

**REVISION DATED SEPTEMBER 2, 1998 TO**

**OFFICIAL STATEMENT**

**of the**

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY  
(Bucks, Chester, Delaware and Montgomery Counties, Pennsylvania)**

**respecting its**

**\$300,000,000**

**Local Government Revenue Bonds, 1998 Series A, B and C**

**\$250,000,000 Series A Bonds**

**\$25,000,000 Series B Bonds**

**\$25,000,000 Series C Bonds**

This Official Statement is a revision of the Official Statement dated August 25, 1998. This revision reflects changes to the terms and conditions to both the Series B (“FLOATs”) and Series C (“RITES”) Bonds. Prospective purchasers of the FLOATs and RITES should carefully review “The 1998 Bonds — FLOATs and RITES” and Appendix VI: “Explanation of FLOATs and RITES.”

**NEW ISSUE — BOOK-ENTRY-ONLY**

In the opinion of Bond Counsel, assuming continuing compliance by the Authority and the Participants with their covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, under laws, regulations, rulings and judicial decisions existing on the date of original delivery of the 1998 Bonds, interest on the 1998 Bonds is excluded from gross income of the holders thereof for federal income tax purposes. See "FEDERAL TAX EXEMPTION" herein for a discussion of certain federal taxes applicable to corporate bondholders. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date of original delivery of the 1998 Bonds, the 1998 Bonds are exempt from Pennsylvania personal property taxes and interest on the 1998 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. See "PENNSYLVANIA TAX EXEMPTION" herein.

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY  
(Bucks, Chester, Delaware and Montgomery Counties, Pennsylvania)  
Local Government Revenue Bonds, 1998 Series A, B and C  
\$300,000,000**

**1998 A Bonds and 1998 C Bonds Dated: August 1, 1998  
1998 B Bonds Dated: September 2, 1998**

**Maturity: August 1 as set forth below**

The Local Government Revenue Bonds, 1998 Series A, B, and C ("1998 Bonds") will be issued in fully registered form, without coupons. The 1998 Series A Bonds ("1998 A Bonds") will be issued in denominations of \$5,000 principal amount, or any multiple of \$5,000 in excess thereof, and will pay interest semi-annually on February 1 and August 1 of each year, commencing February 1, 1999. The 1998 Series B Bonds ("1998 B Bonds") are Floating Auction Tax-Exempts ("FLOATs"). The 1998 Series C Bonds ("1998 C Bonds") are Residual Interest Tax-Exempt Securities ("RITES"). The FLOATs and RITES will be issued in denominations of \$50,000 principal amount or any multiple of \$50,000 in excess thereof. The FLOATs will pay interest on each fourth successive Wednesday and at maturity, subject to certain exceptions. The RITES will pay interest semi-annually on February 1 and August 1 of each year, commencing February 1, 1999. **PROSPECTIVE PURCHASERS OF THE FLOATs AND RITES SHOULD CAREFULLY REVIEW "THE 1998 BONDS — FLOATs AND RITES" AND "APPENDIX VI: EXPLANATION OF FLOATs AND RITES."**

The 1998 Bonds are being issued pursuant to the Pennsylvania Municipality Authorities Act of 1945, approved May 2, 1945, P.L. 382, as amended and supplemented ("Authorities Act"), a resolution ("1998 Resolution") adopted by the Board of the Delaware Valley Regional Finance Authority, Bucks, Chester, Delaware and Montgomery Counties, Pennsylvania (the "Authority") and a Trust Indenture dated as of August 1, 1998 from the Authority to Commerce Bank/Pennsylvania, National Association, Philadelphia, Pennsylvania, as Trustee, and when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 1998 Bonds. Beneficial ownership interests in the 1998 Bonds will be recorded in book-entry-only form. Principal of and interest on the 1998 Bonds are payable directly to Cede & Co. for redistribution to DTC Participants and in turn to Beneficial Owners as described herein. Disbursement of such payments is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. Purchasers will not receive physical delivery of certificates representing their ownership interests in the 1998 Bonds purchased. For so long as any purchaser is the Beneficial Owner of a 1998 Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of the principal of and interest on such 1998 Bonds. See "THE 1998 BONDS — BOOK-ENTRY-ONLY SYSTEM."

The proceeds from the sale of the 1998 Bonds will be used to (i) provide funds to originate loans to local government units or other political subdivisions which are guaranteed by a local government unit ("Participants") located in Bucks, Chester, Delaware, and Montgomery Counties, (ii) fund a Debt Service Reserve Fund, and (iii) pay a portion of the costs related to the issuance of the 1998 Bonds. The 1998 Bonds are limited obligations of the Authority. Each loan will be evidenced by an individual Loan Agreement between the Participant and the Authority. **EVERY LOAN AGREEMENT WILL BE SECURED BY A PLEDGE OF THE FULL FAITH, CREDIT AND TAXING POWER OF THE PARTICIPANT OR ITS GUARANTOR.** The 1998 Bonds do not constitute a debt or liability of the Commonwealth of Pennsylvania or the Counties of Bucks, Chester, Delaware and Montgomery. **THE 1998 BONDS WILL BE SECURED SOLELY BY THE TRUST ESTATE, INCLUDING AMOUNTS PAYABLE UNDER THE LOAN AGREEMENTS AND ANY GUARANTEES.**

**THE 1998 BONDS ARE NOT SUBJECT TO OPTIONAL REDEMPTION. THE 1998 BONDS ARE SUBJECT TO EXTRAORDINARY REDEMPTION.** See "THE 1998 BONDS — REDEMPTION."

Payment of the principal of and interest on the 1998 Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 1998 Bonds. See "THE 1998 BONDS — BOND INSURER."



**MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS**

**\$250,000,000 1998 Series A Bonds at 5.50% and a price of 107.224% to yield 5.03%, maturing August 1, 2028**  
**\$25,000,000 1998 Series B Bonds (FLOATs) at 3.915% for the Initial Interest Period, maturing August 1, 2018**  
**\$25,000,000 1998 Series C Bonds (RITES), maturing August 1, 2018**  
**The equivalent semiannual bond interest rate for the combined 1998 B Bonds and 1998 C Bonds is 5.50%,  
the equivalent semiannual bond yield is 4.90%, and  
the equivalent semiannual bond price is 107.570%**

The 1998 Bonds are offered, subject to prior sale, withdrawal, or modification of the offer without notice, when, as and if issued by the Authority and delivered to and received by the Underwriters and subject to the approval of legality of the 1998 Bonds by Mesirov Gelman Jaffe Cramer & Jamieson, LLP, Philadelphia, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the Authority by Ferrara Belefonte McFadden Curran & Ferrara, L.L.P., Media, Pennsylvania, Solicitor to the Authority and for the Underwriters by Breidenbach, Breidenbach, Troncelliti & Bauer, Norristown, Pennsylvania, and Rogers & Wells LLP, New York, New York. The Authority expects the 1998 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about September 2, 1998.

**Merrill Lynch & Co.**

**Dolphin & Bradbury Inc.**

**First American Municipals, Inc.**

**Janney Montgomery Scott Inc.**

**Legg Mason Wood Walker  
Incorporated**

# DELAWARE VALLEY REGIONAL FINANCE AUTHORITY

102 CHESLEY DRIVE  
MEDIA, PENNSYLVANIA 19063

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## BOARD MEMBERS

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Chairman

ROBERT P. BRENDZA, ESQUIRE  
Vice Chairman

JAMES H. SHACKLETT, III  
Secretary

CHARLES O. MARTE, ESQUIRE  
Treasurer

THOMAS J. JUDGE, JR.  
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Philadelphia, Pennsylvania  
BOND COUNSEL

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FERRARA BELEFONTE McFADDEN  
CURRAN & FERRARA, L.L.P.  
Media, Pennsylvania  
SOLICITOR

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BREIDENBACH, BREIDENBACH,  
TRONCELLITI & BAUER  
Norristown, Pennsylvania

PARENTE, RANDOLPH, ORLANDO,  
CAREY & ASSOCIATES  
Media, Pennsylvania  
INDEPENDENT AUDITOR

---

ROGERS & WELLS LLP  
New York, New York  
CO-UNDERWRITERS' COUNSEL

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CALHOUN, BAKER INC.  
Flourtown, Pennsylvania  
PROGRAM ADMINISTRATOR

---

THE CHASE MANHATTAN BANK  
New York, New York  
AUCTION AGENT

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COMMERCE BANK/PENNSYLVANIA,  
NATIONAL ASSOCIATION  
Philadelphia, Pennsylvania  
TRUSTEE

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No dealer, broker, salesman or other person has been authorized by the Delaware Valley Regional Finance Authority ("Authority") or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the 1998 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Authority and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriters and, as to FLOATs and RITES, as a representation of the Authority. When the Constitution and statutes of the Commonwealth of Pennsylvania or other documents are referred to, reference should be made to such Constitution, statutes or documents for complete statements of the matters referred to. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof, or the date as of which particular information is given, if earlier. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners, from time to time, of any of the 1998 Bonds.

The Underwriters may offer and sell the 1998 Bonds to certain dealers (including dealers depositing the 1998 Bonds into investment trusts) and others at prices lower than the public offering stated on the cover page hereof.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1998 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 1998 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

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**Official Statement**  
**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**  
**BUCKS, CHESTER, DELAWARE AND MONTGOMERY COUNTIES,**  
**PENNSYLVANIA**

**\$300,000,000**  
**Local Government Revenue Bonds, 1998 Series A, B and C**

**THE 1998 BONDS**

**INTRODUCTION**

The Delaware Valley Regional Finance Authority (“Authority” or “Issuer”) is a body corporate and politic organized under the Pennsylvania *Municipality Authorities Act of 1945*, approved May 2, 1945, P.L. 382, as amended and supplemented (“*Authorities Act*”). The Authority was created by Bucks, Chester, Delaware and Montgomery Counties to provide funds to local government units, as defined in the Pennsylvania *Local Government Unit Debt Act* (“*Debt Act*”), approved July 12, 1972, P.L. 781, as re-enacted on April 28, 1978, P.L. 124, and on December 19, 1996, P.L. 1158 (“*Debt Act*”), within the four counties for projects as defined in the *Authorities Act* and permitted in the *Debt Act*. The Authority received a Certificate of Incorporation from the Commonwealth of Pennsylvania on December 23, 1985.

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the issuance by the Authority of its Local Government Revenue Bonds, 1998 Series A, B, and C (“1998 Bonds”). Unless otherwise defined herein, capitalized terms used in this Official Statement shall have the meanings ascribed to them in the Indenture.

The 1998 Bonds will be issued by the Authority in the aggregate principal amount of \$300,000,000 under a Trust Indenture (“Indenture”) dated as of August 1, 1998, from the Authority to Commerce Bank/Pennsylvania, National Association, Philadelphia, Pennsylvania. The issuance of the 1998 Bonds is authorized under the provisions of the *Authorities Act* and a resolution (“Resolution”) adopted by the Board of the Authority (“Board”) on August 25, 1998. The 1998 Series A Bonds (“1998 A Bonds”) will be issued in authorized denominations of \$5,000 principal amount or any multiple of \$5,000 in excess thereof. The 1998 Series B Bonds (“1998 B Bonds”) and the 1998 Series C Bonds (“1998 C Bonds”) will be issued in authorized denominations of \$50,000 principal amount or any multiple of \$50,000 in excess thereof.

The 1998 Bonds initially will be issued in book-entry form only and registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”). So long as the 1998 Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner of the 1998 Bonds. Unless the book-entry system for the 1998 Bonds is discontinued, prospective purchasers will acquire beneficial ownership interests in the 1998 A Bonds in denominations of \$5,000 principal amount, or any multiple of \$5,000 in excess thereof, and beneficial ownership interests in the 1998 B Bonds and the 1998 C Bonds in denominations of \$50,000 principal amount, or any multiple of \$50,000 in excess thereof, but will not receive 1998 Bond certificates representing such ownership interests. For purposes of this Official Statement, DTC or its nominee, and its successors and assigns, are referred to as the “Securities Depository.” See “THE 1998 BONDS – BOOK-ENTRY-ONLY SYSTEM,” herein.

The 1998 Bonds are being issued (i) to provide funds for loans (“Loans”) to local government units or other political subdivisions which are guaranteed by a local government unit (“Participants”) located in Bucks, Chester, Delaware or Montgomery Counties, that will be secured or guaranteed by pledges of full faith, credit and taxing power of local government units, (ii) to fund a Debt Service Reserve Fund, and (iii) to pay a portion of the costs related to the issuance of the 1998 Bonds. Each Participant will enter into a Loan Agreement with the Authority with respect to its Loan and execute a Participant Bond (“Participant Bond”) in favor of the Authority.

Each Participant Bond shall be a general obligation of the Participant (in the case of a Loan to a local government unit with taxing power) or a general obligation of a guarantor (in the case of a Loan to a political subdivision which is guaranteed by a local government unit), evidencing the obligation to pay the principal of and interest on the Loan, the Monthly Finance Charges (if any), and all other obligations under the Loan Agreement. See “THE FINANCING PLAN,” herein.

If necessary, in order to provide funds at a competitive cost to Participants and in order to implement the Authority’s programmatic objectives, the Authority may enter into one or more Interest Rate Swap Agreements for each series of the 1998 Bonds. See “THE 1998 BONDS – SWAP AGREEMENTS.” All of the Funds under the Indenture, with the exception of the Rebate Fund, are expected to be invested in one or more investment agreements (“Investment Agreements”). See “THE 1998 BONDS – INVESTMENT AGREEMENTS” and “THE 1998 BONDS – SECURITY FOR THE 1998 BONDS – Funds and Accounts.”

The 1998 Bonds are not subject to optional redemption prior to maturity; however, under certain circumstances, all or a portion of the 1998 Bonds may be subject to extraordinary redemption. See “THE 1998 BONDS – REDEMPTION.”

Ambac Assurance Corporation (“Ambac Assurance” or “Bond Insurer”) will issue its municipal bond insurance policy (the “Municipal Bond Insurance Policy”) insuring payment, when due, of the principal of and interest on the 1998 Bonds. See “THE 1998 BONDS – MUNICIPAL BOND INSURANCE POLICY.”

Commerce Bank/Pennsylvania, National Association, Philadelphia, Pennsylvania, will act as trustee, registrar and paying agent (collectively, the “Trustee”) for the 1998 Bonds. The corporate trust offices of the Trustee are located at One Commerce Square, Philadelphia, Pennsylvania. The Trustee will also serve as the Sinking Fund Depository, as required by the *Debt Act*, for each Participant.

Neither the delivery of this Official Statement nor any sale of the 1998 Bonds shall, under any circumstances, create any implication that no changes have occurred in the affairs of the Authority, or the communities or areas within the Authority’s service area, since the date of this Official Statement or, if earlier, the dates as of which particular information contained in this Official Statement is given. The descriptions in this Official Statement of the 1998 Bonds, certain provisions of the *Authorities Act*, the *Debt Act*, the Indenture and the Resolution are qualified by reference to the complete text of such instruments and documents, copies of which are available at the corporate trust office of the Trustee.

## **MUNICIPAL BOND INSURANCE POLICY**

The following information has been furnished by Ambac Assurance for use in this Official Statement. A specimen of the Municipal Bond Insurance Policy is shown in “Appendix III – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

### **Payment Pursuant to Municipal Bond Insurance Policy**

Ambac Assurance has made a commitment to issue a municipal bond insurance policy (the “Municipal Bond Insurance Policy”) relating to the 1998 Bonds effective as of the date of issuance of the 1998 Bonds. Under the terms of the Municipal Bond Insurance Policy, Ambac Assurance 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 1998 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 Assurance 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 within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 1998 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest. In the event of any acceleration of the principal of

the 1998 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 1998 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 Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does *not* insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond Insurance Policy does *not* cover:

1. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of the 1998 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 1998 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Municipal Bond Insurance Policy. 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 Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 1998 Bonds, appurtenant coupons, if any, or right to payment of principal or interest on such 1998 Bonds and will be fully subrogated to the surrendering Bondholder's rights to payment.

THE MUNICIPAL BOND INSURANCE POLICY DOES NOT INSURE AGAINST LOSS RELATING TO PAYMENTS MADE IN CONNECTION WITH THE SALE OF 1998 BONDS AT AUCTIONS OR LOSSES SUFFERED AS A RESULT OF A BONDHOLDER'S INABILITY TO SELL 1998 BONDS.

### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$2,968,000,000 (unaudited) and statutory capital of approximately \$1,715,000,000 (unaudited) as of March 31, 1998. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance 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 Assurance 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 1998 Bonds.

Ambac Assurance makes no representation regarding the 1998 Bonds or the advisability of investing in the 1998 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE 1998 BONDS – MUNICIPAL BOND INSURANCE POLICY."

## Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “Commission”). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington D.C. 20549 and at the Commission’s regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the “NYSE”) at 20 Broad Street, New York, New York 10005. The Company’s Common Stock is listed on the NYSE.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

## Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No.1 - 10777) are incorporated by reference in this Official Statement:

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and filed on March 31, 1998;
2. The Company’s Current Report on Form 8-K dated March 27, 1998 and filed on March 27, 1998;
3. The Company’s Amendment to its Annual report on Form 10-K/A for the fiscal year ended December 31 1997 and filed on March 31, 1998; and
4. The Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and filed on May 15, 1998.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “Available Information.”

## REDEMPTION

THE 1998 BONDS ARE NOT SUBJECT TO OPTIONAL REDEMPTION PRIOR TO MATURITY.

### Extraordinary Redemption

The 1998 Bonds are subject to extraordinary redemption, subject to certain conditions, in whole or in part, at the prices set forth below, from unloaned proceeds in the Acquisition Fund on any date on or after September 1, 2001, or from moneys in the Recycling Account (utilizing a “first in – first out” methodology) one year after a deposit, unless a Favorable Opinion of Bond Counsel is received. If redemption is required to be made, funds in the Acquisition Fund or Recycling Account shall be transferred to the Redemption Fund and such moneys shall be applied to purchase or redeem 1998 Bonds in the largest principal denomination that is less than or equal to the amount of such moneys, but only at such time as sufficient funds are available in the Redemption Fund to pay the principal amount of the 1998 Bonds to be redeemed, taking into account whether any Termination Payments are required to be made under any Swap Agreements.

The 1998 Bonds which are subject to extraordinary redemption prior to maturity shall be called at the prices set forth below:

### Extraordinary Redemption Prices

<u>Date</u>	<u>1998 A Bonds</u> (1)	<u>1998 B Bonds and 1998 C Bonds</u> (2)	<u>Date</u>	<u>1998 A Bonds</u> (1)	<u>1998 B Bonds and 1998 C Bonds</u> (2)
1-Feb-99	110.185%	110.480%	1-Feb-14	107.797%	105.396%
1-Aug-99	110.131%	110.364%	1-Aug-14	107.682%	105.155%
1-Feb-00	110.075%	110.244%	1-Feb-15	107.565%	104.908%
1-Aug-00	110.018%	110.121%	1-Aug-15	107.445%	104.655%
1-Feb-01	109.960%	109.996%	1-Feb-16	107.322%	104.395%
1-Aug-01	109.900%	109.867%	1-Aug-16	107.196%	104.130%
1-Feb-02	109.839%	109.736%	1-Feb-17	107.066%	103.857%
1-Aug-02	109.776%	109.601%	1-Aug-17	106.933%	103.578%
1-Feb-03	109.711%	109.462%	1-Feb-18	106.797%	103.292%
1-Aug-03	109.645%	109.321%	1-Aug-18	106.658%	
1-Feb-04	109.577%	109.176%	1-Feb-19	106.515%	
1-Aug-04	109.507%	109.027%	1-Aug-19	106.368%	
1-Feb-05	109.436%	108.875%	1-Feb-20	106.218%	
1-Aug-05	109.363%	108.718%	1-Aug-20	106.064%	
1-Feb-06	109.288%	108.559%	1-Feb-21	105.906%	
1-Aug-06	109.211%	108.395%	1-Aug-21	105.744%	
1-Feb-07	109.132%	108.227%	1-Feb-22	105.578%	
1-Aug-07	109.051%	108.055%	1-Aug-22	105.408%	
1-Feb-08	108.969%	107.879%	1-Feb-23	105.234%	
1-Aug-08	108.884%	107.698%	1-Aug-23	105.055%	
1-Feb-09	108.797%	107.514%	1-Feb-24	104.871%	
1-Aug-09	108.708%	107.324%	1-Aug-24	104.683%	
1-Feb-10	108.616%	107.130%	1-Feb-25	104.491%	
1-Aug-10	108.522%	106.931%	1-Aug-25	104.293%	
1-Feb-11	108.426%	106.728%	1-Feb-26	104.091%	
1-Aug-11	108.328%	106.519%	1-Aug-26	103.883%	
1-Feb-12	108.227%	106.305%	1-Feb-27	103.671%	
1-Aug-12	108.123%	106.086%	1-Aug-27	103.452%	
1-Feb-13	108.017%	105.862%	1-Feb-28	103.229%	
1-Aug-13	107.908%	105.632%			

(1) The Extraordinary Redemption Price of the 1998 A Bonds on any date other than the dates set forth above shall equal (i) the price (calculated on the basis of a 30 day month and 360 day year) on the date of redemption of a bond assuming a 5.50% semiannual coupon, with a yield of 5.03%, maturing on August 1, 2028, plus (ii) 3%.

(2) The Extraordinary Redemption Price of the 1998 B Bonds and 1998 C Bonds on any date other than the dates set forth above shall equal (i) the price (calculated on the basis of a 30 day month and 360 day year) on the date of redemption of a bond assuming a 5.50% semiannual coupon, with a yield of 4.90%, maturing on August 1, 2018, plus (ii) 3%.

### Notice of Redemption

When required to redeem Bonds under any provision of the Indenture, or when directed to do so by the Authority or the Bond Insurer pursuant to the provisions of the Indenture, the Trustee shall cause notice of the redemption to be given not more than 30 days and not less than 15 days prior to the redemption date, but not earlier than the Interest Payment Date immediately preceding the redemption date, by mailing copies of such notice of redemption by first class mail, postage prepaid, to all holders of the 1998 Bonds to be redeemed at their registered addresses, but failure to mail any such notice or defect in the mailing thereof in respect of any 1998 Bond shall not affect the validity of the redemption of any other 1998 Bond with respect to which notice was properly given. So long as DTC, or its nominee, is the sole registered owner of the 1998 Bonds under the book-entry-only system, redemption notices will be sent to Cede & Co.

If at the time of mailing of notice of redemption there shall not have been deposited with the Trustee moneys sufficient to redeem all the 1998 Bonds called for redemption, such notice may state that it is conditional and subject to the deposit with the Trustee on or prior to the redemption date of moneys sufficient to pay the redemption price of the 1998 Bonds to be redeemed plus interest accrued thereon to the date of redemption, and such notice shall be of no effect unless such moneys are so deposited.

In addition to the foregoing notice, further notice will be given by the Trustee to certain registered securities depositories and information services as provided in the Indenture, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in the Indenture.

When unconditional notice of redemption is given or conditional notice is given and moneys for such redemption have been deposited with the Trustee, 1998 Bonds called for redemption shall become due and payable on the redemption date at the applicable redemption price.

If any principal amount of the FLOATs and the RITES selected as provided above is not equal to \$50,000 or any multiple in excess thereof, the Trustee shall, in such manner as, it shall determine, in its sole discretion, round up or down the principal amounts to the applicable redemption price.

### **Selection of 1998 Bonds to Be Redeemed**

If less than all the 1998 Bonds are to be redeemed, the Authority shall determine the Series and maturities of the 1998 Bonds to be redeemed. The particular 1998 Bonds to be called for redemption, from the Series and maturities designated by the Authority, will be selected by DTC in accordance with its rules and procedures so long as DTC or its nominee is the sole registered owner of the 1998 Bonds, or if DTC, or its nominee, is not the registered owner, by lot or by such other method as the Trustee deems fair and appropriate, but in all cases so that, as far as practicable, the largest aggregate principal amount of the 1998 Bonds is redeemed. See “Appendix VI: EXPLANATION OF FLOATs AND RITES – SELECTION OF FLOATs AND RITES TO BE REDEEMED” for further information on redemption provisions relating to FLOATs and RITES.

If the Authority elects to call for redemption any 1998 B Bonds (FLOATs), an equal aggregate principal amount of 1998 C Bonds (RITES), must also be called for redemption on the same date. Conversely, if the Authority elects to call for redemption any 1998 C Bonds (RITES), an equal aggregate principal amount of 1998 B Bonds (FLOATs), must be called for redemption on the same date. In the event of a redemption in part, the aggregate amount of the FLOATs and RITES to be redeemed will be selected from FLOATs and RITES which are Fixed and from FLOATs and RITES which are not Fixed proportionally in accordance with the relative amounts of the FLOATs and RITES which are and are not Fixed.

## **SECURITY FOR THE 1998 BONDS**

### **Loan Agreement**

The 1998 Bonds, as provided in the Indenture, are secured by Loan Agreements that will be entered into, as Loans are originated, between the Authority and each Participant, a local government unit or a political subdivision whose obligations under the Loan Agreement are secured by the guaranty of a local government unit, located in Bucks, Chester, Delaware or Montgomery Counties. EACH PARTICIPANT BOND WILL BE SECURED BY AN UNCONDITIONAL PLEDGE OF THE FULL FAITH, CREDIT AND TAXING POWER OF THE PARTICIPANT OR ITS GUARANTOR FOR THE PAYMENT OF ANY AND ALL AMOUNTS BECOMING DUE TO THE AUTHORITY UNDER THE LOAN AGREEMENT AND THE PARTICIPANT BOND. The pledge of each Participant shall be specifically enforceable, as provided in the *Debt Act*. The issuance of each Participant Bond will not occur until the Department of Community and Economic Development of the Commonwealth of Pennsylvania, pursuant to the *Debt Act*, has approved the Loan Agreement and Note or Guaranty, as applicable, as general obligation debt.

Loan Agreements with school districts are further secured under the provisions of the Pennsylvania *Public School Code*. Section 633 of the *Public School Code of 1949*, as amended by Act 150 of 1975 (P.L. 511) (the “*Public School Code*”) requires that, if any school district fails to make its required debt service payments with

respect to indebtedness, such as a school district's general obligation debt obligation under the Note and the Loan Agreement, the Secretary of Education of the Commonwealth is required to withhold from such school district, out of any subsidy payment of any type due such school district by the Commonwealth, an amount equal to the debt service payments owed by such school district. These withholding provisions are not part of any contract with the Authority, or with the holders of the 1998 Bonds, and may be amended by future legislation. The *Public School Code* also provides that in the event a school district is in default with respect to general obligation debt or lease rental debt to a municipal authority or the Authority, there shall be a withholding from subsidy payments of amounts necessary to remedy such default.

In addition, the *Debt Act* which is applicable to the general obligation debt of school districts, prescribes certain other remedies for the holder of the Note and the lender under the Loan Agreement. In the event of failure of the School District to pay under the Note for a period of 30 days from the date when payment becomes due and payable, the holder shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas in the county in which the School District is located. The *Debt Act* further provides that any judgment shall have an appropriate priority upon moneys next coming in to the treasury of the School District. The *Debt Act* further provides that upon default in the payment of principal and interest which continues at least 30 days, holders of at least 25% of such defaulted debt may appoint a trustee to represent them. The *Debt Act* provides certain other remedies and further qualifies the above described remedies.

All public school subsidies in the Commonwealth are subject to appropriation by the General Assembly. Although the Constitution of the Commonwealth provides that "...General Assembly shall provide for the maintenance and support of a thorough and efficient system of public education to service the needs of the Commonwealth...", the General Assembly is not legally obligated to appropriate such subsidies and no assurance can be given that it will do so in the future. The allocation formula pursuant to which the Commonwealth distributes such subsidies to the various school districts throughout the Commonwealth may be amended at any time by the General Assembly. Moreover, the Commonwealth's ability to make such disbursements will be dependent upon its own financial condition. At various times in the past, the enactment of budget and appropriation laws by the Commonwealth has been delayed, resulting in interim borrowing by school districts pending the authorization and payment of state aid. Consequently, there can be no assurance that financial support from the Commonwealth to school districts, for either capital projects or education programs in general, will continue at present levels or that moneys will be payable to a school district if indebtedness of such school districts is not paid when due.

Pursuant to each Loan Agreement and Participant Bond, each Participant will make monthly payments of interest on its Loan, Monthly Finance Charges, if any, and annual payments of principal. Each Participant will covenant in its Loan Agreement, among other things, to maintain its status and its existence as a local government unit under the *Debt Act* or a political subdivision under the *Act* and to do and perform all acts and things necessary or desirable in order to assure that interest paid on the 1998 Bonds shall not be includable in the gross income of any holder of the 1998 Bonds for federal income tax purposes.

