas-fired chiller/heaters rather than straight boiler conversions to this group of customers which would provide even greater savings to these customers relative to their current energy costs. Increases in interruptible sales are difficult to predict since they are partly opportunistic and depend on many factors outside of PGW's control including the price of oil and the number of experienced heating degree days. Total PGW interruptible sales have fluctuated between 10.4 and 12.6 bcf/yr. since 1984 compared to a high water mark of 21 bcf in 1980. For discussion of PGW's sales in prior years, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY STATEMENT OF INCOME."

Capital Improvement Program

The operating budget and forecast also incorporates assumptions about anticipated expenditures for the Capital Improvement Program over the next six fiscal years. PGW determines its capital improvement requirements from projected customer additions, pipeline gas availability, peak day gas requirements, enforced relocation due to highway and bridge construction and the need to maintain its plant and equipment in a safe, adequate and reliable manner. The capital budget and forecast includes the automated meter reading program which is planned to take 11 years to complete and which the management audit also recommended. Other major investments included in the Capital Improvement Program over the next six fiscal years are for additions and replacements to the distribution system and replacement of liquefaction facilities at the 25 year old Richmond LNG plant. Other major proposed Richmond plant expenditures are construction of an iron and pipe shop building and an LNG vapor bypass of the north yard facilities which will provide the operational flexibility needed to meet distribution system flow requirements.

PGW plans to spend approximately \$14.8 million for the initiation of the automatic meter reading (AMR) program. Under the proposed implementation plan 50,000 customers per year over the next 11 years would be converted to AMR. If implemented as proposed, PGW will be among the first utilities in the United States to convert to AMR on a large scale. Additional amounts are expected to be spent on new and replacement meters, regulators, and shop equipment. Distribution items account for 62.9

percent of the Capital Improvement Program budget, customer service for 12.7 percent, gas supply for 14.2 percent, transportation for 4.7 percent and other items for 5.5 percent.

In fiscal year 1990, the City on behalf of PGW expects to issue approximately \$75 million Gas Works Revenue Bonds, Twelfth Series B to pay for various capital expenditures. PGW's financial forecast for fiscal years 1990-1994 anticipates the issuance of Thirteenth Series Gas Works Revenue Bonds in 1991, Fourteenth Series Gas Works Revenue Bonds in 1992 and Fifteenth Series Gas Works Revenue Bonds in 1994, each in the aggregate principal amount of approximately \$75,000,000.

GAS SUPPLY AND REGULATION OF FEEDSTOCKS

PGW has contracts for natural gas with two major interstate pipeline companies which account for virtually all of PGW's gas supplies. In addition, it relies on pipeline storage gas deliveries under storage contracts with the same pipeline companies. It also owns and operates supplemental LNG, SNG and propane-air facilities to meet incremental demand in excess of pipeline and storage supplies. Portions of its SNG facility are not presently in use for the production of gas. A preliminary decision has been made to discontinue maintenance on the unused portion of the plant. A decision on the most effective disposition/disposal of the unused portions of the plant will be made in the future. PGW's supplies of natural gas, LNG and propane-air are adequate to meet its projected demand under either normal or design (colder-than-normal) conditions through 1992. The price and supply of interstate natural gas and certain feedstocks for PGW gas manufacturing facilities are regulated by the Federal Energy Regulatory Commission. Pursuant to legislation included in the National Gas Policy Act, regulation of the price of interstate natural gas was phased out gradually and terminated on January 1, 1985.

INSURANCE

PGW is principally insured through insurance carriers. PGW's property is insured against the risk of loss or damage, without aggregate limits, in the amount of \$250 million per occurrence with a \$100,000 deductible; subject, however, to an annual aggregate limit of \$100 million for earthquake and an annual aggregate limit of \$50 million for flood, generally, and to lower flood limits as to the Richmond Plant. In addition, PGW maintains boiler and machinery, blanket crime, and other forms of property insurance. With respect to incidents arising on or after October 1, 1986, PGW has maintained policies of liability insurance insuring against the risk of damage or injury to the public for \$25 million in excess of \$500,000 for any one incident, generally without aggregate limits, and for incidents exceeding the foregoing coverage, there is aggregate coverage of \$175 million. PGW also maintains \$25 million of workers' compensation insurance in excess of \$500,000 per incident for on-duty injuries to employees. A reserve is also maintained by periodic charges to income to cover current estimated losses which are excluded from coverage under the deductible provisions of the liability insurance policies. Charges against the reserve are made as claims are settled.

LITIGATION

A gas explosion in fiscal year 1979 resulted in personal injury, deaths and substantial property damage. Claims related to this incident have been made against PGW. Certain of the claims are for punitive damages, which may be outside the scope of PGW liability insurance coverage, which has a \$500,000 deductible. Although discovery has not been completed, PGW is not presently aware of any facts which would give rise to awards for punitive damages.

PGW is a defendant in three additional cases arising from explosions in which damages claimed exceed the \$500,000 deductible portion of its insurance coverage. PGW's liability would be limited in each case to its \$500,000 deductible. In one case, settlement is expected for much less than \$500,000. The other cases are in the discovery stage, and their outcome cannot be determined at this time.

Four explosions occurred in 1988, as a result of which claims for property damage and personal injury for two occurrences are expected to exceed \$500,000; claims for property damage and personal injury for the two remaining occurrences are expected to aggregate \$500,000. PGW liability in each occurrence is limited to its \$500,000 deductible.

One explosion in 1989 and one in 1990 are each expected to generate claims exceeding PGW's insurance deductible limit of \$500,000. Another explosion in 1990 is expected to generate claims below the \$500,000 deductible limit.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain terms and conditions, to purchase the Twelfth Series A Bonds from the City at a purchase price of \$45,795,352.04 (including an original issue discount of \$3,983,850.00), plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Twelfth Series A Bonds if any are purchased. The Twelfth Series A Bonds may be offered and sold to certain dealers and others at yields or prices lower than the offering price stated on the cover page hereof, and such public offering price may be changed, from time to time, by the Underwriters without prior notice.

RATINGS

Moody's Investors Service and Standard & Poor's Corporation have given the Twelfth Series A Bonds ratings of "Aaa" and "AAA", respectively, based upon the issuance of the Municipal Bond Insurance Policy by AMBAC. Any explanation concerning the significance of such ratings must be obtained from the rating agencies. Certain information and materials concerning the Twelfth Series A Bonds and AMBAC were furnished to the rating agencies by PGW, the City, AMBAC and others. If, in their judgment, circumstances so warrant, the rating agencies may lower or withdraw their respective ratings. Should a downward change or withdrawal of either rating occur, it could have an adverse effect on the liquidity and the price of the Twelfth Series A Bonds in the secondary market.

TAX MATTERS

Tax Exemption-Opinion of Co-Bond Counsel

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the Twelfth Series A Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the Twelfth Series A Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the City subsequent to the issuance and delivery of the Twelfth Series A Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The City has covenanted to comply with such requirements.

In the opinion of Co-Bond Counsel, interest on the Twelfth Series A Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Co-Bond Counsel is subject to the condition that the City comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Twelfth Series A Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Twelfth Series A Bonds to be so includable in gross income retroactive to the date of issuance of the Twelfth Series A Bonds. The City has covenanted to comply with all such requirements. Interest on the Twelfth Series A Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that

interest on the Twelfth Series A Bonds is a component of a corporate holder's "adjusted net book income" (or "adjusted current earnings" for taxable years beginning after December 31, 1989), a portion of that interest may be subject to the corporate alternative minimum tax. Co-Bond Counsel express no opinion regarding certain collateral federal tax consequences relating to the Twelfth Series A Bonds or the receipt of interest thereon. See Co-Bond Counsel's discussion of "Collateral Federal Tax Consequences" below.

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof, the Twelfth Series A Bonds, their transfer and the income therefrom (including any profits made on the sale thereof) are free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the Twelfth Series A Bonds, their transfer, the income therefrom or profits made on the sale thereof. Specifically, the Twelfth Series A Bonds, their transfer, and the income therefrom (including any profits made on the sale thereof), are exempt from personal property taxes in Pennsylvania, the Pennsylvania personal income tax and the Pennsylvania corporate net income tax.

Tax Treatment of Original Issue Discount Bonds

The initial public offering prices of the Capital Appreciation Bonds and those Current Interest Bonds scheduled to mature on May 15, 2012 (the "Discount Bonds") are less than the amount payable on such Twelfth Series A Bonds at stated maturity. The difference, in each case, between the initial public offering price of the Capital Appreciation Bonds and Discount Bonds and the principal amount payable thereon at maturity constitutes interest. A portion of such interest (the "Original Issue Discount"), depending on the holding period of any Capital Appreciation Bond or Discount Bond by each owner, will, upon the disposition of such Capital Appreciation Bond or Discount Bond by each owner (including redemption or payment at maturity), be treated as interest excludable from gross income for Federal income tax purposes. Such interest on a Discount Bond is considered to be accreted actuarially in accordance with the constant interest method over the life of the Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond. Such interest is treated as accruing on the Capital Appreciation Bonds in an amount equivalent to the increase in the Accreted Values of the Capital Appreciation Bonds during the semiannual accrual periods on May 15 and November 15 of each year, commencing May 15, 1990. The table of Accreted Values contained under the caption "DESCRIPTION OF THE TWELFTH SERIES A BONDS" herein can be used to determine the amount of semiannual accrual for purposes of determining the amount of such accreted interest. Between the semiannual accrual periods of the Capital Appreciation Bonds, a ratable portion of the increase in the Accreted Values between such semiannual accrual periods shall be taken into account as the accreted interest. Such interest will be subject to certain collateral federal tax consequences as described below. For the purpose of determining the adjusted basis of a Capital Appreciation Bond or Discount Bond, the holder thereof will increase his adjusted basis of the Capital Appreciation Bond or Discount Bond by the amount of Original Issue Discount which shall have economically accrued under the constant interest method as tax-exempt interest income during the period such Capital Appreciation Bond or Discount Bond was held by the holder. The adjusted basis will be used to determine taxable gain or loss upon disposition (including redemption or payment at maturity).

Owners of any of the Capital Appreciation Bonds or Discount Bonds should consult with their own tax advisors with respect to the consequences of owning such Capital Appreciation Bonds or Discount Bonds, including the effect of such ownership under applicable state and local law.

Collateral Federal Tax Consequences

Alternative Minimum Tax and Environmental Tax. The Code includes, for purposes of the corporate alternative minimum tax, a preference item consisting of, generally, one-half of the excess of a corporation's "adjusted net book income" (i.e., the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement with certain adjustments) over its "alternative minimum taxable income" (computed without regard to this particular preference item and the alternative tax net operating loss deduction). For taxable years beginning after December 31, 1989, in lieu of the above, alternative minimum taxable income is increased by seventy-five percent of the amount by which "adjusted current earnings" exceeds alternative minimum taxable income. Thus, to the extent that tax-exempt interest (including interest on the Twelfth Series A Bonds) is a component of a corporate holder's "adjusted net book income" (or "adjusted current earnings" for taxable years beginning after December 31, 1989), a portion of that interest may be subject to an alternative minimum tax.

In addition, Section 59A of the Code imposes a tax on corporations equal to 0.12 percent of the excess of "modified alternative minimum taxable income" over \$2,000,000 (the Environmental Tax). Modified alternative minimum taxable income is defined generally in the same manner as "alternative minimum taxable income." The Environmental Tax is imposed whether or not the taxpayer is subject to the corporate alternative minimum tax and is deductible from gross income. To the extent that tax-exempt interest (including interest on the Twelfth Series A Bonds) is a component of a corporate holder's "adjusted net book income" (or "adjusted current earnings" for taxable years beginning after December 31, 1989) and thus a component of a corporate holder's "modified alternative minimum taxable income," a portion of that interest may be subject to the Environmental Tax.

Branch Profits Tax. Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a "branch profits tax" equal to thirty percent (30%) of the corporation's "dividend equivalent amount" for the taxable year. The term "dividend equivalent amount" includes interest on tax-exempt obligations.