### **Limited Obligation Pledge of the Authority**

The 1998 Bonds are limited obligations of the Authority. The 1998 Bonds are secured solely by the payments made pursuant to the Loan Agreements and the Participant Bonds, payments made pursuant to Guaranty Agreements for Participant Bonds, and Funds (other than the Rebate Fund) held under the Indenture. THE 1998 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA, OR THE COUNTIES OF BUCKS, CHESTER, DELAWARE OR MONTGOMERY, PENNSYLVANIA. The 1998 Bonds are payable solely from the sources described herein. THE AUTHORITY HAS NO TAXING POWER.

### **The Indenture**

The 1998 Bonds are issued under and secured by the Indenture. Pursuant to the Indenture, the Authority has pledged to the Trustee, as security for the performance of the obligations of the Authority under the Indenture, including the payments due on the 1998 Bonds, (i) all right, title, and interest (but not the obligations) of the Authority in the Revenues, the Participant Bonds and Loan Agreements, all other payments, revenues and receipts receivable by the Authority thereunder or with respect thereto (except for certain rights of the Authority for the payment of expenses which are unassigned); (ii) all right, title and interest in and under the Swap Agreements, if any; (iii) all right, title and interest in and under the Investment Agreements; and (iv) all right title and interest of the

Authority in and to all Funds (other than the Rebate Fund) and Accounts established under the Indenture and all moneys and investments now or hereafter held therein. The pledge made under the Indenture and the covenants and agreements set forth therein to be performed by or on behalf of the Authority, except as otherwise provided in the Indenture, shall be for the equal and ratable benefit, protection and security of the holders of the 1998 Bonds, without privilege, priority or distinction as to the lien or otherwise of any of the 1998 Bonds over any of the other 1998 Bonds. No additional series of Bonds may be issued under the Indenture.

### **Funds and Accounts**

The proceeds of the 1998 Bonds, together with an equity contribution of approximately \$1,750,000 from the Authority, will be deposited into the funds and accounts as set forth in “THE FINANCING PLAN – ESTIMATED SOURCES AND USES OF FUNDS.”

All Loans will be originated from the Acquisition Fund. When Loans are amortized or repaid, the funds will be deposited into the Recycling Account of the Acquisition Fund.

All receipts and revenues will be deposited into the Revenue Fund. The priority of transfers of moneys in the Revenue Fund will be as follows:

1. On each Interest Payment Date, to the Bond Fund to pay debt service on the 1998 Bonds and to pay the Swap Counterparties, if any, amounts due under any Swap Agreements;
2. On each maturity date to the Bond Fund to pay debt service on maturing principal amounts;
3. As received after making provision for paragraphs 1 and 2 above, to the Redemption Fund, unless transferred to the Recycling Account as provided in the Indenture, any Repayments representing principal amounts of the Participant Bonds;
4. On the first day of each month, to the Program Expense Fund the amounts required to pay the Administrative Fees and Expenses;
5. From amounts recovered in connection with a Participant Default, if necessary, to the Debt Service Reserve Fund to replenish any deficiency; and
6. On June 30 of each year, commencing on June 30, 1999, to the Discretionary Fund, the balance, if any, in excess of amounts not exceeding one month’s projected Repayments, as shall be determined by the Program Administrator to be necessary to be retained in the Revenue Fund.

### **Sinking Funds of the Participants**

A sinking fund for each Participant shall be created by the ordinance or resolution which authorizes the incurrence of the general obligation debt of each Participant. Funds deposited therein shall be held by the Trustee, as Sinking Fund Depository for each Participant. All funds deposited in the Sinking Fund shall be segregated from all other funds of the Participants. The Trustee is authorized and directed in the Indenture to transfer from the Sinking Funds to the Revenue Fund the sums necessary to pay the principal of and interest on the 1998 Bonds when due.

### **PROVISIONS OF THE 1998 A BONDS**

The 1998 A Bonds will bear interest at the rates specified upon the issuance of the 1998 Bonds. Interest is calculated on the 30 day month and 360 day year basis. The 1998 A Bonds will be issued in denominations of \$5,000 principal amount or any multiple of \$5,000 in excess thereof. Interest on the 1998 A Bonds will be payable semiannually on February 1 and August 1 commencing on February 1, 1999, and will mature in the years and amounts, as set forth on the Cover Page of this Official Statement.

### **FLOATS AND RITES**

The 1998 B Bonds are being issued as Floating Auction Tax-Exempts (“FLOATs”), and the 1998 C Bonds are being issued as and Residual Interest Tax-Exempt Securities (“RITES”). Together, the FLOATs and RITES (“FLOATs and RITES ”), will be available in denominations of \$50,000, or any multiple of \$50,000 in excess thereof, and will be dated and will mature in the years and amounts, as set forth on the cover page of this Official Statement.

This Summary of the FLOATs and RITES is qualified in its entirety by reference to the more detailed information included and referred to in “Appendix VI: EXPLANATION OF FLOATs and RITES.” Terms used in this section and not otherwise defined shall have the respective meanings assigned to them in “Appendix VI: EXPLANATION OF FLOATs AND RITES – CERTAIN DEFINITIONS,” herein.

### **Global Bonds; Securities Depository**

The FLOATs and RITES will be issued in the form of a single fully registered certificate for each series of the FLOATs and RITES, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, as the Securities Depository. Unless DTC resigns without the appointment of a successor, the Securities Depository or its nominee will be the holder of record of all issued and outstanding FLOATs and RITES and Beneficial Owners may not obtain physical possession of the FLOATs and RITES beneficially owned by them.

### **Interest Payment Dates**

Each date on which interest on the FLOATs or RITES is payable is herein referred to as an “Interest Payment Date.” The “Interest Period” for each Interest Payment Date (during which interest shall accrue) shall be measured from, and including, the previous Interest Payment Date (with respect to the FLOATs, the Closing Date, and with respect to the RITES, August 1, 1998, in the case of the first Interest Period) to, but excluding, such Interest Payment Date.

Interest on the FLOATs, unless such FLOATs have been Fixed, is payable on September 30, 1998 (the “Initial Interest Payment Date”), and on each succeeding fourth Wednesday and at maturity (each, a “Subsequent Interest Payment Date”); provided, that if such day is not a Business Day, interest otherwise payable on such day will be payable on the immediately preceding Business Day. The Interest Period ending on September 30, 1998, is herein referred to as the “Initial Interest Period” and each subsequent Interest Period is herein referred to as a “Subsequent Interest Period.”

Interest on the RITES and on Fixed Bonds is payable on February 1 and August 1 of each year, commencing on February 1, 1999 (each, a “Semiannual Interest Payment Date”); provided, that if such day is not a Business Day, interest otherwise payable on such day will be payable on the immediately preceding Business Day. Each Interest Period for the RITES and Fixed Bonds is herein referred to as a “Semiannual Interest Period.”

### **Interest with Respect to FLOATs**

Interest rates with respect to the FLOATs are set forth below:

1. The interest rates with respect to the FLOATs for the Initial Interest Period will be 3.915% for the 1998 B Bonds, consisting of 3.640% which will be paid to the Owners of the 1998 B Bonds and the Service Charge Rate of 0.275% which will be paid by the Trustee to the Auction Agent and the Broker-Dealers with respect to each of the 1998 B Bonds.
2. For each Subsequent Interest Period, the Applicable FLOATs Rate will equal the sum of:
  - (i) the rate (“Auction Rate”) that the Auction Agent (The Chase Manhattan Bank, or any successor) advises the Trustee resulted from an Auction for the FLOATs held on the Business Day immediately preceding the first day of such Subsequent Interest Period; and
  - (ii) the Service Charge Rate (initially 0.275%).

Auctions will generally be held every fourth Tuesday unless certain events, including a Payment Default as defined in the Indenture, shall have occurred. Whenever the Service Charge Rate is a component of the Applicable FLOATs Rate, the Service Charge will be paid to the Auction Agent and the Broker-Dealers by the Trustee and, accordingly, will not be received by the FLOATs Owners.

The Auction Rate determined by an Auction for any Subsequent Interest Period may not be less than the Minimum Rate and may not exceed the Maximum Rate for such Subsequent Interest Period as determined on the Auction Date thereof. See “Appendix VI: EXPLANATION OF FLOATs AND RITES – AUCTION PROCEDURES.”

The Minimum Rate on any date of determination shall be the interest rate per annum equal to 90% (as such percentage may be adjusted as described under “Appendix VI: EXPLANATION OF FLOATS AND RITES – AUCTION PROCEDURES – Adjustment in Percentages Used to Determine Maximum, Minimum and Non-Payment Rates”) of the lesser on such date of:

- (i) the Index, defined as the tax-exempt money market rate index for 30-day variable rate obligations prepared by Merrill, Lynch, Pierce, Fenner & Smith Incorporated, published on The BLOOMBERG provided through Bloomberg Financial Markets of Bloomberg L.P., or on Dalcomp Systems on such date of determination, or, if such Index is not published by 9:00 a.m., New York City time, on such date of determination, the interest index selected by the Market Agent in accordance with the provisions of the Indenture, and
- (ii) the After-Tax Equivalent Rate, defined as the product of the “AA” Composite Commercial Paper Rate and 1.00 minus the lower of the Statutory Corporate Tax Rate and the Statutory Personal Tax Rate (as such terms are defined herein under “ Appendix VI: EXPLANATION OF FLOATS AND RITES – INTEREST ON THE FLOATS AND RITES” and “CERTAIN DEFINITIONS”);

provided that in no event shall the Minimum Rate be more than the Maximum Rate.

The Maximum Rate on any date of determination shall be the interest rate per annum equal to the lesser on such date of:

- (i) the Applicable Percentage specified below multiplied by the higher of (A) the After-Tax Equivalent Rate and (B) the Index; and
- (ii) 10.849% per annum minus the Service Charge Rate;

provided, that if the ownership of the FLOATS is no longer maintained in book-entry form, the Maximum Rate shall be the lesser of (x) the Applicable Percentage multiplied by the higher of (1) the After-Tax Equivalent Rate and (2) the Index and (y) 10.849% per annum; and provided, further, the Maximum Rate may not exceed the maximum rate permitted by law.

The Applicable Percentage on any date of determination shall be the percentage determined as set forth below based on the lower of the credit ratings of the FLOATS in effect at the close of business on the Business Day immediately preceding such date as follows:

<u>Moody's Credit Rating</u>	<u>S&amp;P Credit Rating</u>	<u>Applicable Percentage</u>
"Aaa"	"AAA"	175%
"Aa" to "Aa1"	"AA-" to "AA+"	175%
"A" to "A1"	"A-" to "A+"	200%
"Baa" to "Baa1"	"BBB-" to "BBB+"	250%
Below "Baa"	Below "BBB-"	300%

The Applicable Percentage, the percentage used in determining the Minimum Rate and the percentage of the Index used in determining the Non-Payment Rate (defined below) may be adjusted by the Market Agent to reflect a Change of Preference Law.

If an Auction for any Subsequent Interest Period is not held for any reason (other than the occurrence and continuance of a Payment Default under the Indenture, or because all of the FLOATs are Fixed (as described below) or are no longer represented by a global bond registered in the name of the Securities Depository or its nominee), the Applicable FLOATs Rate for the immediately succeeding Subsequent Interest Period will equal the sum of:

- (i) the Maximum Rate on the Auction Date for such Interest Period; and
- (ii) the Service Charge Rate.

An Auction will not be held on an Auction Date if, among other things, a Payment Default occurs (as described below) or if the Auction Agent has resigned and no successor has been appointed. See " Appendix VI: EXPLANATION OF FLOATs AND RITES – AUCTION PROCEDURES."

Owners of FLOATs which are Fixed at the close of business on the Regular Record Date immediately preceding an Auction Date will not be obligated to pay the Service Charge to the Auction Agent and the Broker-Dealers in respect of the Auction held on such Auction Date and, therefore, will be entitled to receive interest on such FLOATs for the immediately succeeding Subsequent Interest Period at a rate per annum equal to the sum of:

- (i) the Auction Rate or Maximum Rate, as the case may be; and
- (ii) the Service Charge Rate.

The Service Charge Rate for each Auction Date will equal the sum of the rates per annum at which the Auction Agent Fee (initially 0.025%) and the Broker-Dealer Fee (initially 0.250%) accrue on such Auction Date. See " Appendix VI: EXPLANATION OF FLOATs AND RITES – AUCTION PROCEDURES" for a description of the circumstances under which the rate at which the Auction Agent Fee or the Broker-Dealer Fee accrues may be increased.

If all of the FLOATs are Fixed at the close of business on the Regular Record Date immediately preceding any Subsequent Interest Period, the Applicable FLOATs Rate for such Subsequent Interest Period will equal the Minimum Rate on the Business Day immediately preceding the first day of such Subsequent Interest Period.

If a Payment Default occurs, Auctions will be suspended and the Applicable FLOATs Rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the "Non-Payment Rate," provided that if an Auction occurred on the Business Day immediately preceding any such Interest Period, the Applicable FLOATs Rate shall be the Non-Payment Rate plus the Service Charge Rate. The Non-Payment Rate is defined as the lesser of:

- (i) 90% of the Index on the date of determination; and
- (ii) 10.849% per annum;

provided, that in the event that an Auction was held on the Business Day immediately preceding the first day of an Interest Period during which the FLOATs are to bear interest at the Non-Payment Rate, the Non-Payment Rate as determined pursuant to (i) or (ii) above shall be reduced by an amount equal to the Service Charge Rate on such date of determination.

If the FLOATs are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, Auctions will be suspended and the Applicable FLOATs Rate for each Subsequent Interest Period thereafter will equal the Maximum Rate on the Business Day immediately preceding the first day of such Subsequent Interest Period. See “Appendix VI: EXPLANATION OF FLOATs AND RITES – AUCTION PROCEDURES” for a description of the circumstances under which the FLOATs may no longer be represented by a global certificate.

Interest with respect to the FLOATs shall be computed on the basis of a 360-day year for the number of days actually elapsed.

### **Interest with Respect to RITES**

On each Semiannual Interest Payment Date, owners of RITES will receive payments of interest on such RITES equal to the excess, if any, taken (without rounding) to the nearest one-thousandth of 1% (0.001%) of:

- (i) the product of (a) two times (b) the fixed rate of 5.50% per annum (the “Fixed Rate”) times (c) the principal amount of RITES held by an owner times (d) the number of days in such Semiannual Interest Period (assuming a 360 day year consisting of twelve thirty day months), divided by 360, minus
- (ii) interest that has accrued on an equivalent principal amount of FLOATs (including payments due to application of the Service Charge Rate) during such Semiannual Interest Period.

### **Auction Procedures**

On each Auction Date for the FLOATs on which an Auction is conducted, each Existing Holder (which term excludes a beneficial owner of “Fixed FLOATs”) may submit Orders through a Broker-Dealer to the Auction Agent as follows:

1. Hold Order – indicating such Existing Holder’s desire to hold without regard to the Auction Rate for the next Interest Period.
2. Bid – indicating such Existing Holder’s desire to sell if the Auction Rate for the next Interest Period is less than the rate specified in such Bid.
3. Sell Order – indicating such Existing Holder’s desire to sell without regard to the Auction Rate for the next Interest Period.

An Order may be submitted only in a principal amount of \$50,000 or any multiple of \$50,000 in excess thereof.

An Existing Holder may submit different types of Orders in an Auction. An Existing Holder that offers to purchase additional FLOATs is, for purposes of such offer, treated as a Potential Holder as described below. Bids by Existing Holders specifying rates higher than the Maximum Rate on the Auction Date will be treated as Sell Orders. Bids by Existing Holders or Potential Holders specifying rates lower than the Minimum Rate on the Auction Date will be treated as Bids specifying the Minimum Rate. A Hold Order will be deemed to have been submitted on behalf of an Existing Holder if an Order is not submitted on behalf of such Existing Holder for any reason, including the failure of a Broker-Dealer to submit such Existing Holder’s Order to the Auction Agent.

Potential Holders of FLOATs may submit Bids in which they offer to purchase FLOATs if the Auction Rate for the next Interest Period is not less than the rate specified in such Bid. A Bid by a Potential Holder specifying a rate higher than the Maximum Rate on the Auction Date will not be accepted.

If Sufficient Clearing Bids exist (that is, if the aggregate principal amount of FLOATs subject to Bids by Potential Holders with rates equal to or lower than the Maximum Rate exceeds or is equal to the aggregate principal amount of FLOATs subject to Sell orders by Existing Holders or to Bids submitted by Existing Holders specifying a rate higher than the Maximum Rate), the Auction Rate will be the “Winning Bid Rate” which is defined as the lowest rate (not lower than the Minimum Rate) specified in the Submitted Bids which, taking into account such rate and all lower rates bid by Existing Holders and Potential Holders, would result in Existing Holders and Potential Holders owning all FLOATs available for purchase in the Auction. If Sufficient Clearing Bids do not exist (except in the case of all FLOATs being subject to Hold Orders), the Auction Rate will be the Maximum Rate on the Auction Date and, in such event, Existing Holders that have submitted Sell Orders or Bids specifying a rate higher than the Maximum Rate may not be able to sell in such Auction all FLOATs subject to such Sell Orders or Bids. If all of the FLOATs are subject to Submitted Hold Orders or if all of the FLOATs either were Fixed Option Bonds at the close of business on the immediately preceding Regular Record Date or are subject to Submitted Hold Orders, the Auction Rate will be the Minimum Rate on the Auction Date.

The Auction Procedures provide in certain circumstances for a pro rata allocation of FLOATs for purchase and sale, which may result in an Existing Holder’s continuing to hold or selling, or a Potential Holder’s purchasing, a principal amount of FLOATs that is less than the principal amount of FLOATs specified in its Order. Such a result might also occur if an Existing Holder fails to deliver FLOATs sold in an Auction.

A Bid placed by an Existing Holder specifying a rate greater than the Winning Bid Rate determined in the Auction or a Sell Order shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto, in each case at a price of 100% of their principal amount. A Bid placed by a Potential Holder shall constitute an irrevocable offer to purchase the principal amount of FLOATs subject thereto at a price of 100% of their principal amount if the rate specified in such Bid is less than or equal to the Winning Bid Rate determined in the Auction.

### **Settlement After Auctions**

Settlement of purchases and sales of FLOATs in Auctions will be made on the Business Day (also an Interest Payment Date) after the Auction Date. Purchasers will make payments through their Agent Members in same day funds to the Securities Depository against delivery to their respective Agent Members. The Securities Depository will make payment to the sellers’ Agent Members in accordance with the Securities Depository’s normal procedures, which currently provide for payment against delivery by their Agent members in same-day funds.

### **Fixed Option Bonds and Permanently Fixed Bonds**

#### *Fixing FLOATs and RITES*

A Beneficial Owner of RITES or FLOATs may fix the interest rate (“Fix”) on such RITES or FLOATs by purchasing an equal principal amount of FLOATs or RITES, as the case may be, and requesting its Broker-Dealer to deliver a Fixing Request to the Auction Agent, and taking such other action as its Broker-Dealer instructs. However, the RITES and the FLOATs may not be Fixed during the period (the “Closed Period”):

- (i) commencing at 11:00 a.m., New York City time, on the third Business Day immediately preceding any Interest Payment Date therefor and ending immediately prior to the opening of business on such Interest Payment Date; or
- (ii) commencing at 11:00 a.m., New York City time, on any Redemption Record Date and ending on the related redemption date.

A Fixing Request which is submitted to the Auction Agent by 12:00 noon, New York City time, on a Business Day should, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the RITES and the FLOATs subject to such Fixing Request becoming Fixed under a single CUSIP number immediately prior to the close of business on the next Business Day. The Fixing Request shall designate whether the Bonds will be permanently Fixed or subject to a Request To Separate (as described below); notwithstanding such designation, Newly Fixed Option Bonds (as defined below) will be subject to a Request To Separate.

Beneficial owners of FLOATs which were Fixed at the close of business on the Regular Record Date immediately preceding any Auction Date may not participate (with respect to such FLOATs) in the Auction for the FLOATs held on such Auction Date.

RITES and FLOATs (other than Newly Separated FLOATs) that become Fixed during a Semiannual Interest Period are herein referred to as “Newly Fixed Option Bonds.” Newly Fixed Option Bonds that are Fixed at the close of business on the Regular Record Date immediately preceding a Semiannual Interest Payment Date are herein referred to as “Regular Fixed Option Bonds” if the Fixing Request for such Newly Fixed Option Bonds designated such Bonds to be subject to a Request to Separate, or “Permanently Fixed Bonds” if the Fixing Request for such Newly Fixed Option Bonds designated such Bonds to be permanently Fixed. Newly Fixed Option Bonds and Regular Fixed Option Bonds are herein referred to as “Fixed Option Bonds.”

Interest on Regular Fixed Option Bonds and Permanently Fixed Bonds will be payable on each Semiannual Interest Payment Date at an interest rate per annum equal to the Fixed Rate applicable to the RITES which were Fixed to create such Regular Fixed Option Bonds or Permanently Fixed Option Bonds. Interest on Newly Fixed Option Bonds will be payable on the Semiannual Interest Payment Date at an interest rate per annum equal to the Fixed Rate applicable to the RITES which were Fixed to create such Newly Fixed Option Bonds; provided, however, that the amount payable to an owner of a Newly Fixed Option Bond will be reduced by the sum of (i) interest on the FLOATs that were Fixed to create such Newly Fixed Option Bonds (the “Fixed FLOATs”) that was accrued and paid on the Fixed FLOATs during such Semiannual Interest Period, plus (ii) the Service Charge accrued but unpaid (in respect of an Auction Date that has occurred) on such Fixed FLOATs and increased by the amount, if any, of interest accrued, but unpaid, as of the beginning of such Semiannual Interest Payment Period.

RITES and FLOATs which are Fixed may only be transferred together as a unit in minimum denominations of \$100,000 (\$50,000 principal amount of RITES and \$50,000 principal amount of FLOATs) and multiples of \$100,000 in excess thereof.

The settlement of purchases and sales in the secondary market of Fixed Option Bonds will be made in accordance with the Securities Depository’s normal procedures, which now provide for payment in same-day funds against delivery by the respective Agent Members.

A beneficial owner of Regular Fixed Option Bonds may convert its Regular Fixed Option Bonds to Permanently Fixed Option Bonds by requesting its Broker-Dealer to deliver a request to the Auction Agent and taking such other action as its Broker-Dealer requests. Such request may not be submitted during the Closed Period described above. See “Appendix VI: EXPLANATION OF FLOATs AND RITES – FIXING FLOATs AND RITES – FORMING FIXED OPTION AND PERMANENTLY FIXED BONDS.”

If the FLOATs and RITES are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, the FLOATs and the RITES may not be Fixed. See “Appendix VI: EXPLANATION OF FLOATs AND RITES – AUCTION PROCEDURES” in this Official Statement for a description of the circumstances under which the FLOATs or the RITES may no longer be represented by a global certificate.

### *Separating RITES and FLOATs*

A Beneficial Owner of Fixed Option Bonds may Separate the applicable RITES and FLOATs at any time, other than during a Closed Period, by requesting its Broker-Dealer to deliver a Request to Separate to the Auction Agent and taking such other action as its Broker-Dealer instructs. A Request to Separate which is submitted to the Auction Agent by 12:00 noon, New York City time, on a Business Day should, under procedures to be used by the Auction Agent and Securities Depository, normally result in the Separation of the applicable RITES and FLOATs immediately prior to the close of business on the next Business Day. Permanently Fixed Bonds may not be separated.

### **CUSIP Numbers**

For information concerning CUSIP numbers, see “Appendix VI: EXPLANATION OF FLOATs AND RITES – CUSIP NUMBERS.”

## **Redemption**

See “THE 1998 BONDS – REDEMPTION,” herein.

## **Mandatory Tender of FLOATS**

Any owner of RITES may, at any time and from time to time, notify a Broker-Dealer that (i) such owner intends to submit a Bid for a specified amount of FLOATS on the next succeeding Auction Date in order to Fix the same with all or a portion of such RITES, and (ii) if such Bid is unsuccessful, in whole or in part, such owner requires that FLOATS (which are not Fixed) in an aggregate principal amount equal to the unsuccessful portion of such Bid be tendered to such owner for purchase on a specified Business Day prior to the Auction Date following the Auction in which such Bid proved unsuccessful (“Tender Date”) at a price equal to the principal amount of FLOATS being purchased plus accrued but unpaid interest to the Tender Date less an amount equal to the Service Charge, if any, applicable to any such FLOATS multiplied by a fraction, the numerator of which is the number of days from and including the immediately preceding Interest Payment Date for such FLOATS to but not including the Tender Date and the denominator of which is the number of days in the Interest Period in which such Tender Date occurs (the “Tender Price”).

FLOATS subject to mandatory tender as a result of demands made by or on behalf of holders of RITES (each a “Tender Demand”) shall be selected by lot, and notice of such mandatory tender (“Tender Notice”) shall be given to the Agent Member of each Existing Holder whose FLOATS have been so selected. Such Tender Notice having been given, the Existing Holder or Existing Holders of such FLOATS shall be required to tender the FLOATS specified therein for purchase by such RITES holder on the Tender Date and at the Tender Price therefor.

## **Special Factors Affecting the RITES**

The magnitude of the increases and decreases in market value of the RITES may be approximately twice as large as a comparable change in market value of an equal principal amount of 5.50% fixed rate bonds having similar credit quality, redemption provisions and maturity (excluding in such comparison any potential premium paid or received for the RITES beyond that which would be paid for 5.50% fixed rate bonds having similar credit quality, redemption provisions and maturity).

Except for those who may have collateral tax consequences, beneficial ownership of \$50,000 of the RITES is similar from an economic perspective (assuming the reinvestment of interest payments on the RITES when received every 28 days at the same rate as the rate paid on the RITES on such date) to paying \$100,000 for \$100,000 of fixed rate bonds paying interest semiannually at 5.50% and having a similar credit quality, redemption provisions and maturity and borrowing \$50,000 of the purchase price at an interest rate equal to the Applicable FLOATS Rate from time to time.

Because the interest rate on the RITES will be determined by subtracting the Applicable FLOATS Rate from a fixed amount, the interest rate on the RITES will decrease as the Applicable FLOATS Rate increases, and increase as the Applicable FLOATS Rate decreases. As a result, the interest rate on the RITES will equal zero if the Applicable FLOATS Rate is equal to 10.849% per annum.

In order to Fix RITES or FLOATS, a Beneficial Owner of RITES or FLOATS must also have purchased a like principal amount of FLOATS or RITES, as the case may be. See “THE 1998 BONDS – FLOATS AND RITES – Fixing RITES and FLOATS.” There is no obligation to provide FLOATS to a Beneficial Owner who desires to Fix RITES or to provide RITES to a Beneficial Owner who desires to Fix FLOATS. A Beneficial Owner of the RITES may be able to acquire FLOATS that are not Fixed by bidding in an Auction (normally held every 28 days), provided that the Existing Holders of such FLOATS do not submit Hold Orders covering all such FLOATS in the Auction. In such event, no FLOATS would be available for purchase at any rate bid by such Beneficial Owner of RITES in that Auction. See “THE 1998 BONDS – FLOATS AND RITES – Auction Procedures.” A Beneficial Owner of RITES may, however, cause a mandatory tender of FLOATS for purposes of Fixing RITES to the extent they cannot acquire FLOATS in an Auction. See “THE 1998 BONDS – FLOATS AND RITES – Mandatory Tender of FLOATS.” In addition, a Beneficial Owner of RITES might be able to purchase FLOATS in the secondary market, outside of Auctions, through a Broker-Dealer; however, an active secondary market for the FLOATS is not

expected to develop, other than in Auctions. A Beneficial Owner of FLOATs might be able to purchase RITES in the secondary market; however, an active secondary market may or may not develop for such RITES.

NO ASSURANCE CAN BE GIVEN THAT AN ACTIVE SECONDARY MARKET WILL EXIST FOR THE RITES OR THE FLOATs OUTSIDE AUCTIONS. MERRILL LYNCH & CO. AND ANY OTHER BROKER-DEALERS RETAIN THE RIGHT TO MAKE A SECONDARY MARKET ALTHOUGH THEY HAVE NO OBLIGATION TO DO SO.

### **Special Factors Affecting FLOATs**

EXISTING HOLDERS OF FLOATs MAY BE REQUIRED TO TENDER FLOATs TO A BENEFICIAL OWNER OF RITES BEFORE THE COMPLETION OF AN INTEREST PERIOD IN THE EVENT SUCH BENEFICIAL OWNER OF RITES EXERCISES ITS RIGHT TO REQUIRE SUCH A TENDER. SEE "APPENDIX VI: EXPLANATION OF FLOATs AND RITES – MANDATORY TENDER OF FLOATs."