S Corporations with Passive Investment Income. Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect and that have "passive investment income." For purposes of Section 1375 of the Code, the term "passive investment income" includes interest on the Twelfth Series A Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are "passive investment income." Thus, interest on the Twelfth Series A Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

Social Security and Railroad Retirement Benefits. Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the "benefits") may be includable in gross income. A portion of the benefits is includable in gross income if the sum of (i) the "modified adjusted gross income" of the taxpayer for the taxable year, plus one-half of the benefits received during the taxable year, exceeds (ii) the "base amount" (i.e., \$25,000; \$32,000 in the case of a taxpayer filing a joint return; and zero in the case of a married individual who does not file a joint return and does not live apart from his spouse at all times during the taxable year). The term "modified adjusted gross income" is generally defined as "adjusted gross income" increased by the amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax (including interest on the Twelfth Series A Bonds).

Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations. The Code, subject to limited exceptions, denies the interest deduction for indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or carry tax-exempt obligations, such as the Twelfth Series A Bonds. The denial to such institutions is one hundred percent (100%) of the deduction for interest paid on funds allocable to tax-exempt obligations.

Property or Casualty Insurance Company. The Code provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

No assurance can be given that legislation will not be proposed and enacted into law in the future which would cause the interest on tax-exempt obligations to be subject directly or indirectly to federal income taxation or adversely affect the market price of tax-exempt obligations, or otherwise prevent the holders of tax-exempt obligations from realizing the full current benefit of the status of the interest thereon.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance and sale of the Twelfth Series A Bonds are subject to the approval of the legality of the issuance of the Twelfth Series A Bonds by Dilworth, Paxson, Kalish & Kauffman and Hope C. Lefeber, Esquire, both of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed form of such opinion is included herein as Appendix E. Certain legal matters will be passed upon for the Underwriters by Fineman & Bach, P.C. and Evans & Williams, both of Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the City by the Office of the City Solicitor and for PGW by Obermayer, Rebmann, Maxwell & Hippel, of Philadelphia, Pennsylvania. Dilworth, Paxson, Kalish & Kauffman has represented PGW in various matters, including matters before the Federal Energy Regulatory Commission and the Philadelphia Gas Commission, and certain other matters unrelated to this financing.

EXPERTS

The financial statements of PGW as of August 31, 1989 and for the year then ended have been audited by Deloitte Haskins & Sells, independent certified public accountants, as set forth in their report in Appendix A. Such audited financial statements of PGW have been included in this Official Statement in reliance upon the report of Deloitte Haskins & Sells and upon their authority as experts in accounting and auditing. The financial statements of PGW as of August 31, 1988 and the year then ended have been audited by Coopers & Lybrand, independent certified public accountants, as set forth in their report in Appendix A.

NO LITIGATION CERTIFICATE

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Twelfth Series A Bonds, or in any way contesting or affecting the validity of the Twelfth Series A Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Twelfth Series A Bonds or the existence or powers of the City.

Upon the delivery of the Twelfth Series A Bonds, the Office of the City Solicitor will furnish a certificate in form satisfactory to Co-Bond Counsel, to the effect, among other things, that, except for litigation which in the opinion of the Office of the City Solicitor is without merit and except as disclosed in the Official Statement, no litigation or other legal proceedings are pending, or, to the best of its knowledge, threatened, to restrain or enjoin the issuance or delivery of the Twelfth Series A Bonds or the collection or pledge of any monies provided for the payment of the Twelfth Series A Bonds or contesting or affecting the validity of the Twelfth Series A Bonds or contesting the powers of the City or its authority for the issuance of such Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (a) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the investments held pursuant to the Escrow Deposit Agreement to pay (1) interest when due on all refunded Eighth Series Bonds from May 15, 1990 to May 15, 1995, inclusive; and (2) on May 15, 1995 the principal amount and applicable redemption premium of \$9,520,000 principal amount of the outstanding Eighth Series Bonds maturing on May 15, 2005, and \$31,165,000 principal amount of the outstanding Eighth Series Bonds maturing on May 15, 2015, and (b) the mathematical computations supporting the conclusion that the Twelfth Series A Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, will be verified solely as to mathematical accuracy by DOBBS, RAM & Co. of Atlanta, Georgia.

NEGOTIABLE INSTRUMENTS

The Act provides that bonds issued thereunder shall have all the qualities and incidents of securities under the Uniform Commercial Code of the Commonwealth of Pennsylvania and shall be negotiable instruments.

CERTAIN REFERENCES

All summaries of the provisions of the Twelfth Series A Bonds and the security therefor, the Act, the General Ordinance and the Twelfth Supplemental Ordinance set forth herein and in Appendix B hereof, and all summaries and references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

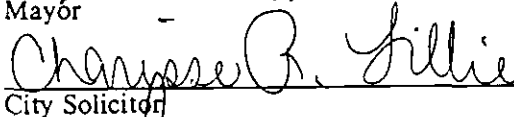
The Official Statement has been duly executed and delivered by the following officers on behalf of the City of Philadelphia.

CITY OF PHILADELPHIA

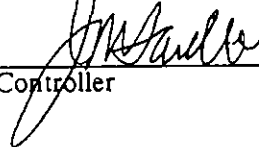
By:



Mayor



City Solicitor



City Controller

Approved:



Director of Finance

APPENDIX A

FINANCIAL STATEMENTS

PHILADELPHIA GAS WORKS
YEARS ENDED AUGUST 31, 1989 AND 1988

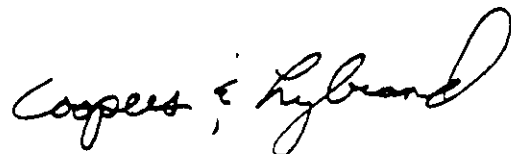
REPORT OF INDEPENDENT ACCOUNTANTS

To the Controller of the
City of Philadelphia and the
Chairman and Members of the
Philadelphia Gas Commission
Philadelphia, Pennsylvania

We have audited the accompanying balance sheet of the Philadelphia Gas Works as of August 31, 1988 and the related statements of income, changes in City equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Company'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Philadelphia Gas Works as of August 31, 1988 and the results of its operations and changes in its financial position for the year then ended in conformity with generally accepted accounting principles.



2400 Eleven Penn Center
Philadelphia, Pennsylvania
October 28, 1988

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PHILADELPHIA GAS WORKS

Financial Statements for the Years
Ended August 31, 1989 and 1988,
Required Pension Supplementary
Information and Independent
Auditors' Report

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Deloitte Haskins-Sells

INDEPENDENT AUDITORS' REPORT

2500 Three Mellon Bank Center
Philadelphia, Pennsylvania 19102-2425
(215) 299-4500
Telex: 757720
ITT Telex: 4995607

To the Controller of the
City of Philadelphia and the
Chairman and Members of the
Philadelphia Gas Commission
Philadelphia, Pennsylvania

We have audited the accompanying balance sheet of the Philadelphia Gas Works (the "Company") as of August 31, 1989 and the related statements of income, changes in City equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Philadelphia Gas Works for the year ended August 31, 1988 were audited by other auditors whose report, dated October 28, 1988, expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements for 1989 present fairly, in all material respects, the financial position of the Philadelphia Gas Works as of August 31, 1989, and the results of its operations and changes in its financial position for the year then ended in conformity with generally accepted accounting principles.

The supplementary information of pension funding progress on page 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte Haskins + Sells

Deloitte Haskins & Sells
November 3, 1989

PHILADELPHIA GAS WORKS

BALANCE SHEETS
August 31, 1989 AND 1988

(thousands of dollars)

(thousands of dollars)

ASSETS	Notes	1989	1988	EQUITY AND LIABILITIES	Notes	1989	1988
Utility plant, at original cost:	1			City equity	2	\$201,381	\$200,856
In service		\$816,951	\$765,785				
Under construction		<u>23,297</u>	<u>21,816</u>				
Total		840,248	787,601	Long-term debt:	7		
Less accumulated depreciation		<u>238,472</u>	<u>220,978</u>	Revenue bonds		513,933	517,275
				Subordinate lease obligation		<u>24,170</u>	<u>-</u>
Utility plant, net		<u>601,776</u>	<u>566,623</u>	Total long-term debt		<u>538,103</u>	<u>517,275</u>
Sinking fund, revenue bonds	3,7	<u>70,229</u>	<u>67,148</u>	Current liabilities:			
Capital improvement funds	3,7	<u>4,646</u>	<u>32,230</u>	Notes payable	5	82,000	34,375
Current assets:	3			Current portion of long-term debt:	7		
Cash		57	598	Revenue bonds		21,414	19,878
Temporary investments		<u>87,740</u>	<u>39,457</u>	Subordinate lease obligation		<u>361</u>	<u>-</u>
		<u>87,797</u>	<u>40,055</u>	Accounts payable		24,620	24,334
Accounts receivable:				Customers' deposits		3,685	3,331
Customers		87,994	83,734	Other current liabilities and deferred credits	1,6,10	18,366	11,582
Others		4,132	1,929	Accrued accounts:			
Accrued gas revenues	1	6,450	6,750	Interest, taxes and wages		13,836	14,518
Accumulated provision for uncollectible accounts		<u>(39,181)</u>	<u>(40,851)</u>	Distribution to the City	2	<u>3,000</u>	<u>3,000</u>
Accounts receivable, net		59,395	51,562	Total current liabilities		<u>167,282</u>	<u>111,018</u>
Materials and supplies	1	42,346	47,419	Other liabilities and deferred credits	10	<u>15,158</u>	<u>6,855</u>
Other current assets and deferred debits	10	<u>6,043</u>	<u>3,778</u>	Commitments and contingencies	10	<u>-</u>	<u>-</u>
Total current assets		<u>195,581</u>	<u>142,814</u>	Total equity and liabilities		<u>\$921,924</u>	<u>\$836,004</u>
Unamortized bond issuance costs	1	<u>5,687</u>	<u>4,999</u>				
Unamortized losses on reacquired debt	1,7	<u>20,538</u>	<u>8,249</u>				
Other assets and deferred debits	4,10	<u>23,467</u>	<u>13,941</u>				
Total assets		<u>\$921,924</u>	<u>\$836,004</u>				

PHILADELPHIA GAS WORKS

STATEMENTS OF INCOME
for the years ended August 31, 1989 and 1988

		(thousands of dollars)	
	Notes	1989	1988
Operating revenues:	1,6,7		
Non-heating		\$ 87,607	\$ 93,115
Heating		379,673	372,007
Unbilled gas adjustment		(300)	(850)
Total gas revenues		<u>466,980</u>	<u>464,272</u>
Other operating revenues		<u>5,726</u>	<u>5,295</u>
Total operating revenues		<u>472,706</u>	<u>469,567</u>
Operating expenses:			
Natural gas	1,6	238,087	229,284
Other raw material		(155)	549
Gas processing		24,565	24,062
Customer service		20,382	20,786
Distribution		16,244	16,562
Collection		7,132	8,277
Meter reading		5,954	6,035
Appropriation for uncollectible reserve		19,297	20,698
Customer relations		8,306	8,677
Customer accounting		2,984	3,168
Marketing		2,979	4,331
Administrative and general		27,185	28,413
Pensions	1,9	21,497	17,016
Taxes		<u>5,831</u>	<u>6,398</u>
Total except depreciation		<u>400,288</u>	<u>394,256</u>
Depreciation	1	21,887	23,615
Less depreciation distributed through clearing accounts	1	<u>2,872</u>	<u>2,460</u>
Total		<u>19,015</u>	<u>21,155</u>
Total operating expenses		<u>419,303</u>	<u>415,411</u>
Operating income		53,403	54,156
Interest and other income	1	<u>12,858</u>	<u>15,940</u>
Income before interest		<u>66,261</u>	<u>70,096</u>
Interest:			
Long-term debt		40,815	42,474
Other		8,104	7,291
Allowance for funds used during construction	1	<u>(1,183)</u>	<u>(1,190)</u>
Total interest		<u>47,736</u>	<u>48,575</u>
Net income		18,525	21,521
Distribution to City of Philadelphia	2	<u>18,000</u>	<u>18,000</u>
Transferred to City equity		<u>\$ 525</u>	<u>\$ 3,521</u>

See notes to financial statements.

PHILADELPHIA GAS WORKS

STATEMENTS OF CHANGES IN CITY EQUITY
for the years ended August 31, 1989 and 1988

	(thousands of dollars)	
	<u>1989</u>	<u>1988</u>
Balance, beginning	\$200,856	\$197,335
Transferred from statement of income	<u>525</u>	<u>3,521</u>
Balance, ending	<u>\$201,381</u>	<u>\$200,856</u>

See notes to financial statements.