### **SWAP AGREEMENTS**

The Authority, in order to provide funds at a competitive cost to Participants and to achieve its programmatic objectives, may enter into Interest Rate Swap Agreements (each a "Swap Agreement") with one or more financial institutions (each a "Swap Counterparty") acceptable to the Bond Insurer with respect to the 1998 Bonds. The Swap Agreements would permit the Authority to implement its programmatic objectives and to provide a variable rate and fixed rate loan program to Participants with lower origination costs, interest rates, and annual administrative expenses than would have been realized if the Authority had issued seven-day, variable rate demand bonds and/or serial fixed rate bonds. Under the Swap Agreements, the Authority may (i) pay to the Swap Counterparty an amount based on the Bond Market Association's Municipal Swap Index ("BMA Index") and receive fixed interest payments from the Swap Counterparty or (ii) pay to the Swap Counterparty fixed interest payments and receive interest payments based upon the BMA Index.

The Swap Agreements would be subject to early termination prior to their scheduled termination and prior to the maturity of the 1998 Bonds under certain circumstances. The Authority expects that the Swap Agreements would only be terminated by the Authority, the Bond Insurer, or the Swap Counterparty at the option of the non-defaulting or non-affected party, as applicable, upon the occurrence of certain specified events (such termination, an "Early Termination") including, among other things:

1. the failure of a party to make timely payment;
2. certain events of bankruptcy or insolvency of the Authority, the Bond Insurer, or the Swap Counterparty;
3. certain changes in law that would render illegal the performance of obligations under the Swap Agreement;
4. certain rating downgrade events applicable to the Bond Insurer, the Authority, or the Swap Counterparty; and
5. certain failures of the Authority, the Bond Insurer or the Swap Counterparty to perform its obligations under its debt agreements.

The Swap Agreements would also be subject to termination or assignment in whole or in part, upon the mutual agreement of the Authority and the Swap Counterparty with the consent of the Bond Insurer. In the event of an Early Termination or a termination of mutual agreement, the Authority or the Swap Counterparty may be obligated to make a substantial Termination Payment as described below.

The Swap Agreements would provide that upon termination, the parties to the Swap Agreements would settle their payment obligations as described in the Swap Agreements and a single termination payment would be calculated accordingly ("Termination Payment"). The Termination Payment would be determined based upon the replacement cost or gain for a swap agreement with the financial terms of the portion of the Swap Agreements being terminated.

THE SWAP AGREEMENTS SHALL NOT ALTER THE AUTHORITY'S OBLIGATION TO PAY INTEREST ON AND PRINCIPAL OF THE 1998 BONDS. THE SWAP AGREEMENTS SHALL NOT ALTER THE BOND INSURER'S GUARANTEE OF TIMELY PAYMENT OF INTEREST ON AND PRINCIPAL OF THE 1998 BONDS.

## **INVESTMENT AGREEMENTS**

The Authority expects to enter into one or more investment agreements (“Investment Agreements”) among the Authority, the Trustee, and one or more financial institutions (“Investment Providers”) to be selected pursuant to a competitive bid of financial institutions which meet the credit criteria of the Bond Insurer. With the exception of the Rebate Fund, all of the Funds under the Indenture of the 1998 Bonds will be invested in the Investment Agreements. The Investment Provider will assume no responsibility for the payment of any amounts payable by the Authority on the 1998 Bonds or under the Swap Agreements.

## **BOOK-ENTRY-ONLY SYSTEM**

### **General**

The information in this section concerning DTC and DTC’s book-entry system has been provided by DTC, and the Authority and the Underwriters take no responsibility for the accuracy or completeness thereof.

DTC will act as Securities Depository for the 1998 Bonds. The 1998 Bonds will be issued as fully-registered securities in the name of Cede & Co. as nominee for DTC. One fully-registered Bond certificate will be issued for each maturity of the 1998 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchasers of the 1998 Bonds will not receive physical delivery of certificates.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 1998 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 1998 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1998 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 1998 Bonds, except in the event that use of the book-entry system for the 1998 Bonds is discontinued.

To facilitate subsequent transfers, all 1998 Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of 1998 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 1998 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 1998 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1998 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 1998 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 1998 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as Securities Depository with respect to the 1998 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, 1998 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository). In that event, 1998 Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the 1998 Bonds as nominee of DTC, references herein to the owners of the 1998 Bonds shall mean DTC and shall not mean the Beneficial Owners of the 1998 Bonds. Beneficial Owners may desire to make arrangements with a DTC Participant to have all notices to DTC which may affect such Beneficial Owners, forwarded in writing by such DTC Participant and have notification made of all interest payments.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DTC PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE 1998 BONDS PAID TO DTC OR ITS NOMINEE, AS THE REGISTERED OWNER, OR ANY NOTICES, TO BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN A MANNER DESCRIBED IN THE OFFICIAL STATEMENT. THE AUTHORITY AND THE TRUSTEE ARE NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC, DTC PARTICIPANTS OR OTHERS TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER IN RESPECT OF THE 1998 BONDS OR ANY ERROR OR DELAY RELATING THERETO. FOR SO LONG AS ANY PURCHASER IS A BENEFICIAL OWNER OF A 1998 BOND, HE/SHE MUST MAINTAIN AN ACCOUNT WITH A BROKER OR DEALER OR OTHER INSTITUTION WHICH IS, OR ACTS THROUGH, A DTC PARTICIPANT IN ORDER TO RECEIVE PAYMENTS OF PRINCIPAL OF AND INTEREST ON SUCH 1998 BONDS AND NOTICES WITH RESPECT THERETO. FOR EVERY TRANSFER OF A BENEFICIAL INTEREST IN ANY 1998 BOND, THE BENEFICIAL OWNER MAY BE CHARGED A SUM SUFFICIENT TO COVER ANY TAX OR OTHER GOVERNMENTAL CHARGE THAT MAY BE IMPOSED IN RELATION THERETO.

### **Discontinuation of Book-Entry-Only System**

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (ii) THE PAYMENT BY DTC OR BY ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE 1998 BONDS; (iii) THE DELIVERY TO ANY DTC PARTICIPANT OR ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE 1998 BONDS TO BE GIVEN TO BONDHOLDERS; OR (iv) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

In the event that the book-entry system is discontinued and the Beneficial Owners become registered owners of the 1998 Bonds, the following provisions applicable to registered owners would apply: (i) 1998 Bonds may be exchanged for an equal aggregate principal amount of 1998 Bonds in other authorized denominations, upon surrender

thereof at the principal corporate trust office of the Trustee; (ii) the transfer of any 1998 Bonds may be registered on the books maintained by the Trustee for such purpose only upon the surrender thereof to the Trustee together with a duly executed assignment in form satisfactory to the Trustee; and (iii) for every exchange or registration of transfer of the 1998 Bonds, the Trustee may make a charge sufficient to reimburse it for any tax, fee or governmental charge required to be paid with respect to such exchange or registration of transfer of the 1998 Bonds.

## **THE FINANCING PLAN**

The proceeds of the 1998 Bonds will be used to: (i) provide funds to originate Loans that are secured or guaranteed by general obligation pledges, (ii) fund a Debt Service Reserve Fund, and (iii) pay a portion of the costs of issuance of the 1998 Bonds. The Authority will enter into a Loan Agreement with each of the Participants, and the Authority will purchase a Participant Bond from each of the Participants. The Loan Agreement shall be secured by (i) a general obligation pledge of the Participant or (ii) if the Participant is a political subdivision that does not have taxing power, a general obligation guaranty of a local government unit. The accrued interest of the 1998 Bonds will be deposited in the Bond Fund held by the Trustee. The Authority will use other available funds of the Authority to pay the remainder of the issuance costs.

Participants will draw down the entire amount of their Loans upon the execution of the Loan Agreements and issuance of the Participant Bonds. If necessary, the Authority may assess a Monthly Finance Charge to cover any Administrative Fees and Expenses incurred by the Authority to conduct the Loan Program of the 1998 Bonds. Participants will remit Loan Repayments, which include all amounts payable under the Loan Agreement, on a monthly basis.

**EACH LOAN AGREEMENT AND PARTICIPANT BOND WILL BE SECURED BY A GENERAL OBLIGATION, FULL FAITH, CREDIT AND TAXING POWER PLEDGE OF THE PARTICIPANT OR ITS GUARANTOR.** If necessary, the entire amount of the Debt Service Reserve Fund will be available to fund any payment deficiency of any Participant.

The Rebate Analyst (initially the Program Administrator) will calculate the amount necessary to be deposited in the Rebate Fund, not later than 60 days after the fifth bond year anniversary of the issuance of the 1998 Bonds. The Rebate Analyst will prepare, semiannually, rebate calculations for the Authority, and the Rebate Analyst will prepare rebate calculations for each Participant not later than 60 days after the fifth bond year anniversary of the issuance of the Participant Bond.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the 1998 Bonds are set forth below:

### Sources and Uses of Funds (1)

Sources of Funds	
Par Amount of 1998 Bonds	\$300,000,000.00
Original Issue Premium	21,845,000.00
Accrued Interest	1,420,833.34
DVRFA Equity Contribution	<u>1,750,000.00</u>
Total	<u>\$ 325,015,833.34</u>

Uses of Funds	
Deposit to Acquisition Fund	\$287,427,917.37
Deposit to Debt Service	30,000,000.00
Accrued Interest	1,420,833.34
Bond Insurance Premium	1,803,625.00
Other Issuance Costs (1) (2)	3,409,757.63
Deposit to Revenue Fund (1)	<u>1,000,000.00</u>
Total	<u>\$ 325,015,833.34</u>

(1) Preliminary, subject to change.

(2) Includes (i) Underwriters' Discount, (ii) fees for Bond Counsel, Underwriters' Counsel, Authority Solicitor, Program Administrator, and Rating Agencies, and (iii) expenses for printing and payment of other costs

Source: Delaware Valley Regional Finance Authority

## THE AUTHORITY

The Delaware Valley Regional Finance Authority is a body corporate and politic jointly formed by Bucks, Chester, Delaware and Montgomery Counties pursuant to the provisions of the *Authorities Act*. A Certificate of Incorporation was issued to the Authority by the Secretary of the Commonwealth of Pennsylvania on December 23, 1985. The Authority was created to provide loans for projects to local government units located in the four county region.

The governing body of the Authority consists of a Board of five members appointed by the four Counties which created the Authority. Each year, at the first meeting in January, on a rotating basis, one of the Counties appoints a new member to fill the vacancy created by the expiration of the term of appointment of a Board member. The current members of the Board of the Authority are set forth below.

### Members of the Board

<u>Member and Office</u>	<u>Term Expires</u>	<u>County Appointing the Member</u>	<u>Occupation/Employer</u>
Edwin B. Erickson, Esquire, Chairman	January 6, 2003	Delaware	Executive Director/Delaware County
Robert P. Brendza, Esquire, Vice Chairman	January 3, 2000	Chester	Attorney/Marlowe & Brendza
James H. Shacklett, III, Secretary	January 8, 2001	Montgomery	CEO/National Label Company
Charles O. Marte, Esquire, Treasurer	January 7, 2002	Bucks	Attorney/ Marte & Toadvine
Thomas J. Judge, Jr., Assistant Secretary/Assistant Treasurer	January 4, 1999	Delaware	Manager/Coal Source Development/ Consolidated Rail, Inc.

The Program Administrator, Calhoun, Baker Inc., is responsible for operations including the origination of loans, investment of funds and administration of the loan program. The Authority's Solicitor, Carmen P. Belefonte, Esquire of Ferrara Belefonte McFadden Curran & Ferrara L.L.P., is responsible for the preparation of all loan agreements, resolutions and contracts. The Authority's Bond Counsel, Robert I. Tuteur, Esquire, of Mesirov Gelman Jaffe Cramer & Jamieson, LLP, reviews all tax issues and issues relating to the *Debt Act* or *Authorities Act*. Carmen P. Belefonte, Esquire and Robert I. Tuteur, Esquire have served the Authority since its founding in 1985; the Program Administrator has served the Authority since 1989.

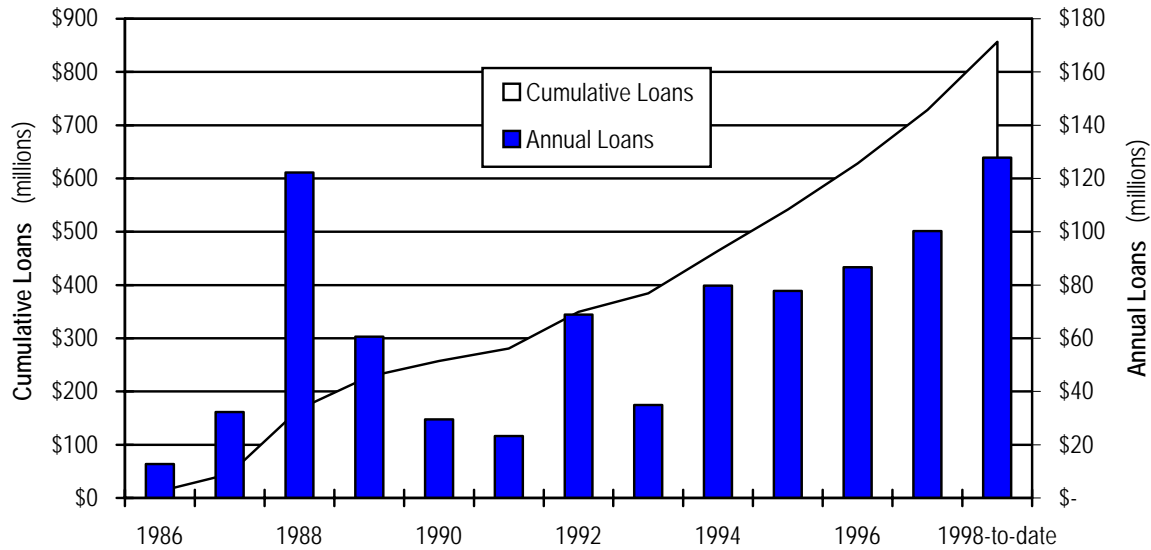
Funds for loan programs are provided from the proceeds of bonds issued by the Authority. Each bond issue is a limited obligation of the Authority. Each bond issue is secured solely by a pledge of the receipts and revenues of the loans originated with the proceeds of that bond issue. The loans from the Authority are limited to projects permitted under the *Debt Act*, which include (i) development and design costs, (ii) construction of facilities, (iii) acquisition of land, (iv) acquisition of equipment, (v) interest during construction, (vi) current refundings of outstanding debt obligations, and (vii) issuance expenses. Loans from the Authority are subject to the following additional limitations:

1. The Authority may not provide a loan that would constitute an "advance refunding" under the Code.
2. The Authority may not provide a loan that would constitute a "Tax and Revenue Anticipation Note" under the *Debt Act*.
3. The Authority may not provide any loans to institutions of health or higher education.
4. **LOANS FROM THE AUTHORITY MUST BE SECURED OR GUARANTEED BY THE FULL FAITH, CREDIT AND TAXING POWER OF A LOCAL GOVERNMENT UNIT.**

The Authority has issued four series of bonds to provide the funds for loans to local government units: (i) the \$145,000,000 Adjustable Rate Local Government Revenue Bonds, Series of 1985 ("1985 Bonds"), (ii) the \$115,000,000 Bi-Modal Term Format, Local Government Revenue Bonds, Series of 1986 ("1986 Bonds"), the \$20,930,000 Local Government Revenue Bonds, 1996 Series A ("1996 Bonds"), and the \$140,000,000 Local Government Revenue Bonds, 1997 Series ("1997 Bonds"). The 1985 Bonds and 1986 Bonds are currently remarketed in a seven-day, variable rate demand bond mode, and are secured by a letter of credit provided by Credit Suisse First Boston, New York Branch. The terms of the letters of credit will expire on May 1, 2002. The 1996 Bonds are fixed rate bonds that are secured by a municipal bond insurance policy issued by Ambac Assurance. One-half of the 1997 Bonds are fixed rate, and one-half of the 1997 Bonds are CPI-Index Bonds. All of the 1997 Bonds are insured by a municipal bond insurance policy issued by Ambac Assurance, and the tender of the CPI-Index Bonds that are to be remarketed in 2007 is secured by a liquidity facility provided by Credit Suisse First Boston, New York Branch. The 1985 Bonds, 1986 Bonds, and 1997 Bonds employ a revolving loan structure. When Participants prepay or amortize the principal of their loans, the funds become available for new loans. The 1996 Bonds employ a defined pool structure. The amortization schedule of the 1996 Bonds is identical to the amortization schedule of the loans. The Authority may from time to time enter into other indentures or other agreements, which may provide for the issuance of additional notes or bonds to be secured by distinct sources of revenue or other security.

Since 1985, the Authority has originated 131 loans (including loans that are in process in 1998) with a principal amount of approximately \$857,000,000. A chart of the annual and cumulative loan origination of the Authority is set forth below. As of June 30, 1998, the Authority expects to have originated 22 new loans in 1998 with a principal amount of approximately \$128 million.

### Loans Originated by DVRFA (1)



(1) Includes loans in process in 1998.

Source: Delaware Valley Regional Finance Authority

### THE AUTHORITY'S LOAN PROGRAMS

The four county service area of the Authority encompasses more than 400 local government units and political subdivisions. The number and type of local government units or political subdivisions by county are set forth in the table below. See "Appendix I: SOCIOECONOMIC AND DEMOGRAPHIC CHARACTERISTICS OF THE SERVICE AREA OF THE DELAWARE VALLEY REGIONAL FINANCE AUTHORITY" for additional information.

#### Number of Local Government Units and Political Subdivisions in Each County

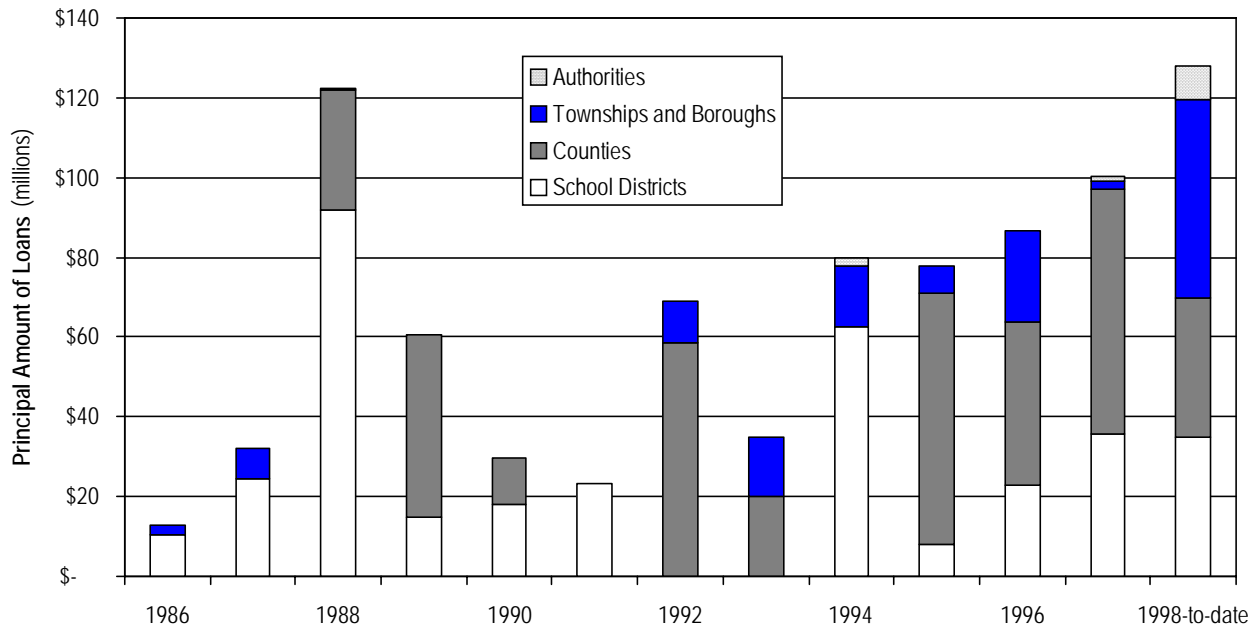
	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Total</u>
Counties	1	1	1	1	4
Boroughs	23	15	27	24	89
Townships	31	57	21	38	147
Cities	0	1	1	0	2
School Districts	13	12	15	22	62
Authorities (1)	<u>28</u>	<u>31</u>	<u>17</u>	<u>42</u>	<u>118</u>
Total	<u>96</u>	<u>117</u>	<u>82</u>	<u>127</u>	<u>422</u>

(1) Includes Water, Sewer, Local Government Facilities, and Multi-Purpose (which comprises water and/or sewer and/or local government facilities).

Source: Pennsylvania State Data Center and Department of Community and Economic Development

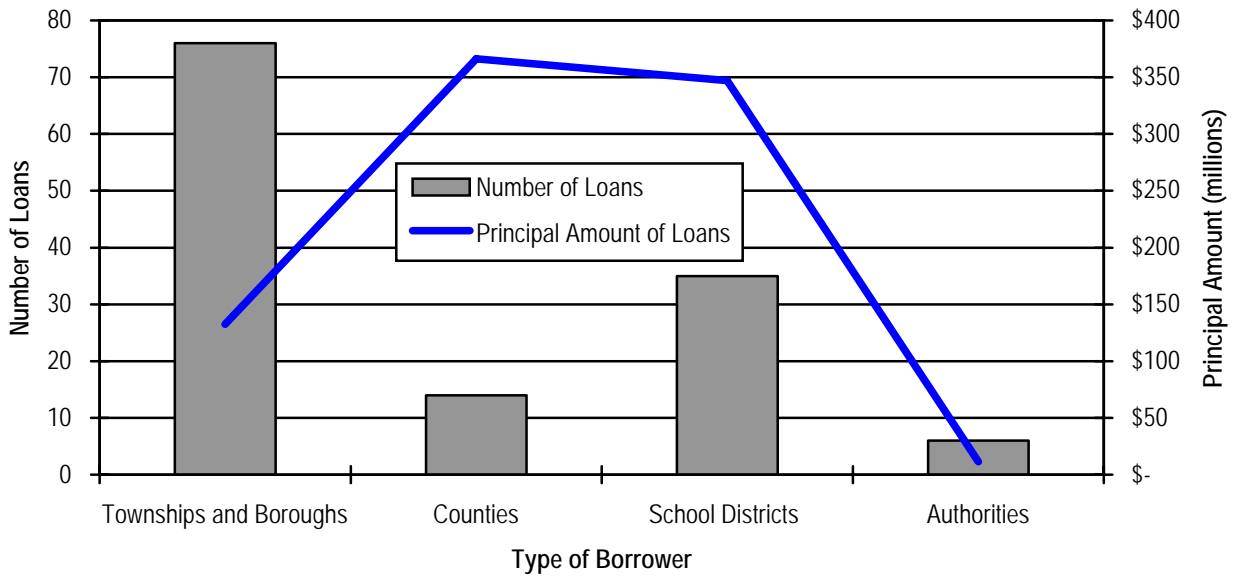
Historically, more than 83% of the principal amount of the Authority's loans have been originated with counties and school districts. These local government units have used variable rate loans from the loan programs of the 1985 Bonds and 1986 Bonds for variable rate, construction financing. Typically, these borrowers have issued fixed rate bond issues to prepay their loans after construction was completed. These prepayments were the principal source of funds for new loans until the Authority issued additional series of bonds. After the issuance of the 1996 Bonds and the 1997 Bonds, loan origination increased, and the Authority began originating a larger portion of its loans with other types of borrowers. Until the 1996 Bonds and the 1997 Bonds were issued, the Authority did not offer a fixed rate loan program. The availability of the fixed rate loans has attracted borrowers that previously had not considered the Authority as a source of funding because only variable rate loans were offered. A chart of the annual loans originated by type of borrower and a chart of the cumulative number and principal amount of loans by type of borrower are set forth below.

**Annual Principal Amounts of Loans by Type of Borrower**



Source: Delaware Valley Regional Finance Authority

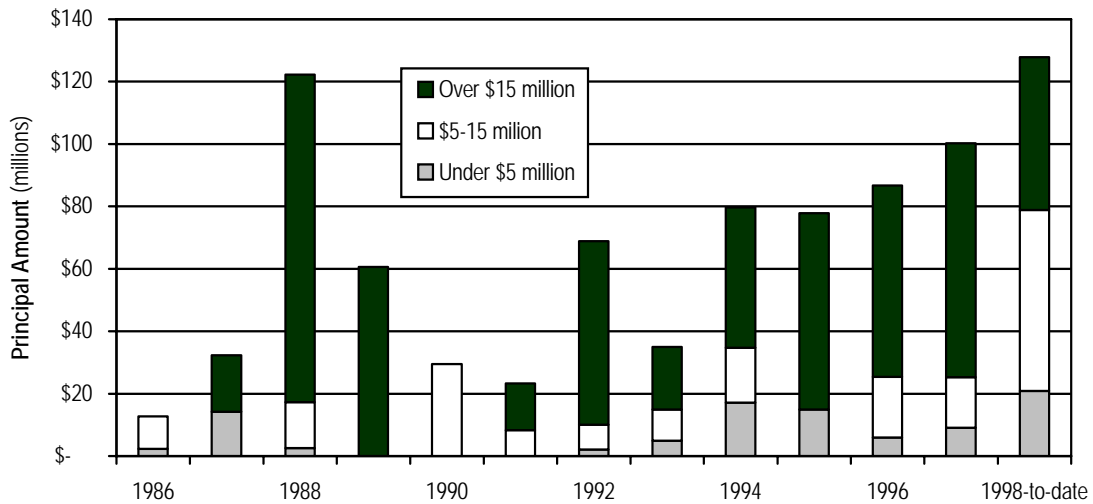
**Cumulative Number and Principal Amount of Loans From 1986 to 1998  
by Type of Borrower**



*Source: Delaware Valley Regional Finance Authority*

Prior to the issuance of the 1997 Bonds, the majority of the Authority's loans were either large, construction loans or small, long term loans. Large borrowers utilized the loan programs to take advantage of the flexibility, low origination fees, and low interest rates of the variable rate loans. Small borrowers utilized the loan programs principally because of the low origination fees. Many of the small borrowers would have preferred a fixed rate, but the issuance costs or interest rates of the fixed rate alternatives were prohibitive. Borrowers in the \$5 to \$15 million range generally preferred fixed rate debt, and those borrowers typically issued their own bond issues. After the issuance of the 1997 Bonds, the Authority was able to offer a competitive fixed rate loan program. Subsequently, the participation of school districts, townships, and authorities that wished to borrow \$5 to \$15 million increased dramatically. A chart of the size of the loans by the year originated is set forth below.

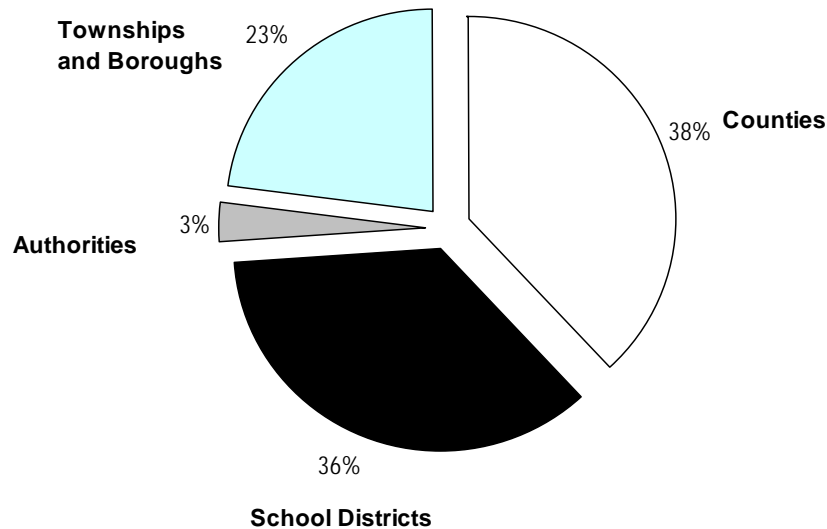
**Size of Loan by Year of Origination**



*Source: Delaware Valley Regional Finance Authority*

The Authority's portfolio of loans outstanding or scheduled for closing, as of June 30, 1998, consisted of 93 loans, in the aggregate principal amount of more than \$373 million. Approximately 38% of the principal amount of the loans are to counties that have ratings of "Aa" from Moody's Investors Service, Inc. ("Moody's") and "AA" from Standard & Poor's Ratings Services ("S&P"). Approximately 36% of the principal amount of the loans are to school districts that have ratings of "A1" or higher from Moody's and "A+" or higher from S&P. A chart of the principal amounts of loans outstanding or in process as of June 30, 1998, is set forth below.