PHILADELPHIA GAS WORKS

STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended August 31, 1989 and 1988

	(thousands of dollars)	
	<u>1989</u>	<u>1988</u>
Source of working capital:		
Operations:		
Net income	\$ 18,525	\$ 21,521
Items not requiring (providing) working capital:		
Depreciation and amortization	27,814	28,405
Appropriation to reserve for injuries and damages	545	2,605
Allowance for funds used during construction	<u>(1,380)</u>	<u>(1,625)</u>
Working capital provided by operations	45,504	50,906
Proceeds from sale of equipment	175	82
Proceeds from issuance of long-term debt	157,520	-
Costs of long-term debt issuances and losses on reacquired debt	(16,033)	170
Sinking fund withdrawals (net)	-	1,524
Capital improvement fund withdrawals	27,584	53,040
Contributions in aid of construction	<u>2,233</u>	<u>5,213</u>
Total sources of working capital	<u>216,983</u>	<u>110,935</u>
Applications of working capital:		
Construction expenditures	55,826	73,388
Cost of removal of plant in service	2,242	2,819
Reduction of long-term debt	136,692	20,840
Payment of injuries and damages claims	1,534	2,108
Distribution to City of Philadelphia	18,000	18,000
Sinking fund deposits (net)	3,081	-
Payment of waste removal costs	1,915	3,162
Capital/reimbursable expenditures (net)	<u>1,190</u>	<u>1,842</u>
Total applications of working capital	<u>220,480</u>	<u>122,159</u>
(Decrease) in working capital	<u>(3,497)</u>	<u>(11,224)</u>
Summary of net changes in working capital:		
Increase (decrease) in current assets:		
Cash and temporary investments	47,742	(45,493)
Accounts receivable (net)	7,833	(10,523)
Materials and supplies	(5,073)	4,325
Other current assets and deferred debits	<u>2,265</u>	<u>1,270</u>
Increase (decrease) in current assets	<u>52,767</u>	<u>(50,421)</u>
Increase (decrease) in current liabilities:		
Notes payable	47,625	(48,525)
Current portion of long-term debt	1,897	3,749
Accounts payable	286	868
Customers' deposits	354	426
Other current liabilities and deferred credits	6,784	3,782
Accrued interest, taxes and wages	<u>(682)</u>	<u>503</u>
Increase (decrease) in current liabilities	<u>56,264</u>	<u>(39,197)</u>
(Decrease) in working capital	<u>\$(3,497)</u>	<u>\$(11,224)</u>

See notes to financial statements.

PHILADELPHIA GAS WORKS

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 1989 and 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods employed by the Philadelphia Gas Works (Company) are prescribed by the City of Philadelphia (City) and, in all material respects, are in accordance with generally accepted accounting principles. The principal accounting policies within this framework are described as follows:

Regulation

The Company is subject to the rules and regulations of the Philadelphia Gas Commission (PGC) and generally maintains its accounts in accordance with the prescribed Uniform System of Accounts.

On June 3, 1988 the Company filed with the PGC its fiscal year 1989 operating budget and a request to increase annual base revenues \$49,000,000. On October 13, 1988, the PGC rejected the Company's June 3, 1988 request for a \$49,000,000 base rate increase and established rates reflecting a \$2,000,000 decrease in base rates.

Utility Plant

Utility plant is stated at original cost. Utility plant in service includes a Synthetic Natural Gas Plant (SNG) that is being maintained primarily in a reserve status. At August 31, 1989 and 1988, the net book value of the SNG plant was \$50,113,000 and \$53,239,000, respectively.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is an estimate of the cost of funds used for construction purposes. The AFUDC as calculated on borrowed funds reduces interest expense, and that derived from internally generated funds is reported as other income. The AFUDC rate applied to construction work in progress in 1989 was 7.65% and 7.56% in 1988.

Property Additions, Retirements, Sales, and Maintenance

The cost of additions, replacements and betterments are capitalized and included in the utility plant accounts. Costs of depreciable units of property sold or retired are eliminated from the utility plant accounts and charged to accumulated depreciation. Gains and losses on sales of utility plant are included in other income. Normal repairs, maintenance, and the cost of minor property items are charged to operating expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd)

Depreciation

Depreciation is provided on a straight-line method using rates applied to each asset category. A depreciation study undertaken in 1987 and utilized during the year ended August 31, 1988 established rates depreciating utility plant over its revised remaining useful life and included a net salvage component.

As part of its rate decision of October 13, 1988 the PGC disallowed the accrual of the net salvage component in depreciation. Consequently, beginning with the year ended August 31, 1989, depreciation rates were modified to remove this component and the cost of removal net of salvage is now being recognized as an expense as incurred. The effect of this change was a decrease in depreciation expense of approximately \$3.9 million for the year ended August 31, 1989.

Accrued Gas Revenues

Estimated revenues from gas distributed and unbilled are accrued and included in income.

Gas Cost Rate (GCR)

The GCR is designed to provide a mechanism to recover, on an annualized and level basis, the estimated difference between actual purchased gas and raw material cost and the amount of cost included in base rates. This difference results in an underbilling or overbilling of costs at the end of a fiscal period. Overbillings are liabilities at the end of the fiscal year in which they occur while underbillings are deferred debits until billed. The GCR is adjusted in the subsequent fiscal year to reflect the underbillings or overbillings. Changes in the GCR rate offset the amounts of gas revenues and natural gas operating expenses but do not affect operating income or net income. (Also, see Note 6).

On July 26, 1988 the Company filed with the PGC its annual request to reset the GCR billing rate to a negative \$.0337/Mcf for the fiscal year commencing September 1, 1988.

In August, 1988 the PGC authorized changing the GCR rate from a negative \$.4419/Mcf to a negative \$.0655/Mcf. This rate was approved on August 15, 1988 with an effective date of September 1, 1988.

On October 3, 1989 the PGC authorized a continuance of the GCR rate at a negative \$.0655/Mcf.

Materials and Supplies

Materials and supplies, consisting primarily of fuel stock, gases stored to meet peak demand requirements and spare parts, are stated at the lower of average cost or market.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd)

Debt Discount and Expense

Discount and expenses arising from the issuance of revenue bonds are amortized in direct proportion to the reduction of the outstanding balances over the term of the particular bond.

Loss on Reacquired Debt

Losses on reacquired debt are deferred and amortized to interest expense over the life of the refunding issue as permitted by the PGC.