**Principal Amounts of Loans Outstanding or in Process  
by Type of Borrower on June 30, 1998**



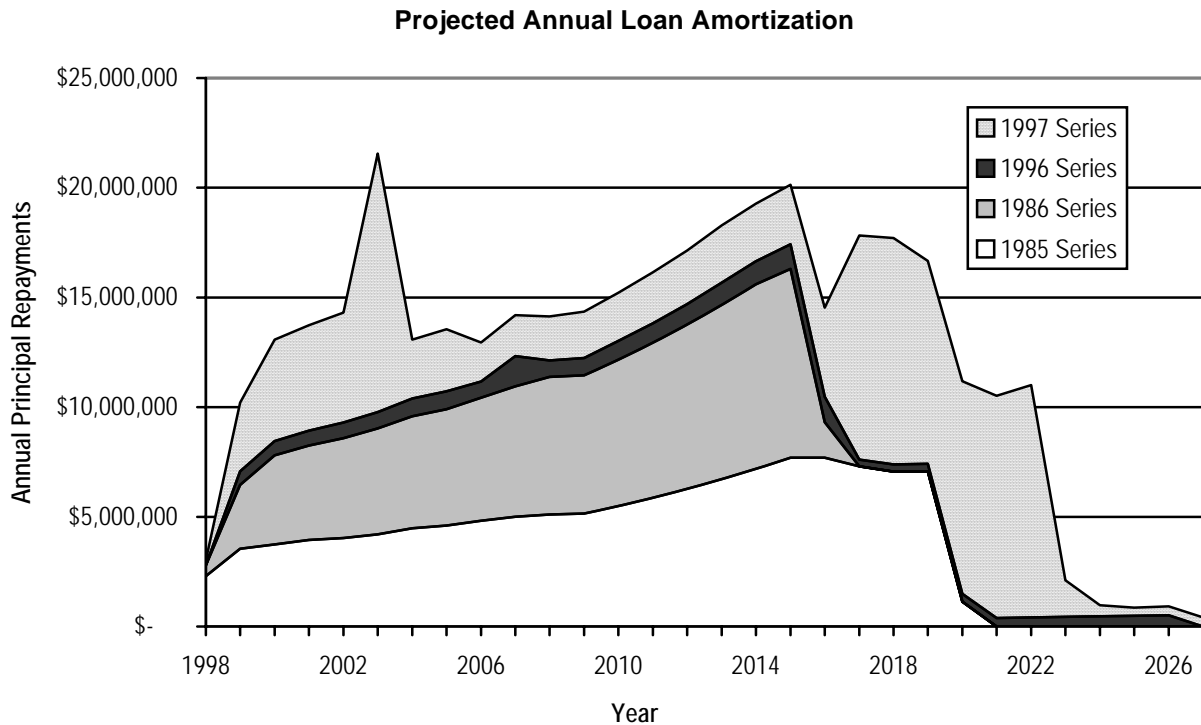
*Source: Delaware Valley Regional Finance Authority*

EACH OF THE AUTHORITY'S BOND ISSUES IS SEPARATELY SECURED AND DOES NOT SERVE AS SECURITY FOR ANY OTHER ISSUE OF BONDS OF THE AUTHORITY. THE SOURCES OF PAYMENT OF INTEREST ON AND PRINCIPAL OF THE 1998 BONDS ARE SEPARATE AND APART FROM THE SOURCES OF PAYMENT FOR THE 1985 BONDS, 1986 BONDS, 1996 BONDS, AND THE 1997 BONDS. NO REVENUES PLEDGED TO PAYMENT OF INTEREST ON AND PRINCIPAL OF THE 1985 BONDS, 1986 BONDS, 1996 BONDS, AND 1997 BONDS SERVES AS SECURITY FOR THE 1998 BONDS.

A list of the loans outstanding or scheduled for closing as of June 30, 1998 is set forth in the table below.



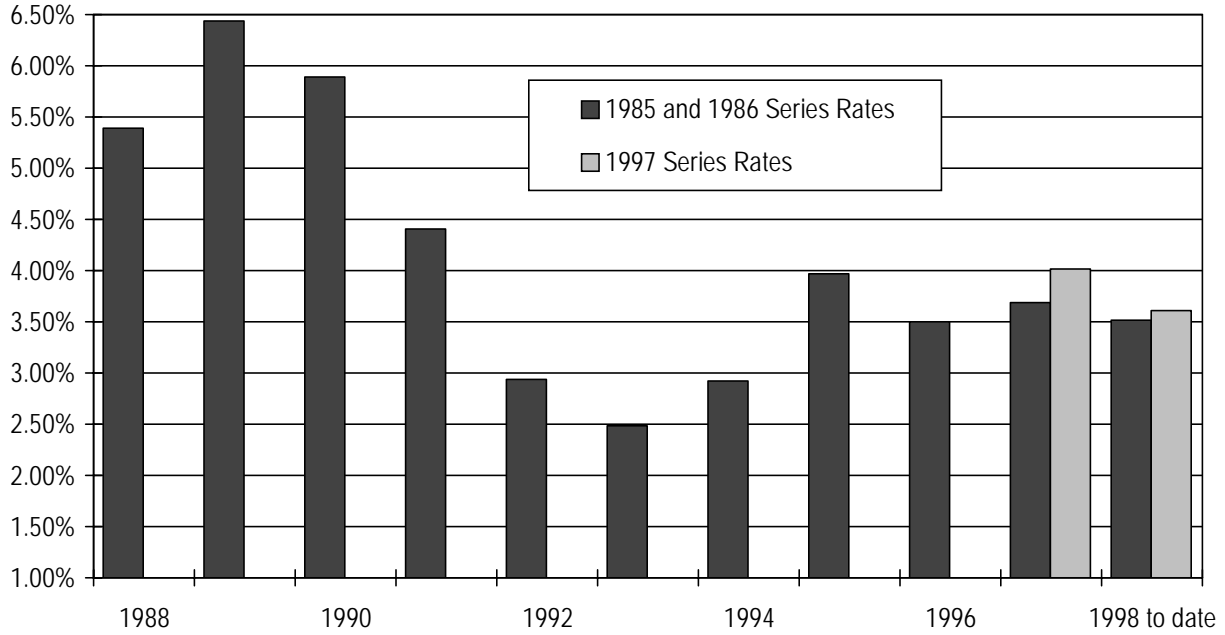
Loans from the Authority are usually amortized over a period that approximates the useful life of the projects funded from the loans. The amortization period of a loan cannot exceed the maturity of the Authority's bond issue that was used to fund the loan. Loans from the 1985 Bonds must be amortized by 2020, loans from the 1986 Bonds by 2016, loans from the 1996 Bonds by 2026, and loans from the 1997 Bonds by 2027. The weighted average loan maturity (from June 30, 1998) is 12.53 years for the 1985 Bonds, 10.61 years for the 1986 Bonds, 12.93 years for the 1996 Bonds, and 15.16 years for the 1997 Bonds. A chart of the projected annual loan amortization of the Authority's loan programs is set forth below.



*Source: Delaware Valley Regional Finance Authority*

The Authority's loan programs have been successful due to the low issuance costs, administrative fees, and interest rates of the loans. Currently, the Authority assesses an origination fee equal to 0.40% of the principal amount of the loan. The only additional costs that borrowers presently incur are the fees for their solicitors or advisors to review documents, advertising costs, and application fees to the Commonwealth of Pennsylvania for approval of the debt of the borrower or its guarantor. The origination fees are a fraction of the costs that would be incurred by a borrower to issue bonds. The Authority currently is not assessing an administrative fee for any of its loan programs. The interest rates of the Authority's loan programs have been competitive to other options available to borrowers. The average interest rate for variable rate loans since 1988 has been approximately 4.13%. A chart of the interest rates on variable rate loans since 1988 is set forth below.

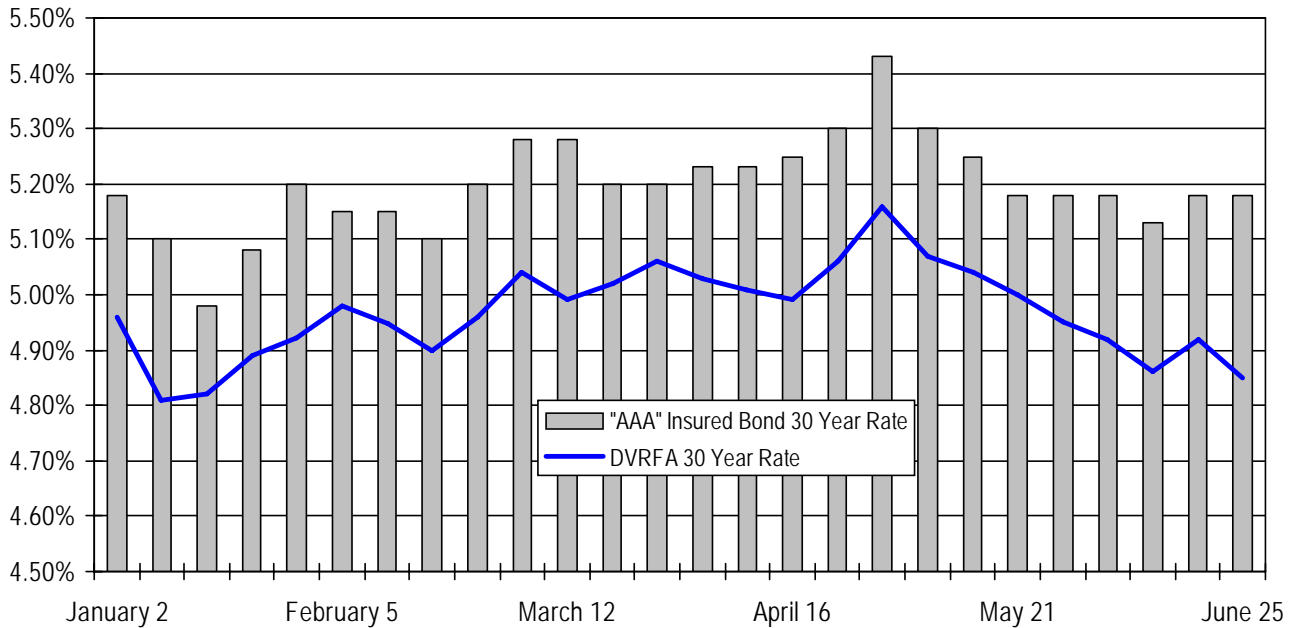
### Annual Average Variable Rate Loan Interest Rates



Source: Delaware Valley Regional Finance Authority

In 1998, the Authority began offering fixed rate loans from the loan program of the 1997 Bonds. Long term interest rates of the fixed rate loan program have averaged about 0.22% lower than comparable rates of insured bonds. A chart that compares the rates is set forth below.

### Comparison of Fixed Interest Rates in 1998



Source: Merrill Lynch & Co.

## LOAN PROGRAM OF THE 1998 BONDS

Since 1989, the Authority has not possessed funds sufficient to meet the demand for loans. Currently, the Authority cannot fund all of the loan applications that have been received. A table that sets forth the status of applications and the availability of funds is set forth below.

### Loans Outstanding, Loans in Process, and Funds Available for Loans as of June 30, 1998

	<i>Dedicated Loan Funds</i>	Loans Outstanding or in Process			<i>Funds Available for Loans</i>
		<i>Outstanding</i>	<i>In Process</i>	<i>Total</i>	
1985 Series Loans	\$120,531,250	\$111,518,807	\$ 9,895,000	\$ 121,413,807	\$ (882,557) <sup>(1)</sup>
1986 Series Loans	103,500,000	61,793,758	41,705,000	103,498,758	1,242
1996 Series Loans	19,765,000	19,765,000		19,765,000	-
1997 Series Loans	<u>126,000,000</u>	<u>75,150,000</u>	<u>54,035,000</u>	<u>129,185,000</u>	<u>(3,185,000) <sup>(1)</sup></u>
Total	<u>\$369,796,250</u>	<u>\$268,227,565</u>	<u>\$105,635,000</u>	<u>\$373,862,565</u>	<u>\$(4,066,315)</u>

(1) Applications for loans exceed the funds that are currently available; these loans will be funded from the proceeds of the 1998 Bonds or from future repayments of outstanding loans.

*Source: Delaware Valley Regional Finance Authority*

The Loan Program of the 1998 Bonds (“Loan Program”) is being developed to provide additional funds for both fixed and variable rate loans. The Authority expects that the Loan Program will be comparable to that of the 1997 Bonds. The Authority plans to offer Loans on terms similar to those of its existing loan programs. The major provisions of the Loans are set forth below:

- The Authority will charge an origination fee.
- The Authority may assess a “Monthly Finance Charge” to pay administrative costs, an allocation of non-asset bonds, and any rebate liability of the Authority associated with the 1998 Bonds. Initially, the Authority does not plan to assess a Monthly Finance Charge.
- Interest will be payable monthly.
- Principal will be payable annually.

EACH LOAN AGREEMENT AND PARTICIPANT BOND WILL BE SECURED BY THE FULL FAITH, CREDIT AND TAXING POWER OF THE PARTICIPANT OR A GUARANTOR. The Loan Agreement will require each Participant to comply, to the extent applicable, with the continuing disclosure requirements of Rule 15c2-12(b)(5) of the Securities and Exchange Commission (“SEC”), and each Participant will execute a Continuing Disclosure Agreement. See “CONTINUING DISCLOSURE” for further discussion.

In order to assess potential interest in the Loan Program, the Program Administrator conducted a telephonic and written survey of the school districts and counties in the Authority's service area. Boroughs, townships, and authorities were not surveyed; estimates of the funding requirements of these local government units and political subdivisions were not included. The results of the survey are set forth below:

**1998 Survey of Capital Requirements**

<u>Local Government</u>	<u>Year</u>				<u>Total</u>
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	
Bucks County					
County (1)	\$ 6,000,000	\$ -	\$ -	\$ -	\$ 6,000,000
School Districts (2)(3)	<u>64,250,000</u>	<u>49,250,000</u>	<u>111,000,000</u>	<u>61,000,000</u>	<u>285,500,000</u>
Subtotal	<u>70,250,000</u>	<u>49,250,000</u>	<u>111,000,000</u>	<u>61,000,000</u>	<u>291,500,000</u>
Chester County					
County	13,678,700	8,530,150	7,183,000	11,701,500	41,093,350
School Districts (2)(4)	<u>69,000,000</u>	<u>77,000,000</u>	<u>46,000,000</u>	<u>23,500,000</u>	<u>215,500,000</u>
Subtotal	<u>82,678,700</u>	<u>85,530,150</u>	<u>53,183,000</u>	<u>35,201,500</u>	<u>256,593,350</u>
Delaware County					
County	-	-	15,000,000	15,000,000	30,000,000
School Districts (2)(5)	<u>85,900,000</u>	<u>45,400,000</u>	<u>67,400,000</u>	<u>36,800,000</u>	<u>235,500,000</u>
Subtotal	<u>85,900,000</u>	<u>45,400,000</u>	<u>82,400,000</u>	<u>51,800,000</u>	<u>265,500,000</u>
Montgomery County					
County	60,000,000	-	60,000,000	-	120,000,000
School Districts (2)(6)	<u>79,000,000</u>	<u>36,000,000</u>	<u>39,000,000</u>	<u>79,000,000</u>	<u>233,000,000</u>
Subtotal	<u>139,000,000</u>	<u>36,000,000</u>	<u>99,000,000</u>	<u>79,000,000</u>	<u>353,000,000</u>
Total	<u>\$377,828,700</u>	<u>\$216,180,150</u>	<u>\$345,583,000</u>	<u>\$227,001,500</u>	<u>\$1,166,593,350</u>

- (1) The Counties operate on fiscal years ending December 31.
- (2) School Districts operate on fiscal years ending June 30. The survey covers the period from July 1, 1998, to June 30, 2002.
- (3) Ten of the thirteen school districts responded to the survey.
- (4) All twelve of the school districts responded to the survey.
- (5) Thirteen of the fifteen school districts responded to the survey.
- (6) Twenty of the twenty-two school districts responded to the survey.

*Source: Calhoun, Baker Inc.*

Based upon the results of the survey and the Authority's history of loan origination, the Program Administrator expects that the demand for funds for capital projects in the Authority's four county service area will be at least 400% of the Authority's available funds.

WHILE THE AUTHORITY REASONABLY EXPECTS THAT LOANS WILL BE ORIGINATED WITH THE PROCEEDS OF THE 1998 BONDS, NO ASSURANCE OF SUCH LOAN ORIGINATION CAN BE GIVEN.

## FINANCIAL OPERATIONS

The Authority's principal sources of revenues are (i) interest payments on loans to local government units, (ii) investment earnings on reserve funds, revolving loan funds and other available funds, and (iii) origination fees for new loans. The Authority's principal expenses are (i) interest on the Authority's bonds, (ii) letter of credit fees, (iii) remarketing fees and (iv) administrative expenses. The Authority is permitted to assess an administrative fee to Participants from its various loan programs; however, this fee has not been assessed for the 1985 Bonds and 1986 Bonds since 1992. Administrative fees of 0.04% assessed to Participants with respect to the 1997 Bonds were eliminated in April 1998. The Authority's accumulated Fund Equity has been sufficient to pay all administrative expenses.

Summaries of the Authority's financial statements from 1993 to 1997 are set forth below. See "Appendix II: FINANCIAL STATEMENTS OF THE DELAWARE VALLEY REGIONAL FINANCE AUTHORITY FOR THE YEAR ENDED DECEMBER 31, 1997" for additional information. The Authority's Fund Equity has averaged approximately \$7,175,000 during the past five years. The Authority may utilize a portion of its Fund Equity to fund a portion of the issuance costs of any future bond issues and to provide liquidity for future loan programs.

### Delaware Valley Regional Finance Authority Balance Sheets for the Years Ending December 31

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<b>Assets</b>					
Cash and Cash Equivalents	\$ 73,291,895	\$ 5,349,713	\$ 11,520,612	\$ 32,649,218	\$ 83,980,529
Restricted Cash Equivalents	25,022,812	25,893,238	25,909,875	25,929,346	51,079,303
Loans to Local Government Units (1)(2)	166,447,422	234,704,753	228,847,766	228,601,123	295,362,889
Accrued Interest Receivable					
Loans	352,304	855,556	849,151	1,002,272	1,095,146
Investments	386,430	150,440	159,052	268,575	299,173
Bond Original Issue Discount (2)				149,431	143,376
Prepaid Expenses	33,954	43,424	47,651	47,374	48,364
Unamortized Bond Issuance Costs	<u>2,900,821</u>	<u>2,786,255</u>	<u>2,671,689</u>	<u>2,935,878</u>	<u>5,899,386</u>
Total	<u>\$ 268,435,638</u>	<u>\$ 269,783,379</u>	<u>\$ 270,005,796</u>	<u>\$ 291,583,217</u>	<u>\$ 437,908,166</u>
<b>Liabilities and Fund Equity</b>					
Accrued Expenses	\$ 234,754	\$ 228,004	\$ 270,565	\$ 246,842	\$ 226,215
Accrued Interest Payable	549,727	882,240	920,116	1,400,020	4,922,718
Bonds Payable (2)	260,000,000	260,000,000	260,000,000	280,930,000	420,365,000
Due to Local Government Units (1)	554,062	1,424,488	1,441,125	1,333,502	997,938
Loan Original Issue Discount (2)				149,431	143,376
Bond Original Issue Premium					2,795,027
Estimated Rebate Liability					483,271
Unamortized Loan Origination Fees (1)	<u>240,513</u>	<u>265,204</u>	<u>259,283</u>	<u>304,843</u>	<u>271,321</u>
Total Liabilities	<u>261,579,056</u>	<u>262,799,936</u>	<u>262,891,089</u>	<u>284,364,638</u>	<u>430,204,866</u>
Fund Equity	<u>6,856,582</u>	<u>6,983,443</u>	<u>7,114,707</u>	<u>7,218,579</u>	<u>7,703,300</u>
Total	<u>\$ 268,435,638</u>	<u>\$ 269,783,379</u>	<u>\$ 270,005,796</u>	<u>\$ 291,583,217</u>	<u>\$ 437,908,166</u>

(1) Adjusted in 1993 to conform to the accounting treatment from 1994 to 1997.

(2) Adjusted in 1996 to conform to accounting treatment in 1997.

Sources: Financial Statements for the Years Ended December 31, 1993 - 1997

**Delaware Valley Regional Finance Authority**  
**Statements of Revenues, Expenses, and Changes in Fund Equity**  
**for the Years Ended December 31**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<b>Revenues</b>					
Interest Income					
Loans	\$ 4,009,052	\$ 5,496,204	\$ 8,041,191	\$ 7,822,805	\$ 9,138,219
Investments	3,539,662	3,436,683	3,672,864	3,210,112	6,039,382
Interest Rate Swaps					3,198,492
Miscellaneous					77,654
Amortization of Bond Original Issue Premium					47,373
Amortization of Loan Origination Fees	25,065	14,353	43,217	48,038	28,367
Amortization of Loan Original Issue Discount	-	-	-	3,162	6,055
Total	<u>7,573,779</u>	<u>8,947,240</u>	<u>11,757,272</u>	<u>11,084,117</u>	<u>18,535,542</u>
<b>Expenses</b>					
Interest Expense					
Bonds Payable	6,607,378	7,601,194	10,322,966	9,747,262	13,978,819
Interest Rate Swaps					2,607,146
Letter of Credit Fees	496,998	516,446	585,764	536,911	562,931
Administration	558,671	588,173	602,712	571,924	716,687
Amortization of Bond Issuance Costs	114,566	114,566	114,566	120,986	179,183
Amortization of Bond Original Issue Discount	-	-	-	3,162	6,055
Total	<u>7,777,613</u>	<u>8,820,379</u>	<u>11,626,008</u>	<u>10,980,245</u>	<u>18,050,821</u>
<b>Excess (Deficiency)</b>	(203,834)	126,861	131,264	103,872	484,721
<b>Fund Equity Beginning</b>	<u>7,060,416</u>	<u>6,856,582</u>	<u>6,983,443</u>	<u>7,114,707</u>	<u>7,218,579</u>
<b>Fund Equity Ending</b>	<u>\$ 6,856,582</u>	<u>\$ 6,983,443</u>	<u>\$ 7,114,707</u>	<u>\$ 7,218,579</u>	<u>\$ 7,703,300</u>

*Sources: Financial Statements for the Years Ended December 31, 1993 - 1997*

THE AUTHORITY'S FUND EQUITY IS NOT PLEDGED TO SECURE THE 1998 BONDS. EACH SERIES OF THE AUTHORITY'S BONDS IS SECURED ONLY BY ITS RESPECTIVE TRUST ESTATE. THE 1998 BONDS WILL BE SECURED SOLELY BY THE TRUST ESTATE OF THE 1998 BONDS. EACH PARTICIPANT OR GUARANTOR, AS APPLICABLE, HAS PLEDGED ITS FULL FAITH, CREDIT AND TAXING POWER FOR THE REPAYMENT OF THE OBLIGATIONS UNDER ITS RESPECTIVE LOAN AGREEMENT OR GUARANTY.

## TAX MATTERS

### FEDERAL TAX EXEMPTION

In the opinion of Bond Counsel, under laws, regulations, rulings and judicial decisions existing on the date of original delivery of the 1998 Bonds, interest on the 1998 Bonds is excluded from gross income of the holders thereof for Federal income tax purposes and will not be a specific preference item for purposes of computing the Federal alternative minimum tax imposed on individuals and corporations. However, interest on the 1998 Bonds is taken into account in determining adjusted current earnings for the purpose of computing the Federal alternative

minimum tax imposed on corporations (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit). In addition, interest on the 1998 Bonds is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States. Further, interest on the 1998 Bonds may be subject to federal income taxation under Section 1375 of the Internal Revenue Code of 1986, as amended (“Code”) for an S corporation which has Subchapter C earnings and profits at the close of the taxable year if more than 25% of the gross receipts of such S corporation is passive investment income.

Ownership of the 1998 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the 1998 Bonds. Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers of the 1998 Bonds who may be subject to such collateral consequences should consult their tax advisors.

In rendering its opinion, Bond Counsel has assumed compliance by the Authority with the covenants contained in the Indenture and compliance by the Authority, and by the Participants which execute Loan Agreements, with the covenants in the Loan Agreements which are intended to comply with the provisions of the Code relating to actions to be taken by the Authority in respect of the 1998 Bonds after the issuance thereof or by the Participants under the Loan Agreements, in each instance, to the extent necessary to effect or maintain the exclusion from federal gross income of the interest on the 1998 Bonds. These covenants relate to, *inter alia*, the use of and investment of proceeds of the 1998 Bonds and the rebate to the United States Treasury of specified arbitrage earnings, if any. Failure of the Authority and/or the Participants to comply with such covenants could result in the interest on the 1998 Bonds becoming includible in gross income for federal income tax purposes from and retroactive to the date of issuance of the 1998 Bonds.

## **PENNSYLVANIA TAX EXEMPTION**

In the opinion of Bond Counsel, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of original delivery of the 1998 Bonds, the 1998 Bonds are exempt from personal property taxes in Pennsylvania and interest on the 1998 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

## **TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM**

The 1998 Bonds, as set forth on the cover page to this Official Statement, were sold at an original issue premium (“OIP”) over their principal amounts. The initial public offering prices of the 1998 Bonds (“OIP Bonds”) are more than the amounts payable at maturity of such OIP Bonds. For Federal income tax purposes, OIP is amortizable periodically over the term of an OIP Bond through reduction in the holder’s tax basis for the OIP Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium does not create a deductible expense or loss. Holders should consult their tax advisers for an explanation of the amortization rules.

**NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATION OR AMENDMENT TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS WHICH COULD CAUSE THE INTEREST ON THE 1998 BONDS TO BE SUBJECT, DIRECTLY OR INDIRECTLY, TO FEDERAL OR COMMONWEALTH OF PENNSYLVANIA INCOME TAXATION, ADVERSELY AFFECTING THE MARKET PRICE OR MARKETABILITY OF THE BONDS.**

**PROSPECTIVE PURCHASERS OF THE 1998 BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE 1998 BONDS AS TO THE IMPACT OF FEDERAL AND STATE TAX LAWS UPON THE ACQUISITION, HOLDING OR DISPOSITION OF THE 1998 BONDS.**

## **LEGAL MATTERS**

The issuance and delivery of the 1998 Bonds are subject to approval of legality by Mesirov Gelman Jaffe Cramer & Jamieson, LLP, Philadelphia, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the Authority by Ferrara Belefonte McFadden Curran & Ferrara, L.L.P., Media, Pennsylvania, Solicitor to the Authority and for the Underwriters by Breidenbach, Breidenbach, Troncelliti & Bauer, Norristown, Pennsylvania, and Rogers & Wells LLP, New York, New York.

### **LEGALITY FOR INVESTMENT**

Applicable laws of the Commonwealth of Pennsylvania provide that the 1998 Bonds are legal investments for funds held by, among others, banks, savings banks, trust companies, insurance companies or associations and fiduciaries. The 1998 Bonds are authorized security for deposits of funds of the Commonwealth of Pennsylvania and any political subdivision thereof.

### **LIMITATION OF REMEDIES UNDER THE FEDERAL BANKRUPTCY LAWS**

Enforcement of the rights of the holders of the 1998 Bonds may be limited by and subject to the provisions of Federal bankruptcy laws, as now or hereafter enacted, or to other laws or equitable principles which may affect enforcement of creditors' rights.

### **NO LITIGATION AFFECTING THE 1998 BONDS**

No litigation or legal proceeding of any nature is now pending or, to the knowledge of the Authority, threatened that (i) seeks to restrain or enjoin the issuance, sale, execution, or delivery of the 1998 Bonds, (ii) contests the validity of the 1998 Bonds or any actions of the Authority with respect to the issuance, sale, execution or delivery of the 1998 Bonds, (iii) contests the pledge or application of any moneys or security provided for the payment of the 1998 Bonds, or (iv) contests the existence of the Authority or the powers of the Authority to accomplish the purposes for which the 1998 Bonds are being issued.

### **ADDITIONAL INFORMATION**

Additional information concerning the Authority is available to the public. Persons wishing to obtain copies of the Authority's Financial Statements for the Year Ended December 31, 1997, the Authority's 1998 Budget, the Resolution or Indenture for the 1998 Bonds, Bond Purchase Agreement or other information should address such requests to:

Calhoun, Baker Inc.  
Program Administrator  
Delaware Valley Regional Finance Authority  
1811 Bethlehem Pike  
Flourtown Commons, Suite 350  
Flourtown, PA 19031

The Authority may charge a fee for costs of reproduction and mailing of the information requested.

### **UNDERWRITING**

The 1998 Bonds are being purchased by Merrill Lynch & Co., Dolphin & Bradbury Inc., First American Municipals, Inc., Janney Montgomery Scott Inc., and Legg Mason Wood Walker Incorporated, (the "Underwriters"). The Underwriters have agreed to purchase the 1998 Bonds from the Authority, subject to the terms of the purchase agreement between the Authority and the Underwriters ("Bond Purchase Agreement"), at a purchase price of \$ 320,849,875.71 (which is equal to the par amount of \$300,000,000 less (i) the underwriters' discount of \$2,415,957.63 plus (ii) the original issue premium of \$21,845,000 plus (iii) accrued interest of \$1,420,833.34). The Bond Purchase Agreement provides that all of the 1998 Bonds will be purchased if any are

purchased and is subject to certain terms and conditions set forth therein. The Underwriters may offer and sell the 1998 Bonds to certain dealers (including dealers depositing 1998 Bonds into investment trusts) and certain dealer banks and banks acting as agents at prices lower than the public offering prices stated on the cover page hereof. The initial public offering prices stated on the cover page hereof may be changed from time to time by the Underwriters without prior notice.