Pensions

The Company has a noncontributory pension plan covering substantially all employees and providing for retirement payments at age sixty-five or earlier under various options. In accordance with Resolutions of the PGC, Ordinances of City Council, and as prescribed by the City's Director of Finance, the plan is being funded with contributions by the Company to the Sinking Fund Commission of the City. In addition, current payments to retired employees and other beneficiaries are being made directly by the Company, rather than from the assets of the pension fund, and are included as part of pension expense.

In December 1988, the Company, on the basis of an ordinance approved by City Council, offered an Early Retirement Incentive Program to employees aged 55 or older with a minimum 15 years of credited service. The incentives offered to induce participation included no actuarial early retirement penalties and a 2-year increase in credited service. The increased pension benefit offered was available as either an increase in the monthly benefit or a lump-sum distribution of the present value of the actuarially determined benefit increase. (Also, see Note 9).

Reserve for Injuries and Damages

The Company is principally insured through insurance carriers; however, a reserve is maintained by periodic charges to income to cover estimated losses for known occurrences which are excluded under the deductible provisions of such insurance policies and for significant incidents that may have occurred but not been reported under claims-made insurance policies. Charges against the reserve are made as claims areas settled.

Presentation

Certain 1988 amounts have been reclassified to conform with present year presentation.

2. OWNERSHIP AND MANAGEMENT:

The Company is owned by the City. As of January 1, 1973, under terms of a two-year agreement automatically extended for successive two-year periods unless cancelled upon 90 days notice by the City, the Company is being managed by the Philadelphia Facilities Management Corporation (PFMC). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed \$300,000 annually. The agreement requires the Company to make annual payments of \$18,000,000 to the City.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include \$6,114,000 in 1989 and \$6,306,000 in 1988 relating to sales to the City. Water and sewer services and licenses are purchased from the City. Such purchases totaled \$374,000 in 1989 and \$334,000 in 1988.

Certain activities of the Philadelphia Gas Commission are paid for by the Company. Such payments totaled \$961,000 in 1989 and \$605,000 in 1988.

Company employees are subject to payroll wage taxes imposed by the City. Wage taxes paid to the City totaled \$4,341,000 in 1989 and \$4,620,000 in 1988.

3. CASH AND INVESTMENTS:

A. Cash

The aggregated carrying amount of bank balances at August 31, 1989 and 1988 were \$4,502,000 and \$312,000, respectively. All of the deposited funds are in depositories insured by a federal agency in addition to being collateralized in accordance with City and State statutes. Federal depository insurance on these balances at August 31, 1989 and 1988 was \$568,000 and \$134,000, respectively. The composition of the Company's deposits throughout the year ended August 31, 1989 was not significantly different from that at year-end.

B. Investments

Statutes authorize the Company to invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities, and repurchase agreements.

For the year ended August 31, 1989, the Company operated in all material respects within the Statutes set forth above.

3. CASH AND INVESTMENTS: (Cont'd)

The Company's investments are categorized below to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Company or its agent in the Company's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Company's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Company's name. There were no Category 2 investments at August 31, 1989 and 1988. Category 3 investments were repurchase agreements entered into on August 30 and 31 of each year which matured within the following 10 days.

	<u>REPURCHASE AGREEMENTS</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>Category 2</u>	<u>3</u>		
August 31, 1989	\$69,440,000	\$ -	\$18,300,000	\$87,740,000	\$87,740,000
August 31, 1988	\$36,457,000	\$ -	\$ 3,000,000	\$39,457,000	\$39,457,000

The Company's Sinking Fund deposits are maintained by the City and are considered Category 1 investments. For year ended August 31, 1988 Capital Improvement Fund deposits were maintained by the City and were considered Category 1 investments. For year ended August 31, 1989, such deposits are maintained in the Trust Department of a bank and not in the Company's name and are classified as Category 3 investments. The amount of the Company's investments in the various categories of credit risk during the year ended August 31, 1989 was not significantly different from the categorization at the balance sheet date.

4. DEFERRED WASTE REMOVAL COSTS:

In compliance with the rate order issued by the PGC on March 3, 1987, the Company has deferred recognition of the expense involved in removing residual waste material from its gas production plants. These costs are being amortized to expense over a three year period beginning in fiscal 1987. The unamortized remaining amount included in other assets as of August 31, 1989 and 1988 was \$2,331,000 and \$3,286,000, respectively.

5. NOTES PAYABLE:

Pursuant to the provisions of certain Ordinances and Resolutions of the City, the Company may sell short-term notes in a principal amount which, together with interest, may not exceed \$85,000,000 outstanding at any one time. These notes are intended to provide additional working capital. They are supported by an irrevocable letter of credit and are collateralized by a subordinated security interest in the Company's revenues.

The notes outstanding at August 31, 1989 and 1988 have an average weighted interest rate of approximately 6.4% and 5.5%, respectively, and an average term to maturity of 174 days and 18 days, respectively. Principal amounts outstanding at August 31, 1989 and 1988 were \$82,000,000 and \$34,375,000, respectively.

6. OTHER CURRENT LIABILITIES AND DEFERRED CREDITS:

During the years ended August 31, 1989 and 1988, the Company's billed gas costs under the GCR Tariff exceeded its actual gas costs by \$3,817,000 and \$1,528,000, respectively. Accordingly, the Company deferred this excess which is included in other current liabilities and deferred credits. The GCR Tariff mechanism amortizes the liability through a reduction in rates during the subsequent fiscal year.

7. LONG-TERM DEBT:

Revenue Bonds

The following summary of revenue bond debt consists primarily of term and serial bonds issued by the City under agreements whereby the Company must reimburse the City for the principal and interest payments required by the bond ordinances:

	August 31, 1989			August 31, 1988		
	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
	(Thousands of Dollars)					
Revenue Bonds.....	\$ 22,430	\$525,045	\$547,475	\$ 20,840	\$528,750	\$549,590
Unamortized Debt Discount.	(1,016)	(11,112)	(12,128)	(962)	(11,475)	(12,437)
Total	<u>\$ 21,414</u>	<u>\$513,933</u>	<u>\$535,347</u>	<u>\$ 19,878</u>	<u>\$517,275</u>	<u>\$537,153</u>

7. LONG-TERM DEBT: (Cont'd)

Principal maturities during the next five years are \$22,430,000 in 1990; \$26,260,000 in 1991; \$27,945,000 in 1992; \$29,750,000 in 1993; \$31,735,000 in 1994.

Interest expense related to revenue bonds outstanding during the next five years is \$40,759,000 in 1990; \$36,212,000 in 1991; \$34,529,000 in 1992; \$32,697,000 in 1993; \$30,698,000 in 1994; and \$332,092,000 thereafter.

Under the authority of the General Gas Works Revenue Bond Ordinance of 1975, the City has issued eleven series of Gas Works Revenue Bonds consisting of serial and term bonds. Proceeds of all series of Revenue Bonds were applied to reduce capital improvement loans from the City which had been previously approved by the voters, but for which bonds had not been issued, to fund future capital improvements, or to refund bonds previously issued. The serial bonds are not subject to redemption prior to maturity while the term bonds are subject to redemption at the option of the City after a designated date, either in whole or in part at varying redemption prices. In addition, the term bonds are subject to mandatory redemption after a designated date prior to maturity at a redemption price of 100% of principal amount and accrued interest. Funds deposited in a sinking fund may be used for this purpose.

Also provided by the General Ordinance is the establishment of a Sinking Fund into which deposits are made sufficient to meet all principal and interest requirements of the bonds as they become due. The General Ordinance also provides that sinking fund reserves be maintained as part of the Sinking Fund, which reserves have heretofore initially been funded from the proceeds of each series of bonds in an amount equal to the maximum annual debt service requirement on the Bonds of each such series in any fiscal year. Monies in the Sinking Fund Reserve are to be applied to the payment of debt service if for any reason other monies in the Sinking Fund should be insufficient.

Capital improvement funds are revenue bond proceeds to be utilized for construction expenditures.

The revenue bonds are, and will be, equally and ratably collateralized by a security interest in all of the Company's project revenues and monies in the Sinking Fund and Sinking Fund Reserve.

On February 14, 1989 the Company issued Series C of the Eleventh Series Revenue Bonds in the amount of \$132,520,000, for the purpose of providing funds, at more favorable interest rates, for the partial advanced refunding of \$25,000,000 and \$88,795,000 respectively of the Eighth and Ninth Series Revenue Bond issues. As a result, \$64,325,000 of the Eighth Series issued May 15, 1985 and maturing through 2012, remained outstanding following the refunding and \$12,505,000 of the Ninth Series issued August 1, 1985 and maturing through 1995, remained outstanding following the refunding. The difference between the reacquisition price and the net carrying amount of the reacquired debt resulted in a loss of \$13,863,000 which is being amortized over the life of the Eleventh Series C Revenue Bonds. This advanced refunding reduced the Company's future debt service costs by \$5,594,000 and, because of a deferral of principal payments, resulted in a net economic gain of \$7,617,000.

7. LONG-TERM DEBT: (Cont'd)

The following is a summary of the revenue bonds:

Series	Year of Issue	Original Amount	August 31, 1989		August 31, 1988		Interest Rates	Year of Maturity
			Current Portion	Long-Term Portion	Current Portion	Long-Term Portion		
(Thousands of Dollars)								
Third: Term.....	1976	\$ 33,865	\$ 2,775	\$ 26,095	\$ 2,585	\$ 28,870	7.375%	1997
Fourth: Serial...	1978	23,145	-	-	-	-	6.4%	1988
Fourth: Term.....	1978	46,855	3,655	39,780	3,420	43,435	6.8-6.875%	1998
		<u>70,000</u>	<u>3,655</u>	<u>39,780</u>	<u>3,420</u>	<u>43,435</u>		
Fifth: Serial...	1979	16,680	-	-	2,315	-	6.20-6.3%	1989
Fifth: Term.....	1979	33,320	2,455	30,865	-	33,320	6.5-6.8%	1999
		<u>50,000</u>	<u>2,455</u>	<u>30,865</u>	<u>2,315</u>	<u>33,320</u>		
Sixth: Serial...	1980	24,510	3,895	-	3,605	3,895	8.0-8.25%	1990
Seventh: Term.....	1982	10,675	-	10,675	-	10,675	6.00%	2013
Eighth: Serial...	1985	19,455	1,085	16,395	1,015	17,480	6.00-8.60%	2000
Eighth: Term.....	1985	70,830	-	45,830	-	70,830	8.70-8.75%	2015
		<u>90,285</u>	<u>1,085</u>	<u>62,225</u>	<u>1,015</u>	<u>88,310</u>		
Ninth: Serial...	1985	37,750	1,530	9,545	1,430	29,090	6.10-9.10%	2001
Ninth: Term.....	1985	70,780	-	-	-	70,780	9.00-9.125%	2012
		<u>108,530</u>	<u>1,530</u>	<u>9,545</u>	<u>1,430</u>	<u>99,870</u>		
Tenth: Serial...	1986	88,090	1,320	85,725	1,045	87,045	5.25-7.20%	2001
Eleventh: Serial...	1987	62,520	5,715	47,695	5,425	53,410	5.00-7.40%	2000
Eleventh: Term.....	1987	79,920	-	79,920	-	79,920	7.70-7.875%	2017
		<u>142,440</u>	<u>5,715</u>	<u>127,615</u>	<u>5,425</u>	<u>133,330</u>		
Eleventh "C": Serial...	1989	46,183	-	46,183	-	-	6.10-7.15%	2004
Eleventh "C": Term.....	1989	86,337	-	86,337	-	-	6.75-7.25%	2015
		<u>132,520</u>	<u>-</u>	<u>132,520</u>	<u>-</u>	<u>-</u>		
TOTAL			\$ 22,430	\$525,045	\$ 20,840	\$528,750		

7. LONG-TERM DEBT: (Cont'd)

From respective dates of issue, the serial bonds mature over a period of ten years to thirteen years while the term bonds mature within thirty years.

Subordinate Lease Obligations

On August 1, 1989 the Company refinanced the net book value, which approximated the fair market value, of its Headquarters and office complex at 800 W. Montgomery Avenue. This was accomplished through the sale of the facility to the Philadelphia Municipal Authority (PMA) and its leaseback to the Company under a lease which expires June 1, 2014. As part of the indenture, the Company has guaranteed lease payments in an amount equal to the scheduled debt service on the bonds issued by PMA to finance the facility purchase. This lease obligation is subordinate to the Gas Works Revenue Bonds, other general obligation debt and Gas Works Notes. Proceeds from the refinancing of the building will be utilized in the Company's capital program. The total amount financed was \$25,000,000.