## **RATINGS**

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services have assigned the 1998 Bonds ratings of "Aaa" and "AAA," respectively, subject to their issuance, based upon the issuance of the Municipal Bond Insurance Policy. Any explanation of these ratings may only be obtained from the rating agencies. Generally, rating agencies base their ratings on such information and materials and on their own investigations, studies and assumptions. No assurance is given that such ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the 1998 Bonds.

## **CONTINUING DISCLOSURE**

In order to allow the Underwriters to comply with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Authority will enter into a Continuing Disclosure Agreement ("Continuing Disclosure Agreement") with the Trustee for the 1998 Bonds which shall constitute a written undertaking for the benefit of the owners and beneficial owners of the 1998 Bonds. Participants and Guarantors will also execute Continuing Disclosure Agreements at the time of the origination of their respective Loans. See "Appendix V: CONTINUING DISCLOSURE AGREEMENT" for the detailed provisions of the Continuing Disclosure Agreement.

## **CERTAIN REFERENCES**

All summaries or descriptions of the provisions of the 1998 Bonds set forth in this Official Statement, and all other references in this Official Statement to other documents not purported to be quoted in full, are made subject to all the detailed provisions thereof, to which reference is hereby made for further information. Such summaries or descriptions are only brief outlines of certain of the provisions of such documents and materials, and do not purport to summarize or describe all of the provisions thereof.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reasonable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as such and not representations of fact.

This Official Statement has been approved, and its distribution authorized, by the Authority.

DELAWARE VALLEY REGIONAL FINANCE AUTHORITY

By: /s/ Robert P. Brendza, Esquire  
Vice Chairman

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**Appendix I**

**SOCIOECONOMIC AND DEMOGRAPHIC CHARACTERISTICS  
OF THE SERVICE AREA OF THE  
DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**

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## Appendix I

# SOCIOECONOMIC AND DEMOGRAPHIC CHARACTERISTICS OF THE SERVICE AREA OF THE DELAWARE VALLEY REGIONAL FINANCE AUTHORITY

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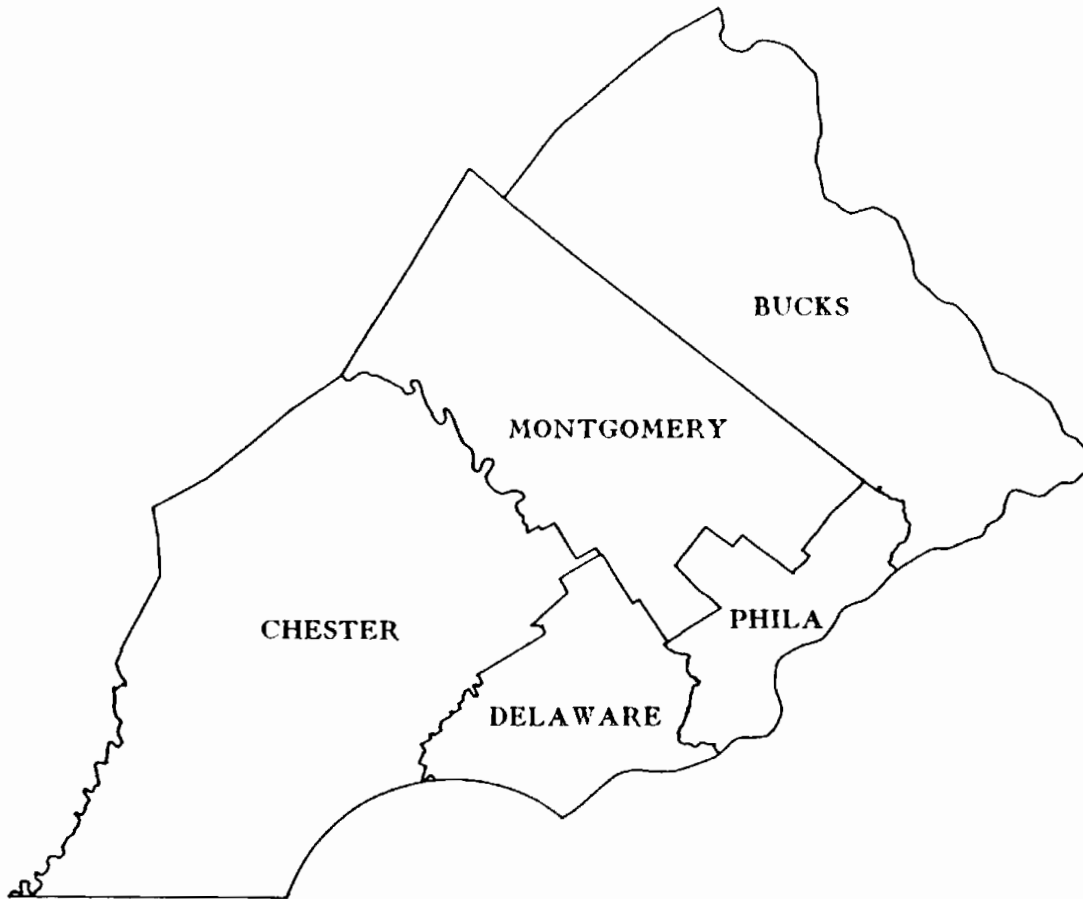
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## Appendix I

# SOCIOECONOMIC AND DEMOGRAPHIC CHARACTERISTICS OF THE SERVICE AREA OF THE DELAWARE VALLEY REGIONAL FINANCE AUTHORITY

### INTRODUCTION

The Service Area of the Delaware Valley Regional Finance Authority (“the DVRFA Service Area”) is comprised of Bucks, Chester, Delaware and Montgomery Counties (the “Counties”). All four Counties are located in the southeastern corner of Pennsylvania (the “Commonwealth” or “Pennsylvania”). They are located in the heart of the Boston-Norfolk “megalopolis.” The DVRFA Service Area is steeped in history and tradition. The first settlement in Pennsylvania was founded in Delaware County in 1643. William Penn built his country manor in Bucks County. The character of this nation was forged during the Revolutionary War at Valley Forge, the Battle of the Brandywine, the Battle of Germantown and Washington’s Crossing of the Delaware.



*Source for Map: Delaware Valley Regional Planning Commission*

The area’s economy is diversified in aerospace, pharmaceutical, health care, finance, computer, and environmental industries and services. The area enjoys relatively high wealth and employment.

## Number of Local Government Units and Political Subdivisions in Each County

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Total</u>
Boroughs	23	15	27	24	89
Townships	31	57	21	38	147
Cities	0	1	1	0	2
School Districts	13	12	15	22	62
Authorities (1)	<u>28</u>	<u>31</u>	<u>17</u>	<u>42</u>	<u>118</u>
Total	<u>95</u>	<u>116</u>	<u>81</u>	<u>126</u>	<u>418</u>

(1) Includes Water, Sewer, Local Government Facilities, and Multi-Purpose (which comprises water and/or sewer and/or local government facilities).

*Source: Pennsylvania State Data Center and Department of Community and Economic Development*

Bucks County is one of the fastest growing counties in the United States. The County's location allows residents to commute to work in areas ranging from Philadelphia to New York City. Bucks County encompasses 54 political subdivisions, 31 townships, 23 boroughs, and 13 school districts. Doylestown Borough is the County Seat.

Chester County is also among the fastest growing counties in the United States, and the County is the second wealthiest County in Pennsylvania. The County has 73 political subdivisions, consisting of one third class city (Coatesville), 15 boroughs, 57 townships and 12 school districts. The Borough of West Chester is the County Seat.

Delaware County is the oldest settled land in Pennsylvania. The County is comprised of 49 political subdivisions, including 27 boroughs, 21 townships, one third class city (Chester City) and 15 school districts. The Borough of Media is the County Seat.

Montgomery County is the wealthiest county in Pennsylvania. Montgomery County has 62 political subdivisions, including 24 boroughs, 38 townships and 22 school districts. The Borough of Norristown is the County Seat. The western section of Montgomery County is principally farmland with the exception of some industries located near the Borough of Pottstown. The remainder of Montgomery County is primarily residential with numerous centers of light industry and service-oriented firms throughout.

### 1990 Population Density

	<u>Square Miles Land</u>	<u>Square Miles Water</u>	<u>Persons Per Square Mile</u>
Bucks County	608.0	15.0	868.7
Chester County	756.0	3.8	495.4
Delaware County	184.2	6.5	2,870.9
Montgomery County	483.1	4.3	1,428.3
Pennsylvania	44,819.6	1,238.6	258.0

*Source: Bureau of the Census*

## POPULATION AND DEMOGRAPHIC TRENDS

From 1950 to 1960, Bucks County was the fastest growing county in Pennsylvania and one of the fastest growing in the nation. Population jumped from 144,620 in 1950 to 308,567 in 1960, or 114% growth. The 1970 population was 416,728, up 35.1% from 1960. The 1980 population was 479,211, up 15% from 1970. The 1990 population was 541,174, up 13% from 1980. In 1990, fourteen of Bucks County's fifty-four municipalities had populations of over 10,000 persons. Average density in 1990 was 870 people per square mile of land and comprises Lower Bucks (2,427), Central Bucks (846) and Upper Bucks (326).

Located midway between New York City and Washington, D.C., Chester County has direct access to the largest concentration of population and jobs in the nation. Reflecting this situation, Chester County continues to experience a steady population increase. The population of Chester County has increased by nearly 80% since 1960. During this period, the rate of growth has been substantially higher than that of Pennsylvania and the nation. The population in 1990 was 376,396, an 18.9% increase since 1980. Most of the growth in Chester County has occurred in the eastern half and along the major highway corridors.

### Population Trends 1960 to 1995

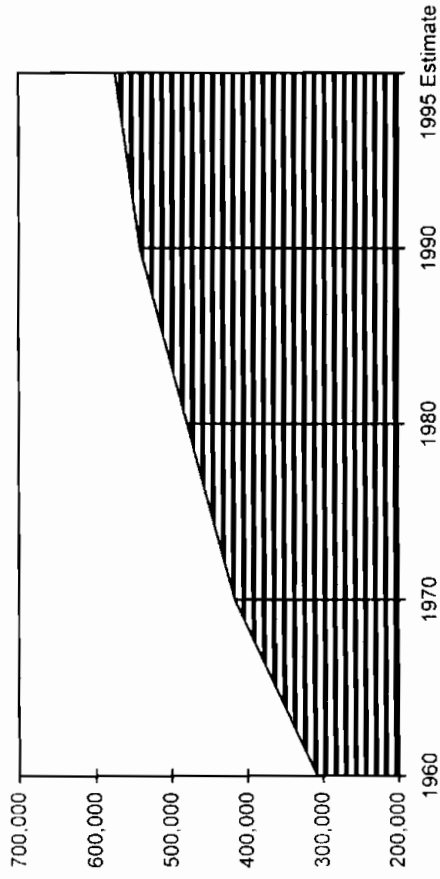
	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1995 Estimate</u>
Bucks County	308,567	416,728	479,211	541,174	573,901
Chester County	210,608	278,311	316,660	376,396	404,945
Delaware County	553,154	603,456	555,007	547,651	548,708
Montgomery County	516,682	624,080	643,377	678,124	705,178
Pennsylvania	11,319,366	11,800,766	11,866,728	11,881,643	12,071,842
United States	179,323,175	203,211,926	226,545,805	248,709,873	262,755,000

*Source: Bureau of the Census*

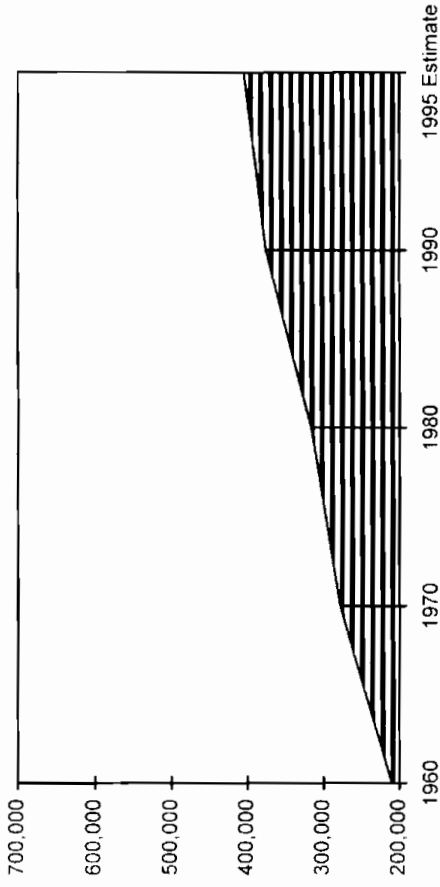
While Delaware County is the third smallest in area in the Commonwealth, it has consistently remained the fourth largest in population. Delaware County's greatest population growth followed World War II. According to the 1990 Census, Delaware County's population is 547,651. This is a decline from 603,456 in 1970 and 555,007 in 1980; however, the decrease from 1980 to 1990 was only 1.3%, an indication that the population is stabilizing. According to the Delaware County Planning Department, two factors are expected to affect population size in the next decade: the decrease in land available for residential development (most is in the western portion of the county) and the fact that most vacant land is zoned for low-density development.

Montgomery County experienced rapid growth in population following World War II. During the 1950s, the County gained 163,614 persons, an increase of more than 46 percent. This growth continued through the 1960s, though at a somewhat slower rate. During the 1960s, the County's population grew by 21 percent, adding 107,398 people. Growth during the 1970s and 1980s has been far more modest. The County added 19,541 persons during the 1970s, a 3.1% increase, and 34,490 during the 1980s, a 5.4% increase. Slow growth is expected in the 1990s. By the year 2000, Montgomery County expects the resident population to be 715,980, an increase of 37,869 persons.

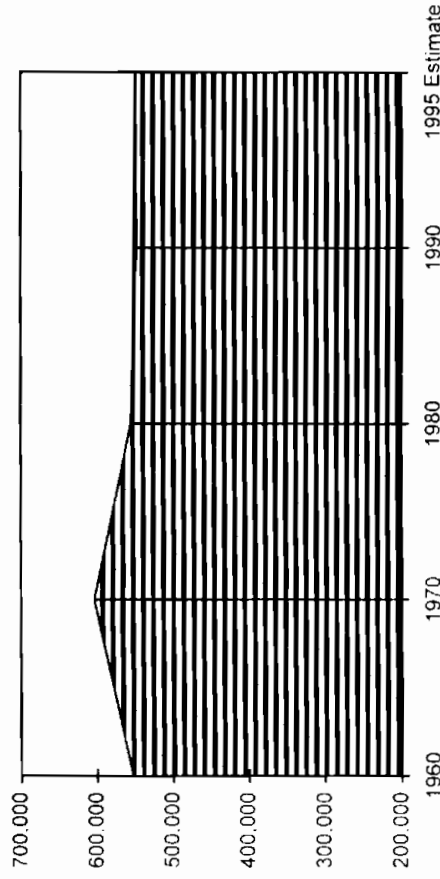
**Bucks County Population 1960 to 1995**



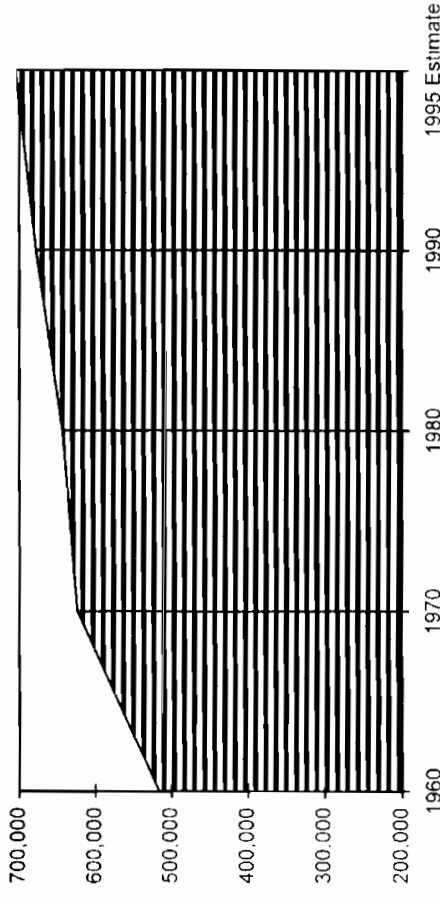
**Chester County Population 1960 to 1995**



**Delaware County Population 1960 to 1995**

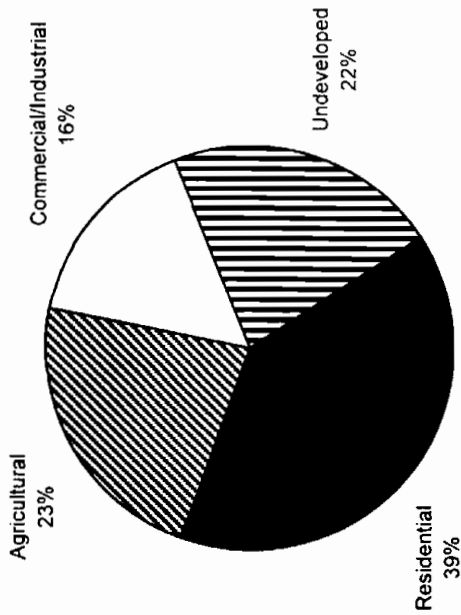


**Montgomery County Population 1960 to 1995**

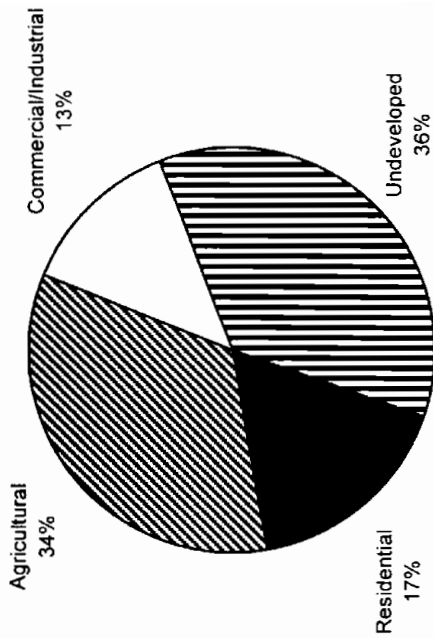


Source: Bureau of the Census

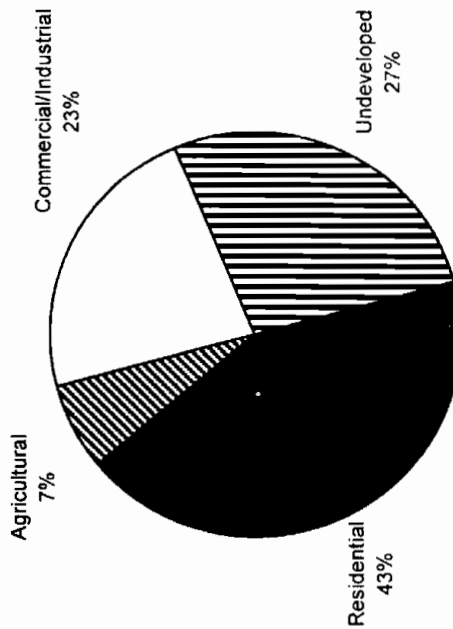
**Bucks County Land Uses in 1990**



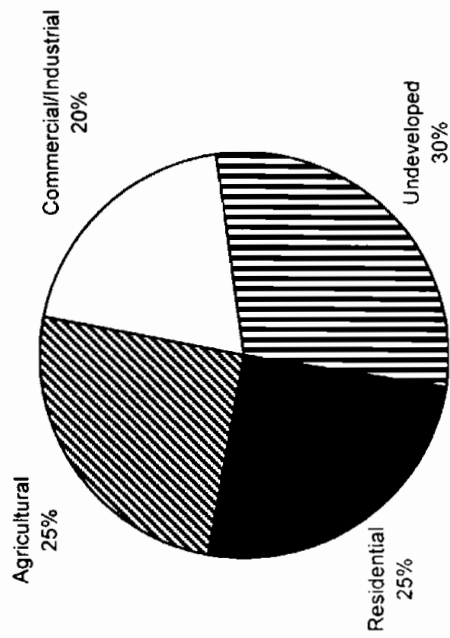
**Chester County Land Uses in 1990**



**Delaware County Land Uses in 1990**



**Montgomery County Land Uses in 1990**



Source: Respective Planning Commissions of the Counties

Below is a table that shows certain demographic trends from 1980 to 1990. In all four Counties, the median age and birth rate per 1,000 population have increased while the persons per household has decreased.

### Demographic Trends, 1980 to 1990

	<u>Median Age</u>	<u>Persons Per Household</u>	<u>Birth Rates per 1,000 Population</u>
<u>1980</u>			
United States	30.0	2.75	15.9
Pennsylvania	32.1	2.74	13.4
Bucks County	29.8	3.02	14.5
Chester County	30.6	2.90	13.9
Delaware County	32.5	2.80	13.1
Montgomery County	33.3	2.79	12.2
<u>1990</u>			
United States	32.9	2.63	16.7
Pennsylvania	35.0	2.57	14.4
Bucks County	33.7	2.80	14.9
Chester County	33.8	2.73	15.7
Delaware County	34.6	2.63	15.4
Montgomery County	35.8	2.58	14.6

Source: Bureau of the Census and Pennsylvania Health Data Center

In all four Counties, family households and married couples comprise a larger proportion of the population than those of Pennsylvania and the nation. This reflects the suburban character of each County.

### Distribution of Household Types in 1990

<u>Type of Household</u>	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Family Households						
Married Couple	65.1%	63.4%	58.6%	60.0%	55.7%	55.1%
Male Head	3.0%	2.8%	3.1%	2.6%	3.3%	3.4%
Female Head	<u>8.4%</u>	<u>8.3%</u>	<u>9.6%</u>	<u>8.3%</u>	<u>11.3%</u>	<u>11.6%</u>
Subtotal	<u>76.6%</u>	<u>74.5%</u>	<u>71.3%</u>	<u>70.9%</u>	<u>70.2%</u>	<u>70.1%</u>
Householder Living Alone						
65 Years or Over	7.1%	6.9%	13.6%	10.2%	11.7%	9.6%
Under 65 Years	<u>12.0%</u>	<u>13.3%</u>	<u>11.2%</u>	<u>14.4%</u>	<u>13.9%</u>	<u>15.0%</u>
Subtotal	<u>19.2%</u>	<u>20.2%</u>	<u>24.8%</u>	<u>24.6%</u>	<u>25.6%</u>	<u>24.6%</u>
Non-Family Households	<u>4.2%</u>	<u>5.3%</u>	<u>3.9%</u>	<u>4.5%</u>	<u>4.2%</u>	<u>5.3%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: Bureau of the Census

Following is a table that shows the age distribution of all four Counties as well as Pennsylvania and the United States. Bucks and Chester Counties have a smaller proportion of elderly residents than Delaware County, Montgomery County, Pennsylvania and the United States. Bucks and Chester Counties also have a higher proportion of young and middle aged adults. Delaware and Montgomery Counties' age distribution is more similar to that of Pennsylvania. Both have a higher proportion of residents over the age of 55.

### Age Distribution in 1989

<u>Age Cohort</u>	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
5 and Under	7.3%	7.4%	7.0%	6.8%	6.7%	7.4%
6 to 17	18.3%	17.5%	16.1%	14.8%	16.8%	18.2%
18 to 24	9.1%	10.0%	10.7%	8.9%	10.3%	10.8%
25 to 44	34.2%	34.0%	31.1%	32.7%	30.8%	32.5%
45 to 54	11.1%	11.4%	9.7%	10.9%	10.2%	10.1%
55 to 64	9.0%	8.7%	9.8%	10.9%	9.8%	8.5%
65 and Over	10.9%	10.9%	15.5%	15.0%	15.4%	12.5%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: Bureau of the Census

According to the 1990 Census, all four Counties have the most educated populations among all Pennsylvania counties. In addition, all four Counties have a significantly higher proportion of residents that are high school and college graduates as compared to Pennsylvania and the country as a whole.

### Comparison of Certain 1990 Educational Statistics of the Counties' Residents

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Persons with 12 or more years of education (25 years or older)	82.9%	84.9%	81.4%	83.8%	74.7%	75.2%
Persons with 16 or more years of education (25 years or older)	24.8%	34.7%	24.8%	32.1%	17.9%	20.3%

Source: Bureau of the Census

## HOUSING CHARACTERISTICS

Below is a table that shows the number of residential building permits issued in the four Counties from 1991 to 1996:

### Residential Building Permits

<u>Year</u>	<u>Bucks County</u> <u>No. of Permits</u>	<u>Chester County</u> <u>No. of Permits</u>	<u>Delaware County</u> <u>No. of Permits</u>	<u>Montgomery County</u> <u>No. of Permits</u>
1991	2,573	2,045	537	1,938
1992	2,712	2,340	659	2,919
1993	3,096	2,030	744	3,578
1994	3,134	2,481	701	2,830
1995	2,508	1,960	725	2,263
1996	2,477	2,290	1,083	3,371

Source: Respective Planning Commissions of the Counties and/or the Bureau of the Census, Building Permits Branch, Manufacturing and Construction Division

The age of the housing stock of Bucks and Chester Counties is younger than that of Delaware's and Montgomery's. Approximately 59% of Bucks County's and over 62% of Chester County's housing stock was built after 1960, whereas approximately 70% of Delaware County's and over 52% of Montgomery County's housing stock was built before 1960.

### Year Housing Units Built, 1990

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Before 1940	12.8%	20.3%	28.0%	23.1%	35.1%	18.4%
1940 to 1949	5.4%	4.6%	17.5%	9.0%	9.7%	8.5%
1950 to 1959	23.2%	12.7%	24.3%	20.3%	14.6%	14.5%
1960 to 1969	16.9%	16.0%	13.5%	17.3%	12.4%	16.1%
1970 to 1979	21.6%	21.4%	9.6%	15.6%	15.8%	21.8%
1980 to 1984	7.8%	9.0%	3.1%	5.7%	5.4%	9.7%
After 1984	<u>12.3%</u>	<u>16.0%</u>	<u>4.0%</u>	<u>9.0%</u>	<u>7.0%</u>	<u>10.9%</u>
<b>Total</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<u>Median Year Built</u>	1965	1968	1952	1959	1954	1965

Source: Bureau of the Census

Single unit detached housing structures comprise over half of the housing stock in Bucks, Chester and Montgomery Counties. In Delaware County, both single unit detached and single unit attached structures comprise a high proportion of the housing stock.

### Structural and Vacancy Characteristics of Housing Units in 1989

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Structural Characteristics						
1 Unit Detached	63.19%	60.74%	42.56%	55.45%	53.39%	59.00%
1 Unit Attached	12.23%	15.60%	32.33%	17.28%	18.42%	5.30%
2 to 4 Units	5.00%	5.65%	9.29%	7.57%	10.28%	9.70%
5 to 9 Units	3.59%	3.64%	2.76%	3.11%	3.46%	4.80%
10 or More Units	12.06%	9.49%	12.03%	14.58%	7.96%	12.90%
Trailer, Other	<u>3.93%</u>	<u>4.88%</u>	<u>1.03%</u>	<u>2.01%</u>	<u>6.48%</u>	<u>8.30%</u>
<b>Total</b>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.0%</u>
Total Number of						
Housing Units	199,934	139,597	211,024	265,856	4,938,140	102,263,678
Mean Number of Rooms	6.3	6.5	6.1	6.3	5.8	5.2
Homeowner Vacancy Rate	1.6%	1.9%	1.2%	1.4%	1.5%	2.1%
Rental Vacancy Rate	8.3%	5.6%	7.3%	6.3%	7.2%	8.5%

Source: Bureau of the Census

The United States Census reported that in 1990 the median value of specified owner-occupied housing in Bucks County was \$140,000, \$155,900 in Chester County, \$113,200 in Delaware County, and \$143,400 in Montgomery County. In each County, the highest proportion of this housing stock was valued within the range of \$100,000 to \$149,999. Approximately 79% of Bucks, 81% of Chester, 58% of Delaware and 79% of Montgomery County's single family homes had a market value in excess of \$100,000 in 1989. The value of the four Counties' single family housing units is significantly greater than that of Pennsylvania and the United States. Housing values, as reported in the 1990 United States Census, for specified owner-occupied housing units located within the four Counties are shown in the table below.

### Value of Specified Single Family Housing Units in 1989 (1)

<u>Value of Single Family Homes</u>	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Less than \$50,000	1.4%	2.6%	8.4%	2.0%	32.1%	25.4%
\$50,000 to \$99,999	19.7%	16.8%	34.1%	18.7%	39.4%	37.8%
\$100,000 to \$149,999	35.1%	27.8%	27.7%	33.6%	15.3%	15.1%
\$150,000 to \$199,999	23.6%	21.1%	16.5%	22.5%	7.0%	8.9%
\$200,000 to \$299,999	15.5%	21.4%	8.6%	14.7%	4.2%	7.5%
\$300,000 or More	<u>4.7%</u>	<u>10.3%</u>	<u>4.7%</u>	<u>8.5%</u>	<u>1.9%</u>	<u>5.3%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Specified housing units only include one-family housing units on less than 10 acres without a commercial establishment or medical office on the property.