The following is a summary of the amounts outstanding at August 31, 1989:

	<u>Current Portion</u>	<u>Long-term Portion</u>	<u>Total</u>
	(Thousands of Dollars)		
Subordinate Lease Obligations	\$ 390	\$24,610	\$25,000
Unamortized Debt Discount	<u>(29)</u>	<u>(440)</u>	<u>(469)</u>
Total	<u>\$ 361</u>	<u>\$24,170</u>	<u>\$24,531</u>

Future minimum rentals including interest on the lease are as follows:

	<u>Thousands of Dollars</u>
1990	\$ 1,782
1991	2,245
1992	2,243
1993	2,244
1994	2,242
Thereafter	<u>44,898</u>
Total	<u>\$55,654</u>

8. DEFEASED DEBT

Defeased debt of the Company (bonds issued by the Company now payable as to principal and interest thereon from the proceeds of irrevocably pledged assets) at August 31, 1989 and 1988 was as follows:

	Revenue Bond Issue and Scheduled Final Maturity	Interest Rate	Thousands of Dollars Amount	
			1989	1988
6th	May 15, 1990	9-1/8 - 9-5/8%	\$75,490	\$75,490
7th	March 15, 1995	8-3/4 - 10-7/8%	89,380	90,365
8th	May 15, 1995	8-3/4%	25,000	-
9th	March 15, 1995	8.7 - 9-1/8%	88,795	-

The assets pledged are primarily noncallable-U.S. Government investments and the interest to be earned thereon. The investments had a carrying value of \$298,705,820 at August 31, 1989 bearing interest on face value at 0% to 11-3/8%. The investments had a carrying value of \$177,433,936 at August 31, 1988--bearing interest on face value at 0% to 11-3/8%. The investments are held by the Trustee and maturities and interest payments are scheduled to coincide with trustee cash requirements for debt service.

The defeased bonds described above and the investments pledged for their redemption are not recognized on the Company's balance sheets in accordance with the terms of the Indenture of Defeasance.

9. ACCOUNTING FOR PENSION COSTS:

A. Plan Description

The Company sponsors a public employee retirement system (PERS) to provide pension benefits for its employees.

At September 1, 1988, the date of the last actuarial valuation, adjusted for the impact of the Early Retirement Incentive Program (see Note 1), the Company's Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	<u>1,930</u>
Current employees:	
Vested	1,149
Non-vested	<u>1,288</u>
Total Current	<u>2,437</u>
Total Membership	<u><u>4,367</u></u>

9. ACCOUNTING FOR PENSION COSTS (Cont'd)

The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- (i) 1.25% of the first \$6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over \$6,600, times Credited Service, with a maximum of 60% of the highest annual earnings during the last 10 years of Credited Service, applicable to all participants.
- (ii) 2% of total earnings received during the period of Credited Service plus 22.5% of the first \$100 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

Final-average earnings are the employee's average pay, over the highest 5 of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit.

Covered employees are not required to contribute to the Pension Plan. The Company is required by statute to contribute the amounts necessary to finance the Plan. Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance.

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting Pension Plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used to Value Investments Pension Plan equity securities are reported at cost. Fixed-income securities are reported at par value; investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income securities are recognized on the transaction date.

9. ACCOUNTING FOR PENSION COSTS: (Cont'd)

C. Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Pension Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS.

The pension benefit obligation was determined as part of an actuarial valuation at September 1, 1988 adjusted to reflect the impact of the Early Retirement Incentive Program (see Note 1). Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 7 percent per year compounded annually, (b) projected salary increases of 5 percent per year compounded annually, and (c) 62 as the assumed retirement age.

At September 1, 1988, the unfunded pension benefit obligation adjusted to reflect the impact of the Early Retirement Incentive Program (see Note 1) was \$99,721,000, as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$187,173,000
Current employees -	
Accumulated employee contributions including allocated investment income	None
Vested	48,362,000
Non-vested	<u>59,004,000</u>
Total pension benefit obligation	\$294,539,000
Net assets available for benefits, at cost (Market Value \$187,496,000)	<u>194,818,000</u>
Unfunded pension benefit obligation	<u>\$ 99,721,000</u>

D. Contributions Required and Contributions Made

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Projected Unit Credit actuarial funding method.

9. ACCOUNTING FOR PENSION COSTS: (Cont'd)

Contributions totaling approximately \$21,500,000 were made in 1989. These contributions consisted of approximately: (a) \$6,840,000 normal cost and (b) \$14,660,000 amortization of the unfunded actuarial accrued liability. Fiscal 1989 contributions represented contributions in the amount of approximately \$17,600,000 in accordance with the actuarial recommended contribution through the actuarial study performed in September, 1986 (latest valuation available when such contribution requirements were determined) and an additional contribution of approximately \$3,900,000 principally representing the impact of the Early Retirement Incentive Program (see Note 1).

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

E. Post Retirement Benefit Information

In addition to providing pension benefits, the Company also provides health care and life insurance benefits to plan beneficiaries and their dependents. The Company recognizes the cost of providing these benefits, by charging the annual insurance premiums to expense. The cost of providing benefits for the 1,930 and 1,524 beneficiaries and their dependents for the 1989 and 1988 fiscal years, respectively, is not separable from the cost of providing benefits for approximately 2,500 active employees and their dependents. Total premiums incurred amounted to \$12,900,000 and \$12,300,000 for 1989 and 1988, respectively.

F. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Certain historical trend information for the Company's PERS is presented below for the last three years.

	<u>For the Years Ended</u>		
		<u>August 31</u>	
	<u>1988</u>	<u>1987</u>	<u>1986</u>
Net assets available for benefits (at cost) as a percentage of the pension benefit obligation:	66.1%	68.0%	64.8%
Unfunded actuarial accrued liability as a percentage of the annual covered payroll:	103.0%	97.7%	108.1%
Company contributions to the PERS as a percentage of the annual covered payroll:	17.6%	18.6%	20.5%

Contributions were made in accordance with actuarially determined contribution requirements except as disclosed at Note 9 D.