Source: Bureau of the Census

### INCOME CHARACTERISTICS

All four Counties are significantly wealthier than the Commonwealth and the nation by various measures of income.

#### Comparison of Household Income Distributions in 1989

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Household Income in 1989						
Less than \$5,000	2.04%	2.17%	3.71%	2.24%	5.45%	6.20%
\$5,000 to \$9,999	4.30%	4.15%	6.52%	4.32%	10.08%	9.30%
\$10,000 to \$14,999	4.78%	4.65%	6.48%	4.83%	9.24%	8.80%
\$15,000 to \$24,999	12.00%	11.74%	14.38%	12.38%	18.23%	17.50%
\$25,000 to \$34,999	14.09%	13.24%	15.05%	13.96%	16.57%	15.80%
\$35,000 to \$49,999	21.65%	19.27%	20.06%	20.19%	18.43%	17.90%
\$50,000 to \$74,999	23.84%	23.03%	19.76%	21.86%	14.08%	15.00%
\$75,000 to \$99,999	9.66%	10.93%	7.52%	9.30%	4.32%	5.10%
\$100,000 to \$149,999	<u>7.65%</u>	<u>10.83%</u>	<u>6.52%</u>	<u>10.90%</u>	<u>3.60%</u>	<u>4.40%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Bureau of the Census

#### General Income Characteristics in 1989

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Per Capita Income	\$18,292	\$20,601	\$17,210	\$21,990	\$14,068	\$14,420
Median Family Income	\$48,851	\$52,325	\$44,323	\$51,353	\$34,856	\$35,225
Percentage of Population Below Poverty Level	3.89%	4.56%	6.79%	3.51%	10.80%	13.10%

Source: Bureau of the Census

#### 1992 to 1996 Per Capita Effective Buying Income (1)

<u>Year</u>	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
1992	\$19,648	\$22,168	\$18,605	\$23,672	\$15,601	\$15,255
1993	\$20,423	\$23,186	\$19,309	\$24,852	\$16,301	\$16,064
1994	\$21,490	\$24,321	\$20,176	\$26,358	\$17,158	\$16,918
1995	\$19,831	\$24,103	\$18,933	\$23,154	\$15,865	\$14,965
1996	\$20,542	\$25,298	\$19,753	\$24,177	\$16,514	\$15,555

Source: Sales and Marketing Management Magazine; 1997 Survey of Buying Power

(1) Effective Buying Income (EBI) is a term used exclusively by Sales and Marketing Management Magazine and comprises income (wages, salaries, other labor income, proprietors' income, rental income, dividends, personal interest income, and transfer payments), less personal taxes, non-tax payments such as fines, and personal contributions for social insurance. The resulting figure, commonly known as "disposable personal income," less the amount paid to overseas military and diplomatic personnel, equals EBI.

### 1996 Distribution of Households by Effective Buying Income (1)

<u>Effective Buying Income</u>	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>
\$20,000 to \$34,999	19.42%	16.38%	23.64%	20.54%	31.63%
\$35,000 to \$49,999	21.97%	17.51%	23.14%	21.47%	25.83%
\$50,000 and Over	<u>58.61%</u>	<u>66.10%</u>	<u>53.22%</u>	<u>57.99%</u>	<u>42.54%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Sales and Marketing Management Magazine; 1997 Survey of Buying Power

(1) Effective Buying Income (EBI) is a term used exclusively by Sales and Marketing Management Magazine and comprises income (wages, salaries, other labor income, proprietors' income, rental income, dividends, personal interest income, and transfer payments), less personal taxes, non-tax payments such as fines, and personal contributions for social insurance. The resulting figure, commonly known as "disposable personal income," less the amount paid to overseas military and diplomatic personnel, equals EBI.

### CERTAIN EMPLOYMENT CHARACTERISTICS

As shown in the table below, the unemployment rate on average has been lower in all four Counties than that of the United States and Pennsylvania.

#### Annual Average Labor Force and Unemployment Statistics

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 (1)</u>	<u>1995 (1)</u>	<u>1996 (1)</u>	<u>1997 (1)</u>
<i>United States</i>							
Total Labor Force	125,303,000	126,982,000	126,040,000	131,056,000	132,304,000	132,450,000	138,297,000
Unemployment Rate	6.70%	7.40%	6.80%	6.10%	5.60%	5.60%	4.90%
<i>Commonwealth of Pennsylvania</i>							
Total Labor Force	5,933,000	6,004,000	5,893,000	5,829,000	5,838,000	5,903,000	5,984,000
Unemployment Rate	6.90%	7.50%	7.00%	6.20%	5.90%	5.30%	5.20%
<i>Montgomery County</i>							
Total Labor Force	374,000	376,400	375,400	373,600	369,400	382,000	389,300
Unemployment Rate	5.10%	5.90%	5.30%	4.80%	4.50%	3.80%	3.70%
<i>Delaware County</i>							
Total Labor Force	276,100	277,600	276,600	274,500	268,800	275,900	278,800
Unemployment Rate	5.50%	6.60%	6.00%	5.20%	5.60%	4.80%	4.60%
<i>Chester County</i>							
Total Labor Force	206,800	209,300	208,800	207,800	208,100	217,700	223,900
Unemployment Rate	4.40%	5.00%	4.50%	3.90%	4.00%	3.30%	3.20%
<i>Bucks County</i>							
Total Labor Force	302,300	304,500	302,800	299,800	298,900	310,300	317,000
Unemployment Rate	6.60%	6.90%	6.10%	5.10%	5.20%	4.40%	4.20%

(1) Due to methodological changes by the Bureau of Labor Statistics, 1994, 1995, 1996, and 1997 data are not strictly comparable to the previous years.

Source: Pennsylvania Department of Labor and Industry

The composition of employment in all four Counties differs from that of Pennsylvania. Chester, Delaware and Montgomery Counties have higher proportions in the services industry, finance, insurance and real estate. Bucks County has a significantly higher proportion of employment in the retail trade.

### Distribution of Covered Employment in 1996 (1)

<u>Employment Sector</u>	<u>Pennsylvania</u>	<u>Montgomery County</u>	<u>Delaware County</u>	<u>Chester County</u>	<u>Bucks County</u>
Manufacturing	18.03%	19.88%	12.99%	17.10%	19.19%
Agricultural, Forest, and Fishing	0.81%	0.77%	0.75%	3.13%	1.21%
Mining	0.38%	0.05%	0.05%	0.07%	0.19%
Construction	3.92%	4.66%	3.77%	4.31%	5.03%
Transportation and Public Utilities	5.03%	4.09%	5.85%	4.87%	2.88%
Wholesale Trade	5.06%	6.06%	4.59%	5.95%	6.55%
Retail Trade	18.22%	16.92%	19.67%	16.17%	21.51%
Finance, Insurance, and Real Estate	5.95%	8.91%	6.33%	8.75%	4.51%
Services	29.29%	31.47%	35.27%	30.11%	29.20%
Government					
Local	8.28%	5.10%	8.32%	6.71%	8.02%
State	2.65%	1.01%	1.34%	1.47%	0.60%
Federal	2.38%	1.08%	1.08%	1.36%	1.12%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) 1996 information is the most recent available.

*Source: Pennsylvania Department of Labor and Industry*

A higher proportion of all four Counties' residents are employed in the Management/Professional Specialty and Technical Sales/Administrative Support employment areas than that of Pennsylvania and the United States. A lower percentage of all four Counties' residents are employed in the Operator/Fabricator Laborer areas of employment.

### Occupations of Employed Persons Age 16 or Older, 1990

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>	<u>Pennsylvania</u>	<u>United States</u>
Management/ Professional Specialty	29.4%	34.6%	31.4%	35.1%	25.2%	26.4%
Technical Sales/ Administrative Support	35.2%	32.8%	35.5%	35.2%	31.7%	31.7%
Service	9.2%	9.7%	10.7%	8.8%	13.0%	13.2%
Farming/ Forestry/Fishing	1.1%	2.8%	0.8%	1.0%	1.7%	2.5%
Precision Production Craft/Repair	12.2%	9.4%	11.1%	9.5%	11.6%	11.3%
Operator/Fabricator Laborer	<u>12.9%</u>	<u>10.7%</u>	<u>10.5%</u>	<u>10.4%</u>	<u>16.8%</u>	<u>14.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Source: Bureau of the Census*

## BUCKS COUNTY'S LARGEST EMPLOYERS

The County's leading private employers are Rohm and Haas Co. (1,114), USX Corp., Woods Services (1,113) and Union Fidelity Life Insurance Co. (913). As the table below illustrates, the County has two large healthcare facilities.

**Largest Private and Public Employers in Bucks County as of December, 1997  
(ranked by number of local full-time employees)**

<u>Employers</u>	<u>Approximate No. of Employees</u>	<u>Type of Business</u>
United States Government (1)	2,440	National Government
County of Bucks	2,279	County Government
Central Bucks School District	1,387	Education
Pennsylvania State Government (1)	1,302	State Government
Rohm and Haas Co.	1,114	Specialty chemicals and plastics manufacturer
Woods Services	1,113	Nonprofit facility serving children-adults w/developmental, neurological, social, emotional problems.
Union Fidelity Life Insurance Co.	913	Direct-response and small group insurance company
U.S. Steel Fairless Works	900	Manufacturer of flat-rolled and tubular steel products
BetzDearborn Inc.	896	Publicly held supplier of specialty chemicals
St. Mary Medical Center	857	Nonprofit acute-care medical provider
Waste Management Inc. Philadelphia Office	800	Provider of comprehensive solid waste services
Ametek Inc.	700	Manufacturer of electrical and electronic products
Charming Shoppes Inc.	700	Publicly held chain of retail women's apparel stores
Penn Engineering & Manufacturing Corp.	700	Manufacturer and designer of self-clinching fasteners
Grandview Hospital	651	Non-profit acute-care hospital

(1) Average employed monthly in 1996. 1996 data is the most recent available from the Pennsylvania Department of Labor.

*Source for Private Employers: Philadelphia Business Journal, 1997 Edition Book of Business Lists*

*Source for Public Employers: Pennsylvania Department of Labor for Federal and State employees and the respective County and School District listed above*

**CHESTER COUNTY'S LARGEST EMPLOYERS**

The County's largest employers reflect the importance of finance and high technology firms in the local economy.

**Largest Private and Public Employers in Chester County as of December, 1997  
(ranked by number of local full-time employees)**

<u>Employers</u>	<u>Approximate No. of Employees</u>	<u>Type of Business</u>
The Vanguard Group	4,600	Financial services
Shared Medical Systems Corp.	3,300	Provider of automated healthcare information systems and service solutions
Commonwealth of Pennsylvania (1)	2,663	State Government
United States Government (1)	2,474	National government
Chester County	2,220	County government
QVC Inc.	2,031	Publicly held electronic retailer
Lukens Inc.	1,630	Publicly held manufacturer of specialty steels
Providian	1,400	Publicly held provider of consumer financial products and services
The Devereaux Foundation	1,200	Nonprofit human services organization
Unisys Corporation	1,100	Publicly held provider of information services, technology and software
Main Line Health Inc.	1,085	Nonprofit health system
Johnson Matthey Investments Inc.	1,006	Publicly held holding company
DecisionOne Corporation	932	Publicly held computer maintenance and technology support services company
PECO Energy Co.	824	Publicly held electric and natural gas utility
Brandywine Health System	797	Nonprofit health system

(1) Average employed monthly in 1996. 1996 data is the most recent available from the Pennsylvania Department of Labor.

*Source for Private Employers: Philadelphia Business Journal, 1997 Edition Book of Business Lists*

*Source for Public Employers: Pennsylvania Department of Labor for Federal and State employees and the respective County listed above*

## DELAWARE COUNTY'S LARGEST EMPLOYERS

The County's approximately 8,000 small businesses offer an array of goods and services to meet the needs of consumers of all kinds. Additionally, there are 18 major corporations, many of whom sub-contract work to the County's smaller firms. Joining Boeing Defense & Space Group, Crozer-Keystone Health System, and United Parcel Service of America, Inc. as the largest private employers in the county are Wyeth-Ayerst Laboratories, Villanova University, and Sun Co., Inc. in fourth, fifth and sixth places, respectively.

### Largest Private and Public Employers in Delaware County as of December, 1997 (ranked by number of local full-time employees)

<u>Employers</u>	<u>Approximate No. of Employees</u>	<u>Type of Business</u>
Boeing Defense & Space Group, Helicopters Division	5,800	Manufacturing and sales of rotocraft
Crozer-Keystone Health System	4032 (1)	Nonprofit health system
United Parcel Service of America, Inc.	3,500	Privately held package distribution company.
Wyeth-Ayerst Laboratories, Inc.	3,000	Publicly held research-based pharmaceutical company.
Delaware County	3,000	County government
Pennsylvania State Government (1)	2,744	State government
United States Government (1)	2,211	Federal government
Villanova University	1,575	Private four year school offering baccalaureate programs
Sun Co., Inc.	1,518	Publicly held petroleum refiner and marketer
Mercy Health System of Southeastern Pennsylvania	1,450	Integrated, multi-institutional, health-care system
Arco Chemical Co.	1,400	World headquarters, world-scale research and engineering site
The Franklin Mint	1,400	Worldwide direct response marketer of collectibles and luxury home products
Elwyn Inc.	1,160	Nonprofit human services organization
Bell Atlantic Corp.	1,100	Publicly held telecommunications services
Kimberly-Clark Corporation	1,040	Publicly held manufacturer of paper products
PECO Energy Co.	975	Publicly held electric and natural gas and energy services provider

(1) Average employed monthly in 1996. 1996 data is the most recent available from the Pennsylvania Department of Labor.

Source for Private Employers: *Philadelphia Business Journal*, 1997 Edition Book of Business Lists

Source for Public Employers: *Pennsylvania Department of Labor for Federal and State employees and the respective County listed above*

## MONTGOMERY COUNTY'S LARGEST EMPLOYERS

The ten largest employers in Montgomery County are listed below. The employers are predominantly pharmaceutical, defense, computer and governmental. The concentration of pharmaceutical firms increased in late 1992 when Sterling Pharmaceuticals opened a new laboratory and research center in Collegeville and Rhone, Poulenc & Rorer added a new research department at its facilities in Collegeville. Combined employment of the two firms increased by nearly 4,300 workers.

### Largest Private and Public Employers in Montgomery County as of December, 1997 (ranked by number of local full-time employees)

<u>Employers</u>	<u>Approximate No. of Employees</u>	<u>Type of Business</u>
The Prudential Insurance Company of America	7,500	Insurance services
Merck & Co., Inc.	7,000	Publicly held pharmaceutical products and services
Lockheed Martin Corporation	4,800	Publicly held technology company
United States Government (1)	4,685	National government
SmithKline Beecham	4,625	Publicly held researcher, developer, manufacturer and marketer of pharmaceuticals

**Largest Private and Public Employers in Montgomery County as of December, 1997 continued  
(ranked by number of local full-time employees)**

Pennsylvania State Government (1)	4,397	State government
Montgomery County	3,391	County government
Aetna U.S. Healthcare	3,143	Publicly held unit of Aetna Inc.; provider of managed-care products and services
Main Line Health Inc.	2,721	Nonprofit hospitals
Unisys Corporation	2,200	Publicly held information services, technology and software company
Advanta Corporation	2,129	Publicly held provider of credit cards, mortgages, small equipment leases, insurance
Rhone-Poulenc Rorer Inc.	2,100	Publicly held pharmaceutical company
Abington Memorial Hospital	1,963	Nonprofit teaching hospital and satellite health center
Ford Electronics and Refrigeration Corp. North Penn Facility	1,750	Publicly held manufacturer of automotive electronic components
Moyer Packing Company	1,452	Privately held pork packing and rendering company

(1) Average employed monthly in 1996. 1996 data is the most recent available from the Pennsylvania Department of Labor.

*Source for Private Employers: Philadelphia Business Journal, 1997 Edition Book of Business Lists*

*Source for Public Employers: Pennsylvania Department of Labor for Federal and State employees and the respective County and School District listed above*

**EDUCATION**

In addition to the higher education facilities in the table below, the Philadelphia metropolitan area includes over 70 additional degree-granting institutions, offering all four Counties a wide variety of educational choices.

**Higher Education Enrollment**

*1997 Undergraduate  
Full-time Enrollment*

*Bucks County Higher Education Facilities*

Bucks County Community College (both Newtown and Bristol Campuses)	2,809
Philadelphia College of Textiles and Science	1,954
Delaware Valley College of Science and Agriculture	1,412
Philadelphia College of Bible	991

*Chester County Higher Education Facilities*

West Chester State University	7,930
Pennsylvania State University for Graduate Studies and Continuing Education (1)	1,561
Lincoln University	1,446
Cheyney University	989
Immaculata College	977

*Delaware County Higher Education Facilities*

Villanova University	6,262
Community College of Delaware County	3,204
Widener University	2,089
Delaware County Campus of Pennsylvania State University	1,500
Eastern College	1,411
Swarthmore College	1,370

## Higher Education Enrollment Continued

*1997 Undergraduate  
Full-time Enrollment*

### Delaware County Higher Education Facilities Continued

Haverford College	1,147
Cabrini College	1,102
Cheyney University of Pennsylvania	989
Neumann College	694

### Montgomery County Higher Education Facilities

Montgomery County Community College	5,135
Temple University (Ambler Campus)	2,858
Pennsylvania State University (Ogontz Campus)	2,072
Bryn Mawr College	1,226
Beaver College	1,198
Ursinus College	1,174
Haverford College	1,147
Gwyned Mercy College	620
Rosemont College	361

(1) University offers graduate, part-time studies only.

*Source: Respective schools listed above*

## HEALTH CARE FACILITIES

Below is a listing of the health care facilities located in the four Counties. Residents of each County also have access to seven teaching hospitals in Philadelphia and other major hospitals located in metropolitan Philadelphia.

### Health Care Facilities in the Counties

<u>Bucks County Facilities</u>	<u>Type of Service</u>	<u>Licensed Bed Capacity</u>	<u>Location</u>
Delaware Valley Medical Center	General	214	Langhorne
Delaware Valley Mental Health Foundation	Psychiatric	45	Doylestown
Doylestown Hospital	General	213	Doylestown
Eastern State School and Hospital	Psychiatric	152	Trebose
Grand View Hospital	General	230	Sellersville
Lower Bucks Hospital	General	286	Bristol
Medical College Hospital-Bucks County Campus	General	178	Warminster
Quakertown Community Hospital	General	89	Quakertown
Saint Mary Hospital of Langhorne	General	287	Langhorne
 <u>Chester County Facilities</u>			
Brandywine Hospital	General	218	Coatesville
Bryn Mawr Rehabilitation Center	Rehab	131	Malvern
Chester County Hospital	General	254	West Chester
Devereaux - Mapleton Center	Psychiatric	110	Malvern
Malvern Institute	Alcohol	36	Malvern
Paoli Memorial Hospital	General Hospital	208	Paoli

### Health Care Facilities in the Counties Continued

<u>Chester County Facilities Continued</u>	<u>Type of Service</u>	<u>Licensed Bed Capacity</u>	<u>Location</u>
Phoenixville Hospital	General	175	Phoenixville
Southern Chester County Medical Center	General	77	West Grove
Veterans Administration Medical Center	Psychiatric	517	Coatesville
Villa St. John Vianney Hospital	Psychiatric	54	Downingtown
 <u>Delaware County Facilities</u>			
Community Hospital of Chester	General	230	Chester
Crozer-Chester Medical Center	General	480	Upland
Delaware County Memorial Hospital	General	313	Drexel Hill
Haverford State Hospital	Psychiatric	340	Haverford
Mercy Catholic Medical Center-Fitzgerald	General	447	Darby
Mercy Haverford Hospital	General	107	Havertown
Riddle Memorial Hospital	General	229	Media
Springfield Hospital	General	122	Springfield
Taylor Hospital	General	190	Ridley Park
 <u>Montgomery County Facilities</u>			
Abington Memorial Hospital	General	508	Abington
Bryn Mawr Hospital	General	393	Bryn Mawr
Chestnut Hill Rehabilitation Hospital	Rehab	57	Wyndmoor
Eagleville Hospital	Alcohol	159	Eagleville
Eugenia Hospital	Psychiatric	126	Lafayette Hill
Holy Redeemer Hospital & Medical Center	General	268	Meadowbrook
Horsham Clinic	Psychiatric	138	Ambler
Huntington Hospital	Psychiatric	44	Willow Grove
Lankenau Hospital	General	475	Wynnewood
Medical College Hosps-Elkins Park Campus	General	339	Elkins Park
Montgomery County Emergency Service	Psychiatric	53	Norristown
Montgomery Hospital	General	265	Norristown
Norristown State Hospital	Psychiatric	713	Norristown
North Penn Hospital	General	150	Lansdale
Northwestern Institute of Psychiatry	Psychiatric	142	Fort Washington
Pottstown Memorial Medical Center	General	295	Pottstown
Suburban General Hospital	General	153	Norristown
Valley Forge Medical Center & Hospital	Alcohol	70	Norristown

*These data were supplied by the State Center for Health Statistics and Research, Pennsylvania Department of Health, Harrisburg, Pennsylvania. The Department specifically disclaims responsibility for any analyses, interpretations, or conclusions.*

### TOURISM AND BUSINESS TRAVEL IN THE COUNTIES

The following table gives the 1996 estimates from the Pennsylvania Bureau of Travel Marketing, using data from the U.S. Travel Data Center, regarding tourism and business travel in the four Counties. The data is the most recent available from the U.S. Travel Data Center.

	<u>Bucks County</u>	<u>Chester County</u>	<u>Delaware County</u>	<u>Montgomery County</u>
Total Amount Spent by Vacationers and Business	\$352,630,000	\$236,380,000	\$296,760,000	\$592,200,000
Total Amount of Local Tax Receipts	\$3,290,000	\$2,110,000	\$2,760,000	\$4,940,000
Number of Jobs Generated from Travel Expenditures	5,340	3,570	4,750	8,820
Total Payroll Amount	\$80,590,000	\$53,870,000	\$70,530,000	\$126,000,000

## **BUCKS COUNTY PARKS AND RECREATION**

Bucks County residents have access to a variety of recreation facilities through public, private and quasi-public agencies: rod and gun clubs (12), golf courses (10), country clubs (5), and numerous children's day camps. Twenty-two County parks and facilities comprising approximately 7,000 acres of park land are in operation: Ringing Rocks, near Upper Black Eddy (65 acres); Lake Towhee, at Applebachsville (549 acres); The Weisel Youth Hostel, Weisel (8 acres); Tohickon Valley Park (including Stover Myers Mill), Point Pleasant (606 acres); Churchville Park Nature Center, Churchville (168 acres); Playwicki Park, near Langhorne (26 acres); Peace Valley Park which includes Lake Galena in New Britain Township (1,500 acres); Core Creek Park which includes Lake Luxembourg in Middletown Township (1,044 acres); Oxford Valley Park, Falls Township (221 acres), Fallsington Park, Falls Township (17 acres), and Dark Hollow Park in Doylestown and Warwick Townships (770 acres); four parks within the Mill Creek Valley system in Lower Bucks: Frosty Hollow Tennis Center (98 acres), Queen Anne Park (147 acres), Black Ditch Park (117 acres) and Silver Lake Park (392 acres); and four facilities along the Delaware River: Tincum Park (122 acres), Hal Clark Park (28 acres), Prah's Island (88 acres), Delaware River Access (103 acres) and Fonthill-Moravian Tile Works (77 acres).

About 8,400 acres of state parks and 4,400 acres of game lands are in the County. The historic Delaware Canal, partially destroyed by the 1955 floods, was restored and is maintained as a State Park. The canal flows through beautiful recreation areas along the Delaware River. State facilities of great historic significance are at Bowman's Hill where George Washington planned his crossing of the Delaware to attack the Hessian forces at Trenton, and at Washington Crossing, the site of the famous crossing. Pennsbury, the beautiful Manor Home of William Penn was restored by the State Historical and Museum Commission and is open to the public. In northern Bucks County is Ralph Stover State Park (including High Rocks) on the rugged banks of Tohickon Creek. Nockamixon, the largest State Park in southeast Pennsylvania, contains nearly 5,300 acres around a 1,400-acre lake. In lower Bucks County, where the Neshaminy Creek empties into the Delaware River, the Logan Estate was willed to the Commonwealth for park development. The 1,711-acre Tyler Park is located in Northampton and Newtown Townships.

*Source: Bucks County Planning Commission*

## **CHESTER COUNTY PARKS AND RECREATION**

More than 40,000 acres of open space, public and private, are located in Chester County, including parts of the Valley Forge National Park. Longwood Gardens, near Kennett Square, is one of the most important horticultural show places in the United States. Its 1,000 acres contain many species of plants and flowers from all parts of the world. Major County parks include Nottingham, Hibernia, Warwick, Springton Manor, Embreeville, and Struble Trail. The County's park system contains approximately 3,000 acres. State parks and game lands cover approximately 4,100 acres in the County.

*Source: Chester County Planning Commission*

## **DELAWARE COUNTY PARKS AND RECREATION**

Federal, state, county and municipal governments participate in open-space programs within the County. The major federal park within the County is the Tincum National Environmental Center, which is primarily a wildlife and bird sanctuary. State lands encompass historic sites such as Brandywine Battlefield, Penn Memorial Landing Stone and Governor Printz Park. The largest recreational facility in the County is the 2,566 acre Ridley Creek State Park. County properties are primarily wooded areas or open fields, while municipal parks are generally playgrounds and small community parks. Various private parks, such as the 700-acre Tyler Arboretum, are located throughout the County. The County's numerous camping and golfing facilities include the Merion Golf Club in Haverford Township.

A wide range of cultural facilities is offered throughout the County, including the Franklin Mint's Museum of Medallion Art, the Brandywine River Museum and the County Institute of Science. Other cultural facilities include the Hedgerow Theatre, one of the oldest repertoire theatres in America, the Redwood Community Playhouse in Upland, the Community Arts Center in Wallingford, and the Rose Tree Summer Festival, a free outdoor music and theatre festival

in Upper Providence Township. In addition, 12 colleges and universities located within the County offer a broad range of cultural activities for the general public.

*Source: Delaware County Planning Department*

## **MONTGOMERY COUNTY PARKS AND RECREATION**

There are numerous facilities throughout the County which offer such activities as hunting, fishing, boating, skiing and golf. There are many parks and recreational facilities as well, the best known being Valley Forge National Park. In addition, there are historical sites, homes, inns, churches, museums, restaurants and many other attractions dispersed throughout the County and in the nearby City of Philadelphia.

*Source: Montgomery County Planning Commission*

## **BUCKS COUNTY UTILITIES**

Lower and Central Bucks County and Dublin Borough and Bedminster Township in Upper Bucks are served by Philadelphia Electric Company. Municipal authorities supply power to the Boroughs of Quakertown and Perkasié. Upper Bucks County municipalities bordering the Delaware River and a portion of Springfield Township are served by Metropolitan Edison Company, while other areas of Upper Bucks County are within the service area of Pennsylvania Power and Light Company.

Of the 23 boroughs in Bucks County, 22 have public water systems. Part of 25 townships, most in Lower Bucks County, have public water supplies. Bulk water is supplied to Bensalem, Upper Southampton, Northampton, Lower Southampton, Middletown, Newtown, Newtown Borough and Warrington are supplied by Bucks County Water and Sewer Authority. Twenty-two boroughs have public sanitary sewerage systems and parts of 24 townships are served by public sewers. The County Commissioners have adopted the Master Plan, Water Supply and Sewage Facilities, Bucks County, Pennsylvania, intended as a guide to the orderly and economical development of water supply and sewage disposal facilities for Bucks County. The Master Plan is periodically updated.

The Philadelphia Electric Company and the Lehigh Valley Gas Division supply gas to 20 boroughs and parts of 22 townships in Bucks County.

*Source: The County of Bucks*

## **CHESTER COUNTY UTILITIES**

Electricity is provided by PECO Energy, Pennsylvania Power and Light Company, and Metropolitan Edison Co. Telephone service is provided by Bell Atlantic. Water service is provided by various municipalities and local water companies. The largest non-governmental supplier is Philadelphia Suburban Water Company. Sewer service is provided to the more densely populated parts of the County by municipalities or by municipal authorities.

*Source: The County of Chester*

## **DELAWARE COUNTY UTILITIES**

Electric and gas service is provided by the Philadelphia Electric Company. Water service is furnished by the Philadelphia Suburban Water Company, Media Water Authority, Chester Water Authority and other municipal systems. Sewage service is provided by nine municipal authorities and by DELCORA. Telephone service is provided by the Bell Atlantic-Bell of Pennsylvania.

*Source: The County of Delaware*

## **MONTGOMERY COUNTY UTILITIES**

Three electric companies operate in Montgomery County. The largest portion of the County is served by the Philadelphia Electric Company. A portion of North Penn is served by Pennsylvania Power and Light Company (PP&L) and Lansdale buy electricity in bulk from PP&L. Metropolitan Edison Company of Reading serves portions

of eight municipalities in the northwestern region of the County. Gas is supplied to the County's residents by Philadelphia Electric Company and U.G.I. Corporation. Two telephone companies provide local service in the County. Bell Atlantic serves the vast majority of the County. Conestoga Telephone and Telegraph Company serves portions of four municipalities in the northwest portion of the County. Long distance telephone service is provided by numerous telephone companies. There are 25 water companies or authorities currently operating in the County. The five largest, Philadelphia Suburban Water Company, North Penn Water Authority, North Wales Water Authority, Keystone Water Company and Pottstown Water Company, service over two-thirds of the County's land area. Over 75% of the County's residents have public sanitary sewer service. There are 36 municipalities or municipal sewer authorities operating treatment plants throughout the County. The largest, Philadelphia, Norristown, East Norriton/Plymouth, Pottstown, Ambler, Upper Gwynedd, Lower Perkiomen Valley, Towamencin and Upper Moreland/Hatboro, all have treatment plants with capacities of over six million gallons per day. Many of these facilities are reaching capacity and certain portions of the County currently have a moratorium on extensions of sewer service, which could have an effect on growth in those areas.

*Source: The County of Montgomery*

## **BUCKS COUNTY TRANSPORTATION**

Eighteen miles of I-95, the major Maine-to-Florida express route, traverse Bucks County. The Pennsylvania Turnpike serves lower Bucks County with two interchanges and crosses the Delaware River at Bristol to connect with the New Jersey Turnpike. The Northeast Extension of the Pennsylvania Turnpike passes through Upper Bucks County with an interchange near Quakertown. Other major highways in Bucks County include Route U.S. 1 (Philadelphia to New York), U.S. 13 (Philadelphia to Trenton), U.S. 611 and U.S. 309 (Philadelphia to the Lehigh Valley area), and U.S. 202 (Philadelphia to New York Bypass). The U.S. 202 bridge across the Delaware River near New Hope was dedicated in 1971. Construction for the connection of PA Route 413 with I-95 will start in the spring of 1996. I-78 immediately to the north of upper Bucks County opened in early 1990 providing another link between Bucks County and the New York City/Northern New Jersey Metropolitan area.

Four railroad trunklines used by Amtrak and Conrail pass through Bucks County: the Main line and Trenton Cut-off of the former Penn Central Railroad and the New York Division and Bethlehem Branch of the former Reading Company. Three Southeastern Pennsylvania Transportation Authority ("SEPTA") branch lines terminate in the County with another passenger rail traversing the county and terminating in Mercer County, New Jersey. Most of the rail lines offer passenger as well as freight service.

Public and private bus companies operating in Bucks County include SEPTA, Greyhound Bus Company, Bieber Bus Lines and West Hunterdon Transit Company. Ride-sharing paratransit service is provided by Bucks County Transport, Inc.

The Bucks County Airport Authority operates the Upper Bucks Airport at Quakertown and the Central Bucks County Airport near Doylestown. Both were acquired in 1964. Two other general airports are in the County: Buehl Field and Penridge Airport. Five major airports with passenger and freight service are situated nearby: Philadelphia International Airport in southwest Philadelphia; Northeast Philadelphia Airport near the southwest corner of Bucks County; Mercer County (Trenton) Airport across the Delaware River from Yardley; the Allentown-Bethlehem-Easton Airport, north of Bucks County; and Princeton Airport, north of Princeton, New Jersey.

*Source: Bucks County Planning Commission*

## **CHESTER COUNTY TRANSPORTATION**

Residents of the County are served by a network of interlocking local, state and federal highways which connect the major employment centers of the Delaware Valley, City of Philadelphia, Great Valley Corporate Center, Valley Forge and King of Prussia Industrial Parks, West Chester, and Wilmington, Delaware. U.S. Route 30 traverses the County in an east-west direction and U.S. Route 202 crosses the County in a northeast-southeast direction connecting the area with Norristown via King of Prussia to the north and Wilmington, Delaware via West Chester to the south.

Preliminary construction has begun on the Exton bypass, an approximately \$130 million project which provides direct inter-connection of three separate limited access roadways including U.S. Route 202, Pennsylvania Route 100 Spur and the Coatesville-Downingtown Bypass. The Exton Bypass will improve the inter-state, inter-city and inter-regional functions of U.S. Route 30 by improving access between Pennsylvania, Delaware and New Jersey. The road will be completed and ready for traffic in November, 1995.

Significant improvements in the capacity of U.S. Route 202 are in the planning and engineering stages. New capacity is expected to be added in the late-1990's to the eastern section of the County. A five-mile link will be expanded from four to six and eight lanes. Expansion will begin in 1996.

Railroad services, both passenger (Amtrak, in conjunction with the SEPTA) and freight (Conrail), are provided by the main line of Conrail. SEPTA also provides frequent bus service to West Chester, Ardmore and the 69th Street Terminal of the Market Street Elevated train which provides direct commutation to center city Philadelphia.

Residents of the County utilize both the Philadelphia International Airport and Wilmington International Airport for their transportation needs. Additionally, Chester County Airport, located outside the City of Coatesville, is one of the larger regional airports in the Delaware Valley providing both jet and propeller aircraft facilities.

*Source: Chester County Planning Commission*

## **DELAWARE COUNTY TRANSPORTATION**

The primary highways in the County are Interstate 95 and Interstate 476 (the Blue Route). The sections of both highways that lie in the County have an average daily traffic of over 80,000 vehicles. Interstate 95 runs through the County and Interstate 476 links Interstate 95 and the south end of the County with the Pennsylvania Turnpike in the north. Other regionally significant highways are U.S. Route 1 (Philadelphia-Baltimore Pike), U.S. Route 13 (Philadelphia, Chester and Wilmington Pike), U.S. Route 30 (Lancaster Pike), U.S. Route 322 (28th Division Highway) and Pennsylvania State Routes 291 (Industrial Highway) and 3 (Philadelphia-West Chester Pike). The Commodore Barry Bridge provides a direct connection between the County and Southern New Jersey.

Several hundred motor carriers in the County serve industrial, residential and commercial users throughout the eastern United States.

Consolidated Rail Corporation (Conrail) and CSX Inc. (B&O) provide rail freight service to the County. The County is served by three commuter lines: the Philadelphia-Marcus Hook branch, the Media-West Chester branch and the Paoli Local branch, which connect the County with Philadelphia and other suburban areas. The commuter service provided to the County is operated by SEPTA. SEPTA's Market Street Elevated Line, its Red Arrow Division buses and trolleys and the Philadelphia & Western Division trolleys converge at the 69th Street Terminal in Upper Darby and connect the County with Philadelphia and surrounding counties.

Philadelphia International Airport, located in Delaware and Philadelphia counties, provides passenger and freight service to all parts of the United States plus international service. The airport is currently served by 16 major domestic and international carriers and 10 regional carriers. Over 7.3 million passengers were serviced during year ending December 31, 1990. Air cargo and helicopter services are also available. The airport has major terminal facilities and the most sophisticated electronic navigational equipment. The Military Airlift Command uses the Airport as its Northeastern Gateway for overseas flights. In addition to Philadelphia International Airport, there are 23 other public-use airports serving the Philadelphia area.

*Source: Delaware County Planning Department*

## **MONTGOMERY COUNTY TRANSPORTATION**

A network of Federal and State highways and rail lines traverse the County, and there is an easily accessible international airport. Five interchanges of the Pennsylvania Turnpike and its Northeast Extension link the area with Philadelphia, Harrisburg, Allentown and Scranton. Interstate 76 (Schuylkill Expressway) serves as the

primary route from the County to the City of Philadelphia. Other U.S. Highways within the County include U.S. #1, 30, 202, 422 and 611 and Interstate 476. In 1986, Route 422 was opened between King of Prussia and Pottstown.

The Mainline, Greater Cut-off and North Penn branches of Conrail, along with many branches of the former Reading Railroad now operated by Conrail, provide freight transportation to and from the area. SEPTA offers commuter rail passenger service into and from the City of Philadelphia.

Philadelphia International Airport, located in Delaware and Philadelphia counties, provides passenger and freight service to all parts of the United States plus international service. The airport is currently served by 16 major domestic and international carriers and 10 regional carriers. Air cargo and helicopter services are also available. The airport has major terminal facilities and sophisticated electronic navigational equipment. In addition to Philadelphia International Airport, there are 25 other airports serving the Philadelphia area.

*Source: Montgomery County Planning Commission*

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**Appendix II**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
DECEMBER 31, 1997**

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**DELAWARE VALLEY REGIONAL  
FINANCE AUTHORITY**

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 1997  
AND  
INDEPENDENT AUDITORS' REPORT  
AND  
ADDITIONAL INFORMATION

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Delaware Valley Regional Finance Authority  
Media, Pennsylvania:

We have audited the accompanying balance sheet of the Delaware Valley Regional Finance Authority (the "Authority") as of December 31, 1997, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Delaware Valley Regional Finance Authority as of December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

*Parente Randolph Orlando Carey & Associates, LLC*

Media, Pennsylvania  
February 27, 1998

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**

**BALANCE SHEET  
DECEMBER 31, 1997**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 83,980,529
Restricted cash and cash equivalents	51,079,303
Accrued interest receivable:	
Loans	1,095,146
Investments	299,173
Prepaid expenses	48,364
Loan principal payments receivable	<u>33,934,779</u>
Total current assets	<u>170,437,294</u>

OTHER ASSETS:

Loans to local governments	261,428,110
Bond original issue discount	143,376
Bond issuance costs, net	<u>5,899,386</u>
Total other assets	<u>267,470,872</u>

TOTAL

\$ 437,908,166

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accrued expenses	\$ 226,215
Bond principal payable	600,000
Accrued interest payable	<u>4,922,718</u>
Total current liabilities	<u>5,748,933</u>

LONG TERM LIABILITIES:

Bonds payable	419,765,000
Due to local government units	997,938
Loan original issue discount	143,376
Bond original issue premium	2,795,027
Estimated rebate liability	483,271
Unamortized loan origination fees	<u>271,321</u>
Total long term liabilities	<u>424,455,933</u>

Total liabilities

430,204,866

Fund equity

7,703,300

TOTAL

\$ 437,908,166

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See Notes to Financial Statements

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 1997**

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REVENUES:

Interest income:	
Loans	\$ 9,138,219
Investments	6,039,382
Interest rate swaps	3,198,492
Miscellaneous	77,654
Amortization of bond original issue premium	47,373
Amortization of loan origination fees	28,367
Amortization of loan original issue discount	<u>6,055</u>
Total	<u>18,535,542</u>

EXPENSES:

Interest expense:	
Bonds payable	13,978,819
Interest rate swaps	2,607,146
Letter of credit fees	562,931
Administrative expenses	716,687
Amortization of bond issuance costs	179,183
Amortization of bond original issue discount	<u>6,055</u>
Total	<u>18,050,821</u>

EXCESS OF REVENUES OVER EXPENSES	484,721
FUND EQUITY, BEGINNING	<u>7,218,579</u>
FUND EQUITY, ENDING	<u>\$ 7,703,300</u>

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See Notes to Financial Statements

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 1997**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of revenues over expenses	\$ 484,721
Adjustments for revenues not generating cash:	
Amortization of loan origination fees	(28,367)
Amortization of bond original issue premium	(47,373)
Estimated rebate liability	483,271
Amortization of bond issuance costs	179,183
Adjustments for changes in assets and liabilities	
Restricted cash and cash equivalents	(25,149,957)
Loans to local governments	(66,761,766)
Accrued interest receivable	(123,472)
Prepaid expenses	(990)
Accrued expenses	(20,627)
Accrued bond interest payable	3,522,698
Due to local governments	(335,564)
Origination fees	(5,155)
Net cash used in operating activities	<u>(87,803,398)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on bonds payable	(565,000)
Proceeds from bond issues	140,000,000
Original issue premium	2,842,400
Bond issuance costs	(3,142,691)
Net cash provided by financing activities	<u>139,134,709</u>
INCREASE IN CASH AND CASH EQUIVALENTS	51,331,311
CASH AND CASH EQUIVALENTS, BEGINNING	<u>32,649,218</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 83,980,529</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION,	
Cash paid during the year for interest	<u>\$ 10,456,121</u>

See Notes to Financial Statements

**Delaware Valley Regional Finance Authority  
Notes to Financial Statements**

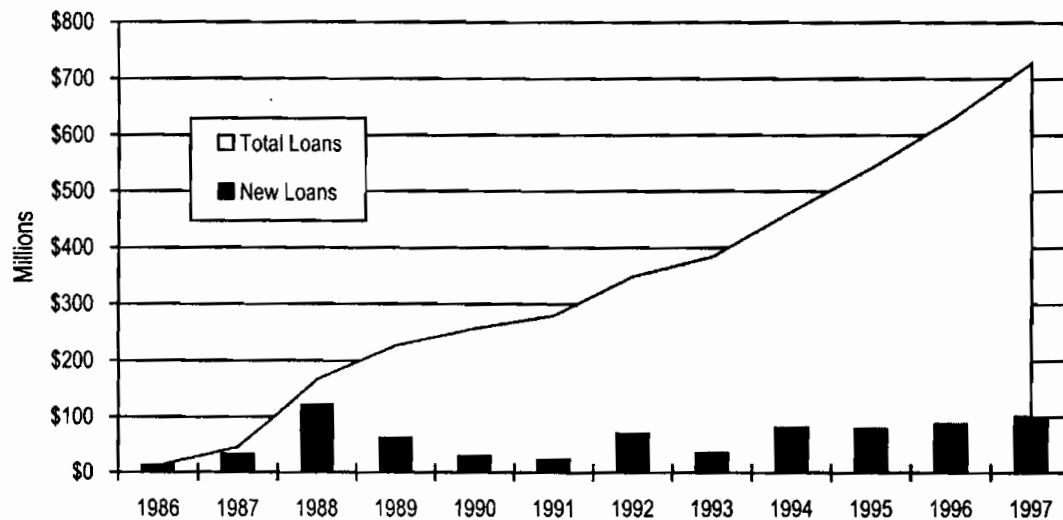
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**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF OPERATIONS

The Delaware Valley Regional Finance Authority was formed in 1985 by Bucks, Chester, Delaware, and Montgomery Counties. The purpose of the Authority is to provide funds for capital projects to local governments and authorities within the four county region. Eligible borrowers include school districts, townships, boroughs, authorities, cities, and counties. The Authority has issued \$421 million of bonds to fund loan programs. Each of the Authority's series of bonds is secured solely by the loan agreements and funds related to that respective series. Each loan agreement is secured by a full faith, credit, and ad valorem tax pledge of a local government. In 1997, the Authority originated 14 new loans with a principal amount of nearly \$100.3 million. As of December 31, 1997, the Authority has originated 109 loans with a principal amount of approximately \$729 million.

**Loans Originated by the Authority**



The Board of the Authority is comprised of five members appointed by the four counties. Each year, on a rotating basis, one of the founding counties appoints one board member to a term of five years. The Authority members appoint the program administrator, solicitor, bond counsel, remarketing agent, credit facility providers, and trustees who manage the daily operations of the Authority and its loan programs.

BASIS OF ACCOUNTING

Operations of the Authority are intended to be self-supporting, primarily from loan repayments, investment earnings, origination fees, and administrative fees. Accordingly, the Authority is accounted for as a proprietary enterprise fund and utilizes the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when incurred.

**Delaware Valley Regional Finance Authority**  
**Notes to Financial Statements**

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CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS

Investments are recorded at cost, which approximates fair market value. For the purpose of the Statement of Cash Flows, the Authority considers all highly liquid debt instruments purchased with a maturity of 90 days or less, except for restricted cash equivalents, to be cash equivalents. The Authority also considers the Guaranteed Investment Contracts for the funds of the 1997 Series Bonds to be highly liquid debt instruments and cash equivalents, except for restricted cash equivalents.

LOANS TO LOCAL GOVERNMENTS

Loans are originated in amounts of \$100,000 or more on a first-come, first-served basis from available funds. The Authority provides both fixed rate and variable rate interest rate loans with terms of up to thirty years. Each loan is secured by the full faith, credit, and ad valorem taxing power of a local government.

BONDS PAYABLE

The Authority has issued four series of bonds, with a total par amount of approximately \$420,000,000. Each series is secured solely by the revenues and assets of that series. The Authority has no taxing power.

CREDIT FACILITIES

Each series of bonds issued by the Authority is secured by a credit facility which guarantees the timely payment of principal and interest to bondholders. The 1985 Series and 1986 Series Bonds are secured by a letter of credit from Credit Suisse First Boston, New York Branch. The 1996 Series and 1997 Series Bonds are secured by bond insurance policies from Ambac Assurance Corporation. The 1997 Series A Bonds are also secured by a standby bond purchase agreement with Credit Suisse First Boston, New York Branch.

ESTIMATED REBATE LIABILITY

The Internal Revenue Code obligates the Authority to rebate to the Treasury investment earnings in excess of 5.786% on the proceeds of the 1996 Series Bonds and, currently, investment earnings in excess of 4.80% on the proceeds of the 1997 Series Bonds. Since the interest rate on the \$70,000,000 Series A Bonds of 1997 is variable, the rebate rate is recalculated after each reset of the interest rate. The 1985 and 1986 Series Bonds are not subject to rebate. The rebate payment must be calculated and paid every five years. The Authority has recorded, against investment income, the estimated accrued rebate liability through December 31, 1997.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Delaware Valley Regional Finance Authority**  
**Notes to Financial Statements**

**2. CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS**

The Authority's cash as of and for the year ended December 31, 1997, was invested with the Trustees, Chase Manhattan Bank Trust Company, National Association, and First Union National Bank, in U.S. Treasury and Agency money market funds. All of the Authority's investments, with the exception of the Guaranteed Investment Contracts, are held to maturities which are less than 90 days and approximate fair value. The Authority had no realized or unrealized gains or losses on investments during 1997. Restricted cash and cash equivalents are held as security for debt service payments on the Authority's bond issues. The Authority's Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents at December 31, 1997, are set forth below.

**Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents**

<u>Type of Current Asset</u>	<u>1985 Series</u>	<u>1986 Series</u>	<u>1996 Series</u>	<u>1997 Series</u>	<u>Total</u>
Cash	\$ 527,273	\$ 710,392	\$10,278	\$ -	\$ 1,247,943
Cash equivalents	2,001,668	4,159,999		76,570,919	82,732,586
Restricted cash and cash equivalents	<u>24,468,750</u>	<u>12,497,938</u>	<u>-</u>	<u>14,112,615</u>	<u>51,079,303</u>
Total	<u>\$26,997,691</u>	<u>\$17,368,329</u>	<u>\$10,278</u>	<u>\$90,683,534</u>	<u>\$135,059,832</u>

The Indentures for the 1985 Series, 1986 Series, and 1996 Series Bonds permit the Authority to invest in certain types of securities which include (i) obligations issued or guaranteed by the federal government, (ii) time deposits of banks with minimum ratings of "Aa" or "AA", (iii) commercial paper with minimum ratings of "P-1" or "A-1", (iv) obligations of state or local governments with a minimum rating of "Aa" or "AA", (v) repurchase agreements collateralized with obligations issued or guaranteed by the federal government, and (vi) mutual funds that invest in obligations issued or guaranteed by the federal government. The Authority's cash and cash equivalents are held by the Trustees for the benefit of the bondholders. The cash and cash equivalents are not collateralized by the Trustees and are not insured by the Federal Deposit Insurance Corporation.

The terms of the bond insurance policy with Ambac Assurance Corporation ("Ambac") which secures the Authority's 1997 Series Bonds require the Authority to invest all of the funds of the 1997 Series loan program in Guaranteed Investment Contracts approved by Ambac. CDC Funding Corp. ("CDCFC"), a wholly owned subsidiary of Caisse des Depots Group ("CDC"), a French public sector financial institution, provides the Guaranteed Investment Contracts. CDCFC pays the Authority an investment rate equal to a spread over the Bond Market Association Municipal Swap Index. The Authority may withdraw funds with two days of notice. CDC guarantees the obligations of CDCFC under the Guaranteed Investment Contracts. If CDC's ratings drop below "Aa3" or "AA-," Ambac may direct CDCFC to (i) provide at least 104% collateralization of its obligations under the Guaranteed Investment Contracts with U.S. Treasury or certain Agency securities or (ii) to terminate the Guaranteed Investment Contracts and to pay the Authority the principal and accrued interest due. If Ambac directs collateralization, the collateral must be held by a third party, segregated, and marked to market at least weekly. CDC was rated "Aaa" and "AAA" by Moody's Investors Services and Standard and Poor's Rating Group, respectively, on December 31, 1997.

**Delaware Valley Regional Finance Authority**  
**Notes to Financial Statements**

The investments that constitute the Cash Equivalents and Restricted Cash Equivalents held by the Authority on December 31, 1997, are summarized below.

**Cash Equivalents and Restricted Cash Equivalents**

<u>Investment</u>	<u>Bond Issue</u>	<u>Maturity</u>	<u>Cost / Market Value</u>
Time deposit	1985 Series	January 2, 1998	\$ 11,470,000
Commercial paper	1986 Series	January 7, 1998	9,697,937
Commercial paper	1985 Series	March 2, 1998	15,000,418
Time deposit	1986 Series	April 1, 1998	6,960,000
Guaranteed investment contract	1997 Series	June 28, 2027	<u>90,683,534</u>
Total			<u>\$133,811,889</u>

Cash and cash equivalents include funds held to originate loans in the future and all of the Authority's operating funds. Funds held to originate new loans were provided from the proceeds of the Authority's bond issues. Other funds were provided by the Authority's operations. The Authority's Cash and Cash Equivalents as of December 31, 1997, are set forth below.

**Cash and Cash Equivalents**

<u>Type of Fund</u>	<u>1985 Series</u>	<u>1986 Series</u>	<u>1996 Series</u>	<u>1997 Series</u>	<u>Total</u>
Funds designated to originate loans (1)	\$1,008,294	\$3,675,067	\$ -	\$70,350,000	\$75,033,361
Other funds	<u>1,520,647</u>	<u>1,195,324</u>	<u>10,278</u>	<u>6,220,919</u>	<u>8,947,168</u>
Total	<u>\$2,528,941</u>	<u>\$4,870,391</u>	<u>\$10,278</u>	<u>\$76,570,919</u>	<u>\$83,980,529</u>

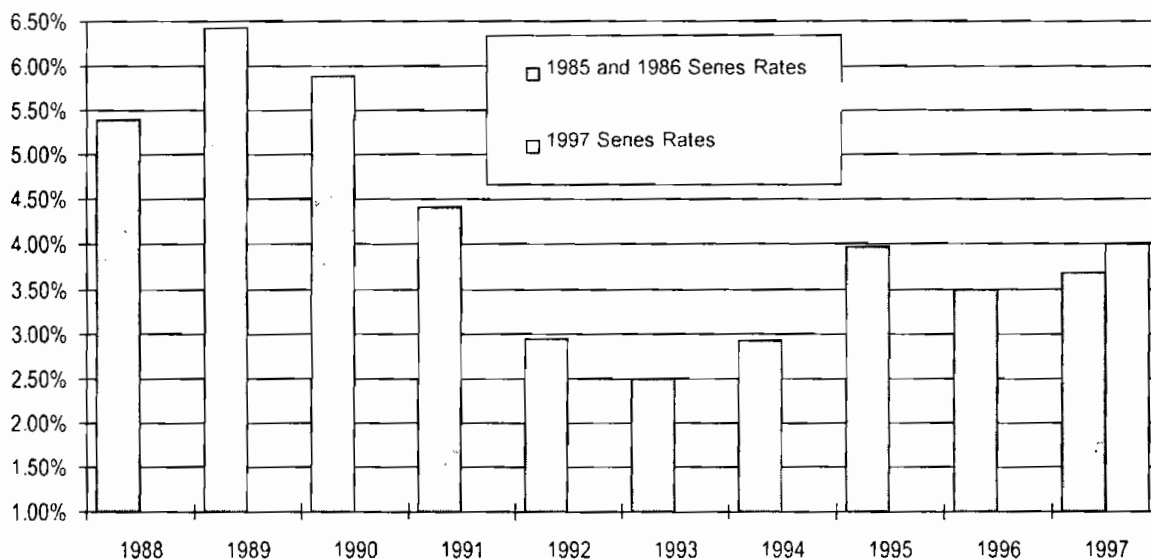
(1) Funded from bond proceeds.

**3. LOANS TO LOCAL GOVERNMENTS**

Loans are made to local governments for the purpose of funding various capital projects pursuant to the terms, conditions, covenants and restrictions contained in the respective Bond Indentures, Promissory Notes, and Financial Agreements. The Loan Agreements are secured by the full faith, credit, and ad valorem taxing power of local government units. Principal on the loans is paid in accordance with amortization schedules established at closing. The interest rates on variable rate loans vary with market conditions. The average interest rate charged on variable rate loans during 1997 was 3.68% for loans from the 1985 and 1986 Series loan programs and 4.01% (for the period from July 1 to December 31) for loans from the 1997 Series. Fixed interest rates on loans from 1996 Series ranged from 3.80% to 6.00%.

**Delaware Valley Regional Finance Authority  
Notes to Financial Statements**

**Annual Average DVRFA Loan Interest Rates for the 1985 Series,  
1986 Series, and 1997 Series Loan Programs from 1988 to 1997**



Variable rate borrowers may prepay their loans in whole or part, with no penalty, with 40 days notice for the 1985 and 1986 Series loan programs and 30 days notice for the 1997 Series loan program. Fixed rate borrowers from the 1996 Series loan program may prepay their loans, with no penalty, commencing on July 1, 2006. Fixed rate borrowers from the 1997 Series loan program may prepay in accordance with the provisions established at the time that the fixed rate interest rate swap for their respective loans was executed.

The Authority had 75 loans with a principal amount of \$295,362,889 outstanding as of December 31, 1997. Two borrowers, Chester County and Delaware County, had principal amounts of loans outstanding that constituted approximately 45.2% of the total loans outstanding.

The program administrator and the credit enhancer of the Authority's bonds must review and approve the credit of each borrower. The program administrator and the credit enhancer also monitor, at least annually, the financial condition of all the borrowers. Given the review process and the general obligation pledge that secures every loan, the Authority does not reasonably expect to suffer any defaults. If a borrower did default, the Authority, the respective trustee, and/or the respective credit enhancer would exercise their legal rights to remedy the default; however, the enforcement of these legal rights may be limited by and subject to the provisions of the federal bankruptcy laws or other laws of equitable principles which may affect enforcement of the creditor's rights.

Amounts due to local government units represent capitalized interest deposits from the proceeds of loans of some borrowers from the 1986 Series loan program. These deposits were required by the Authority's letter of credit provider to secure the interest receivable related to those loans. The deposits are categorized as restricted investments. These deposits are no longer required

**Delaware Valley Regional Finance Authority**  
**Notes to Financial Statements**

under the Authority's new reimbursement and letter of credit agreement with Credit Suisse First Boston, New York Branch. The deposits were applied as principal prepayments on January 7, 1998.

The Authority assesses and collects loan origination fees at the closing of the loans. For purposes of income recognition, these origination fees are amortized over the respective terms of the loans. De minimus amounts and origination fees for prepaid loans are recognized immediately.

Interest on the loans from the Authority's 1985, 1986, and 1997 Series Bond loan programs is payable monthly in arrears, and principal on the loans is paid according to an amortization schedule established at closing. Interest on loans from the 1996 Series Bonds is payable semiannually, and principal is payable annually. Interest paid by borrowers on variable rate loans from the 1985 and 1986 Series loan programs is based on the remarketing rates of the Authority's 1985 Series and 1986 Series Bonds. Interest paid on the fixed rate loans of borrowers from the 1996 Series loan program is based on the interest rates of the 1996 Series Bonds. Interest rates of fixed and variable rate loans from the 1997 Series loan program are based on the interest rates payable by the Authority under interest rate swap agreements executed for those loans.

Each year, the program administrator determines the administrative fee, if any, to assess borrowers from each series of bonds for all of the costs incurred by the Authority. The amount charged to each borrower is based on the principal amount of the loan outstanding. In 1997, available funds were sufficient to cover all of the costs of the 1985, 1986, and 1996 Series loan programs; consequently, no administrative fee was assessed. An administrative fee equal to 0.04% of the principal amount outstanding of the loans from 1997 Series Bonds was assessed.

**Administrative Charges**

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
1985 Series	0.77%	0.06%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1986 Series	0.77%	0.71%	0.57%	0.48%	0.47%	0.06%	0.00%	0.00%	0.00%	0.00%
1996 Series									0.00%	0.00%
1997 Series										0.04%

The minimum principal payments due from local government units are set forth below.

**Minimum Loan Principal Repayments Due**

<u>Year Ending</u> <u>December 31</u>	<u>1985 Series</u>	<u>1986 Series</u>	<u>1996 Series</u>	<u>1997 Series</u>	<u>Total</u>
1998	\$ 11,102,667	\$21,999,112	\$ 600,000	\$ 233,000	\$ 33,934,779
1999	3,090,302	1,964,388	620,000	247,000	5,921,690
2000	3,298,546	3,059,000	650,000	262,000	7,269,546
2001	3,490,736	3,243,500	685,000	276,000	7,695,236
2002	3,545,858	3,423,000	720,000	293,000	7,981,858
Thereafter	<u>94,994,847</u>	<u>66,135,933</u>	<u>17,090,000</u>	<u>54,339,000</u>	<u>232,559,780</u>
Total	<u>\$119,522,956</u>	<u>\$99,824,933</u>	<u>\$20,365,000</u>	<u>\$55,650,000</u>	<u>\$295,362,889</u>

**Delaware Valley Regional Finance Authority  
Notes to Financial Statements**

**4. BONDS PAYABLE**

Pertinent information regarding bonds payable at December 31, 1997 is presented below:

**Bond Issues Outstanding on December 31, 1997**

<u>Bond Issue</u>	<u>Credit Enhancement</u>	<u>Par Amount Outstanding</u>	<u>Unamortized Premium (Discount)</u>	<u>Outstanding Balance</u>
1985 Series	Letter of credit (1)	\$145,000,000	\$ -	\$145,000,000
1986 Series	Letter of credit (1)	115,000,000	-	115,000,000
1996 Series	Bond insurance (2)	20,365,000	(143,376)	20,221,624
1997 Series	Bond insurance (2)(3)	<u>140,000,000</u>	<u>2,795,027</u>	<u>142,795,027</u>
	Total	<u>\$420,365,000</u>	<u>\$2,651,651</u>	<u>\$423,016,651</u>

(1) Provided by Credit Suisse First Boston, New York Branch. Term expires on May 1, 2002.

(2) Provided by Ambac Assurance Corporation for term of bond issue.

(3) A Standby Bond Purchase Agreement provided by Credit Suisse First Boston, New York Branch, provides a liquidity facility for the remarketing of the \$70,000,000 Series A Bonds. Term expires on June 30, 2027.

The Authority has issued bonds periodically to provide funds (a) to lend to local government units to finance and refinance the costs of projects; (b) to create debt service reserve funds and capitalized interest funds; and (c) to pay all or a portion of the costs of issuance of the bonds.

The bonds are limited obligations of the Authority, payable from and secured solely by the trust estate. The trust estate consists of the revenues from and an assignment of the loan agreements. The revenues consist of all (a) amounts received by the Authority pursuant to the loan agreements and the related security instruments; (b) monies and securities from time-to-time on deposit in the funds and accounts established by the Trust Indentures; and (c) proceeds derived from any of the funds and accounts.

Bond issuance costs consist of underwriting and professional fees incurred in connection with issuance of the various series of bonds. These costs are amortized using the straight-line method over the life of the respective bond issues.

1985 SERIES AND 1986 SERIES BONDS

The 1985 Series and 1986 Series Bonds are currently remarketed in a weekly rate mode. The interest rates on the Bonds are reset effective every Wednesday by the remarketing agent. The interest rates are set at the minimum rate of interest, in the opinion of the remarketing agent, necessary to remarket the bonds in a secondary market transaction at par. The maximum interest rate, as defined in the respective letters of credit, is 15%. Interest on weekly rate bonds is paid monthly. Holders of the Bonds may, with seven days of notice, tender the bonds to the remarketing agent at par. Bonds are subject to optional redemption, in whole or part, and purchase by the Authority at par in the event that the Authority cannot or chooses not to operate the loan programs. The Bonds are also subject to mandatory redemption and purchase at par if the rating of the bonds is reduced as a consequence of the substitution of the letter of credit, if the Authority elects to switch to another

**Delaware Valley Regional Finance Authority  
Notes to Financial Statements**

interest rate mode as permitted in the Trust Indenture, or if certain other events have occurred as defined in the Trust Indenture.

The 1985 Series and 1986 Series Bonds fund revolving loan pool programs. When loans are repaid, the repayments are used to fund new loans to local governments.

The scheduled maturities of the 1985 Series and 1986 Series Bonds are set forth below.

<b>Principal Amortization Schedules</b>			
<b>1985 Series Bonds</b>		<b>1986 Series Bonds</b>	
<i>Due on December 1</i>	<i>Amount</i>	<i>Due on August 1</i>	<i>Amount</i>
2017	\$ 5,000,000	2016	<u>\$115,000,000</u>
2018	5,000,000		
2019	10,000,000		
2020	<u>125,000,000</u>		
Total	<u>\$145,000,000</u>		

**1996 SERIES BONDS**

The 1996 Series Bonds were issued at a par amount of \$20,930,000, with an original issue discount of \$152,593. The original issue discount is being amortized using the straight line method over the maturities of the bonds sold at the original issue discount. The bonds bear interest at fixed rates ranging from 3.80% to 6.00%, based on the maturity dates. Interest payments are due semiannually and principal payments are due annually. The 1996 Series is subject to optional redemption by the Authority, in whole or part, at par, commencing on April 15, 2007. The term bonds which mature in 2016 and 2026 are subject to mandatory redemption at par commencing in 2013 and 2017, respectively. In the event of a default by one or more borrowers, Ambac Assurance Corporation, which has issued a municipal bond insurance policy to secure the bondholders of the 1996 Series Bonds, may direct an extraordinary redemption at par of the bonds allocable to the defaulting local government.

The 1996 Series Bonds funded a dedicated pool of loans. Loan repayments match debt service payments on the Bonds. The loan repayments will be used to retire the 1996 Series Bonds. The Authority will not originate any new loans from the 1996 Series Bonds.

**Delaware Valley Regional Finance Authority**  
**Notes to Financial Statements**

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The maturities of the 1996 Series Bonds over the next five years are set forth below.

**Principal Amortization Schedule**  
**1996 Series Bonds**

<i>Due on</i> <i>April 15</i>	<i>Amount</i>
1998	\$ 600,000
1999	620,000
2000	650,000
2001	685,000
2002	720,000
Thereafter	<u>17,090,000</u>
Total	<u>\$20,365,000</u>

**1997 SERIES BONDS**

The 1997 Series Bonds were issued in three series with a total par amount of \$140,000,000. The 1997 Series Bonds are secured by a municipal bond insurance policy issued by Ambac Assurance Corporation. The interest rate on the \$70,000,000 Series A Bonds is set at a variable rate, adjusted semiannually, equal to a spread over the Consumer Price Index. The maximum interest rate on the Series A Bonds is 15%, and the minimum interest rate is 0%. The \$60,000,000 Series B Bonds and the \$10,000,000 Series C Bonds were issued at fixed rates ranging from 5.60% to 7.75%. Interest on the 1997 Series Bonds is payable semiannually, and principal is payable annually. The Series C Bonds were issued at an original issue premium of \$2,842,400; the original issue premium will be amortized over the 30 year term of the bonds using the straight line method.

The 1997 Series Bonds are not subject to optional or mandatory redemption. Under certain circumstances defined in the Trust Indenture, principally the inability to originate loans for a long period of time, the Bonds may be subject to extraordinary redemption. In the event of such an extraordinary redemption, Series A Bonds would be redeemed first, Series B Bonds second, and Series C Bonds last. Series A and Series B Bonds would be redeemed at par; Series C Bonds would be redeemed at the premiums set forth in the Trust Indenture.

The Series A Bonds will be remarketed on July 1, 2007. The Series A Bonds may be remarketed again as bonds indexed to the Consumer Price Index, as fixed rate bonds, or as weekly, variable rate demand bonds. The remarketing of the Series A Bonds is secured by a standby bond purchase agreement issued by Credit Suisse First Boston, New York Branch. If the Series A Bonds were to be purchased by Credit Suisse First Boston under the standby bond purchase agreement, the maximum interest rate of the Series A Bonds would be 25%.

The Authority entered into an interest rate swap agreement for each series of bonds. Under the terms of the interest rate swap agreements, the Authority pays a rate indexed to the Bond Market Association Municipal Swap Index and receives payments indexed to the Consumer Price Index for the Series A Bonds and fixed rate payments for the Series B and Series C Bonds. The interest rate

**Delaware Valley Regional Finance Authority  
Notes to Financial Statements**

swap agreements allow the Authority to create a variable rate loan program comparable to the 1985 Series and 1986 Series loan programs. The Authority's ability to reverse portions of the interest rate swaps or to initiate new swap agreements enable the Authority to provide fixed rate loans to local governments from the same loan program.

The 1997 Series Bonds fund a revolving loan pool. Principal loan repayments will be used to originate new loans to local government units.

The principal amortization schedule of the 1997 Bonds is set forth below.

**Principal Amortization Schedule  
1997 Series Bonds**

<i>Due on July 1</i>	<i>Series A (1)</i>	<i>Series B</i>	<i>Series C</i>	<i>Total</i>
2017	\$ -	\$42,000,000	\$ -	\$ 42,000,000
2027	<u>70,000,000</u>	<u>18,000,000</u>	<u>10,000,000</u>	<u>98,000,000</u>
Total	<u>\$70,000,000</u>	<u>\$60,000,000</u>	<u>\$10,000,000</u>	<u>\$140,000,000</u>

(1) Subject to mandatory tender for remarketing on July 1, 2007.

**5. CREDIT FACILITIES**

1985 SERIES BONDS

The Authority, as required by the Trust Indenture, maintains a direct draw, letter of credit in the amount of \$147,681,507 as security for principal and accrued interest on the bonds. The Authority entered into an agreement with Credit Suisse First Boston, New York Branch, to provide the letter of credit effective May 1, 1997; the term of this letter of credit expires on May 1, 2002. Fees totaling \$290,594 were incurred during 1997 by the Authority for the direct draw letter of credit.

1986 SERIES BONDS

The Authority, as required by the Trust Indenture, maintains a direct draw, letter of credit in the amount of \$117,126,713 as security for principal and accrued interest on the Mode 1 Bonds. The Authority entered into an agreement with Credit Suisse First Boston, New York Branch, to provide the letter of credit effective May 1, 1997; the term of this letter of credit expires on May 1, 2002. Fees totaling \$231,385 were incurred during 1997 by the Authority for the direct draw letter of credit.

1996 SERIES BONDS

The payments of interest on and principal of the 1996 Series Bonds is secured by a municipal bond insurance policy issued by Ambac Assurance Corporation. Fees for the bond insurance were paid at closing; these fees were treated as a cost of issuance. The bond insurance is in effect for the term of the 1996 Series Bonds.

**Delaware Valley Regional Finance Authority**  
**Notes to Financial Statements**

1997 SERIES BONDS

The payments of interest on and principal of the 1997 Series Bonds is secured by a municipal bond insurance policy issued by Ambac Assurance Corporation. Fees for the bond insurance were paid at closing; these fees were treated as a cost of issuance. The bond insurance is in effect for the term of the 1997 Series Bonds. As required by the Trust Indenture and the bond insurance policy, the Authority also maintains a standby bond purchase agreement in the amount of \$75,293,150 as security for the principal and accrued interest on the 1997 Series A Bonds for the remarketing of those bonds on July 1, 2007. The Authority entered into an agreement with Credit Suisse First Boston, New York Branch, to provide the standby bond purchase agreement effective July 1, 1997; the term of this standby bond purchase agreement expires on June 30, 2027. Fees totaling \$40,951 were incurred during 1997 by the Authority for the standby bond purchase agreement.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

The Authority executed three interest rate swap agreements with Merrill Lynch Capital Services ("MLCS"), a wholly owned subsidiary of Merrill Lynch & Co., as part of the plan of finance for the 1997 Series Bonds. The swaps were required by both the Trust Indenture of the 1997 Series Bonds and the bond insurance policy issued by Ambac Assurance Corporation. The swaps enabled the Authority to create a variable rate loan pool at a lower cost than it could achieve by issuing variable rate debt directly.

The swap agreements were subject to the credit criteria of and approved by Ambac. The obligations of MLCS under the swap agreements were guaranteed by Merrill Lynch & Co. As of December 31, 1997, Merrill Lynch & Co. was rated "Aa3" and "AA-" by Moody's Investors Services and Standard & Poor's Rating Group, respectively. Under the terms of the swap agreements, if the rating of Merrill Lynch & Co. is reduced below "Aa3" by Moody's Investors Services and "AA-" by Standard and Poor's Rating Group, MLCS is required to execute and deliver a collateral agreement with Ambac to secure its obligations under the interest rate swap agreements.

The Authority accrues the interest rate swap payments and receipts. Transactions for the year ended December 31, 1997 are reflected in the statement of revenues and expenses. A summary of the interest rate swap agreements is set forth below:

**Summary of Interest Rate Swap Agreements**

<i>Notional Amount</i>	<i>Authority Payments</i>		<i>MLCS Payments</i>	
	<i>Period</i>	<i>Rate</i>	<i>Period</i>	<i>Rate</i>
\$ 70,000,000	Monthly	Bond Market Association Municipal Swap Index + 0.01%	Semiannual	Consumer Price Index + 1.88%
42,000,000	Monthly	Bond Market Association Municipal Swap Index	Semiannual	5.32%
<u>28,000,000</u>	Monthly	Bond Market Association Municipal Swap Index	Semiannual	5.36%
<u>\$140,000,000</u>				

**Delaware Valley Regional Finance Authority**  
**Notes to Financial Statements**

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**7. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of the Authority's financial instruments as of December 31, 1997, are set forth below.

**Comparisons of Carrying Value and Fair Value**

	<u>Carrying Value</u>	<u>Fair Value</u>
Assets:		
Cash and cash equivalents	\$ 83,980,529	\$ 83,980,529
Restricted cash and cash equivalents	51,079,303	51,079,303
Loans receivable		
1985 Series	119,522,956	119,522,956
1986 Series	99,824,933	99,824,933
1996 Series (1)	20,221,624	21,116,758
1997 Series	55,650,000	55,650,000
Liabilities:		
Bonds payable		
1985 Series	145,000,000	145,000,000
1986 Series	115,000,000	115,000,000
1996 Series (1)	20,221,624	21,116,758
1997 Series (1)	142,795,027	146,746,387
Derivative financial instruments (2)	-	1,288,789

(1) Includes original issue discount or premium.

(2) Net amount the Authority would receive if the interest rate swap agreements had been terminated on December 31, 1997.

The carrying amounts of cash, restricted cash, and cash equivalents are reasonable estimates of the fair value of the Authority's cash and cash equivalents because they all have maturities of or can be liquidated at par in less than 90 days. The carrying amounts of loans receivable are reasonable estimates of the fair value of (1) the loans receivable from the 1985, 1986, and 1997 Series loan programs and (2) the bonds payable from the 1985 and 1986 Series because those instruments are all variable rate instruments whose interest rates are adjusted weekly with market conditions. Fair values of (1) the fixed rate loans receivable from the 1996 Series program and (2) the bonds payable of the 1996 Series and 1997 Series have been estimated based upon market rates for similar securities with similar terms on December 31, 1997. The fair values of the interest rate swap agreements have been estimated based upon the termination payment the Authority would have received if the swap agreements were terminated on December 31, 1997.



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CAREY & ASSOCIATES  
CONSULTANTS & ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

Board of Directors  
Delaware Valley Regional Finance Authority  
Media, Pennsylvania:

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 20 through 22 is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual bond issues, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Parente Randolph Orlando Carey & Associates, LLC*

Media, Pennsylvania  
February 27, 1998

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**

**ADDITIONAL BALANCE SHEET INFORMATION  
DECEMBER 31, 1997**

	<u>1985 Series</u>	<u>1986 Series</u>	<u>1996 Series</u>	<u>1997 Series</u>	<u>Total</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 2,528,941	\$ 4,870,391	\$ 10,278	\$ 76,570,919	\$ 83,980,529
Restricted cash and cash equivalents	24,468,750	12,497,938		14,112,615	51,079,303
Accrued interest receivable:					
Loans	388,755	298,453	238,045	169,893	1,095,146
Investments	153,576	102,816		42,781	299,173
Prepaid expenses	6,033	37,545	3,089	1,697	48,364
Loan principal payments receivable	11,102,667	21,999,112	600,000	233,000	33,934,779
Total current assets	<u>38,648,722</u>	<u>39,806,255</u>	<u>851,412</u>	<u>91,130,905</u>	<u>170,437,294</u>
<b>OTHER ASSETS:</b>					
Loans to local governments	108,420,289	77,825,821	19,765,000	55,417,000	261,428,110
Bond original issue discount			143,376		143,376
Bond issuance costs, net	1,674,354	768,203	366,516	3,090,313	5,899,386
Total other assets	<u>110,094,643</u>	<u>78,594,024</u>	<u>20,274,892</u>	<u>58,507,313</u>	<u>267,470,872</u>
<b>TOTAL</b>	<b><u>\$148,743,365</u></b>	<b><u>\$ 118,400,279</u></b>	<b><u>\$ 21,126,304</u></b>	<b><u>\$ 149,638,218</u></b>	<b><u>\$ 437,908,166</u></b>
<b>LIABILITIES AND FUND EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accrued expenses	\$ 125,712	\$ 82,062	\$ -	\$ 18,441	\$ 226,215
Bond principal payable			600,000		600,000
Accrued interest payable	470,158	348,939	238,045	3,865,576	4,922,718
Total current liabilities	<u>595,870</u>	<u>431,001</u>	<u>838,045</u>	<u>3,884,017</u>	<u>5,748,933</u>
<b>LONG TERM LIABILITIES:</b>					
Bonds payable	145,000,000	115,000,000	19,765,000	140,000,000	419,765,000
Due to local government units	-	997,938			997,938
Loan original issue discount			143,376		143,376
Bond original issue premium				2,795,027	2,795,027
Estimated rebate liability				483,271	483,271
Unamortized loan origination fees	189,926	49,157	58,484	(26,246)	271,321
Total long term liabilities	<u>145,189,926</u>	<u>116,047,095</u>	<u>19,966,860</u>	<u>143,252,052</u>	<u>424,455,933</u>
Total liabilities	<u>145,785,796</u>	<u>116,478,096</u>	<u>20,804,905</u>	<u>147,136,069</u>	<u>430,204,866</u>
Fund equity	2,957,569	1,922,183	321,399	2,502,149	7,703,300
<b>TOTAL</b>	<b><u>\$148,743,365</u></b>	<b><u>\$ 118,400,279</u></b>	<b><u>\$ 21,126,304</u></b>	<b><u>\$ 149,638,218</u></b>	<b><u>\$ 437,908,166</u></b>

See Notes to Financial Statements

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**

**ADDITIONAL STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND EQUITY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>1985 Series</u>	<u>1986 Series</u>	<u>1996 Series</u>	<u>1997 Series</u>	<u>Total</u>
REVENUES:					
Interest income:					
Loans	\$ 4,310,789	\$ 3,427,636	\$ 1,133,782	\$ 266,012	\$ 9,138,219
Investments	1,753,053	1,284,817	3,084	2,998,428	6,039,382
Interest rate swaps				3,198,492	3,198,492
Miscellaneous	75,000			2,654	77,654
Amortization of bond original issue premium				47,373	47,373
Amortization of loan origination fees	10,805	14,859	2,832	(129)	28,367
Amortization of loan original issue discount	-	-	6,055	-	6,055
Total	<u>6,149,647</u>	<u>4,727,312</u>	<u>1,145,753</u>	<u>6,512,830</u>	<u>18,535,542</u>
EXPENSES:					
Interest expense:					
Bonds payable	5,314,164	4,236,096	1,133,782	3,294,777	13,978,819
Interest rate swaps				2,607,146	2,607,146
Letter of credit fees	290,594	231,386	-	40,951	562,931
Administrative expenses	387,422	308,206	5,630	15,429	716,687
Amortization of bond issuance costs	73,227	41,339	12,239	52,378	179,183
Amortization of bond original issue discount	-	-	6,055	-	6,055
Total	<u>6,065,407</u>	<u>4,817,027</u>	<u>1,157,706</u>	<u>6,010,681</u>	<u>18,050,821</u>
EXCESS OF REVENUES OVER EXPENSES	84,240	(89,715)	(11,953)	502,149	484,721
TRANSFERS	(1,715,000)	(300,000)	15,000	2,000,000	-
FUND EQUITY, BEGINNING	<u>4,588,329</u>	<u>2,311,898</u>	<u>318,352</u>	<u>-</u>	<u>7,218,579</u>
FUND EQUITY, ENDING	<u>\$ 2,957,569</u>	<u>\$ 1,922,183</u>	<u>\$ 321,399</u>	<u>\$ 2,502,149</u>	<u>\$ 7,703,300</u>

See Notes to Financial Statements

**DELAWARE VALLEY REGIONAL FINANCE AUTHORITY**

**ADDITIONAL STATEMENT OF CASH FLOWS INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>1985 Series</u>	<u>1986 Series</u>	<u>1996 Series</u>	<u>1997 Series</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Excess of revenues over expenses:	\$ 84,240	\$ (89,715)	\$ (11,953)	\$ 502,149	\$ 484,721
Adjustments for revenues not generating cash:					
Amortization of loan origination fees	(10,805)	(14,859)	(2,832)	129	(28,367)
Amortization of bond original issue premium	-	-	-	(47,373)	(47,373)
Estimated rebate liability				483,271	483,271
Amortization of bond issuance costs	73,227	41,339	12,239	52,378	179,183
Adjustments for changes in assets and liabilities					
Cash and cash equivalents	365	(11,164,436)	126,729	(14,112,615)	(25,149,957)
Loans to local governments	(11,350,601)	(326,165)	565,000	(55,650,000)	(66,761,766)
Accrued interest receivable	(96,123)	(77,743)	263,068	(212,674)	(123,472)
Prepaid expenses	(957)	1,545	119	(1,697)	(990)
Accrued expenses	(11,412)	(13,023)	(14,633)	18,441	(20,627)
Accrued bond interest payable	25,650	19,021	(387,549)	3,865,576	3,522,698
Due to local governments	-	(335,564)	-	-	(335,564)
Origination fees	5,152	16,068	-	(26,375)	(5,155)
Net cash provided by operating activities	<u>(11,281,264)</u>	<u>(11,943,532)</u>	<u>550,188</u>	<u>(65,128,790)</u>	<u>(87,803,398)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Transfers	(1,715,000)	(300,000)	15,000	2,000,000	-
Payments on bonds payable			(565,000)		(565,000)
Proceeds from bond issues				140,000,000	140,000,000
Original issue premium				2,842,400	2,842,400
Bond issuance costs	-	-	-	(3,142,691)	(3,142,691)
Net cash provided by financing activities	<u>(1,715,000)</u>	<u>(300,000)</u>	<u>(550,000)</u>	<u>141,699,709</u>	<u>139,134,709</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(12,996,264)</b>	<b>(12,243,532)</b>	<b>188</b>	<b>76,570,919</b>	<b>51,331,311</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b><u>15,525,205</u></b>	<b><u>17,113,923</u></b>	<b><u>10,090</u></b>	<b><u>-</u></b>	<b><u>32,649,218</u></b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b><u>\$ 2,528,941</u></b>	<b><u>\$ 4,870,391</u></b>	<b><u>\$ 10,278</u></b>	<b><u>\$ 76,570,919</u></b>	<b><u>\$ 83,980,529</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION,</b>					
Cash paid during the year for interest	<u>\$ 5,288,514</u>	<u>\$ 4,217,075</u>	<u>\$ 1,521,331</u>	<u>\$ (570,799)</u>	<u>\$ 10,456,121</u>

See Notes to Financial Statements

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**Appendix III**

**SPECIMEN BOND INSURANCE POLICY**

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# Municipal Bond Insurance Policy

Ambac Assurance Corporation  
c/o CT Corporation Systems  
44 East Mifflin Street, Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, New York 10004  
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

### Ambac Assurance 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 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 one (1) business day 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 right 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 the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds 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.

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. As used herein, "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. As used herein, "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 prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any 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 countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

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

Authorized Officer

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**Appendix IV**

**FORM OF BOND OPINION**

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September \_\_\_\_, 1998

Delaware Valley Regional Finance Authority  
Commerce Bank/Pennsylvania,  
National Association, as Trustee

**Re: \$300,000,000 Delaware Valley Regional Finance Authority  
Local Government Revenue Bonds, 1998 Series A, B and C**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Delaware Valley Regional Finance Authority (the "Authority"), a body corporate and politic organized and existing under the laws of the Commonwealth of Pennsylvania pursuant to the Municipality Authorities Act of 1945, approved May 2, 1945, P.L. 382, as amended (the "Act"), of \$300,000,000 aggregate principal amount of its Local Government Revenue Bonds, 1998 Series A, B and C (collectively, the "1998 Bonds"). The 1998 Series A Bonds are issued in the aggregate principal amount of \$250,000,000, the 1998 Series B Bonds are issued in the aggregate principal amount of \$25,000,000 and the 1998 Series C Bonds are issued in the aggregate principal amount of \$25,000,000.

The 1998 Bonds are issued under and pursuant to a certain Trust Indenture dated as of August 1, 1998 (the "Indenture"), from the Authority to Commerce Bank/Pennsylvania, National Association, as trustee (the "Trustee"), in furtherance of the Authority's stated purposes of assisting Participants in the Counties with Projects, as such term is defined in the Debt Act. The 1998 Bonds are being issued (i) to provide funds to make loans to Participants and to acquire obligations issued by Participants (which shall be full faith and credit obligations of Participants or such other entities which may guarantee the obligations of Participants), for the purpose of, and in order to assist Participants in financing the acquisition, erecting, extending, improving, equipping or repairing of Projects; (ii) to fund a Debt Service Reserve Fund; and (iii) to pay a portion of the costs related to the issuance of the 1998 Bonds.

At the time of origination of a Loan, each Participant will enter into a Loan Agreement with the Authority and shall execute and deliver to the Authority a bond (each a "Participant Bond" and collectively, the "Participant Bonds"). Pursuant to each Loan Agreement and Participant Bond, each Participant shall be obligated to make payments to

the Authority in amounts sufficient to satisfy such Participant's obligation with respect to its Loan. The obligations of each Participant under a Loan Agreement and Participant Bond shall constitute general obligations of such Participant for which such Participant (if a Local Government Unit and if not, the guarantor thereof) will pledge its full faith, credit and taxing power. Pursuant to the Indenture, the Authority has assigned to the Trustee, inter alia, the Participant Bonds and all of its right, title and interest (but not its obligations) under the Loan Agreements.

As a basis for this opinion, we have examined such matters of law and such documents, certificates, instruments, opinions and records as we have deemed necessary to enable us to render the same, including the Act, the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or made applicable with respect thereto (collectively, the "Code"), the Local Government Unit Debt Act, original counterparts of the Indenture, the form of the Loan Agreement, a certification of certain Authority officials having responsibility for issuing the 1998 Bonds given pursuant to Section 148 of the Code, opinions as to various matters delivered by the Authority's general counsel and such other documents, certifications, instruments, opinions and records listed in the Index of Closing Documents in respect of the 1998 Bonds filed this date with the Trustee. In rendering this opinion, we have relied on the genuineness, truthfulness and completeness of all documentation examined as referred to above, and on the opinions of general counsel to the Authority as to all matters of fact and law set forth therein.

All capitalized terms used in this opinion and not otherwise defined herein shall have the meanings set forth in the Indenture.

Based upon the foregoing, we are of the opinion that:

1. The Authority is a body corporate and politic, validly existing under the laws of the Commonwealth of Pennsylvania and the Act, with full power and authority to execute and deliver the Indenture and to issue and sell the 1998 Bonds.
2. The Indenture has been duly authorized, executed and delivered by the Authority and the covenants of the Authority therein are valid and binding obligations of the Authority, enforceable in accordance with their terms.
3. The issuance and sale of the 1998 Bonds have been duly authorized by the Authority, such 1998 Bonds have been duly executed and delivered by the Authority and authenticated by the Trustee and constitute the valid and binding obligations of the Authority, enforceable in accordance with their terms, and are entitled to the benefit and security of the Indenture.
4. Under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of original delivery of the 1998 Bonds, the 1998 Bonds are exempt

from personal property taxes in Pennsylvania and interest on the 1998 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

5. Under laws, regulations, rulings and judicial decisions existing on the date of original delivery of the 1998 Bonds, interest on the 1998 Bonds will be excludable from gross income of the holders thereof for federal income tax purposes, including alternative minimum tax, except interest on any 1998 Bond paid or accrued during any period such 1998 Bond is held by a corporation may be subject to alternative minimum tax imposed under the Code due to the adjustment for adjusted current earnings provided for in the Code. In addition, interest on the 1998 Bonds is included in effectively-connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States and interest on the 1998 Bonds may be subject to federal income taxation under Section 1375 of the Code for an S corporation which has Subchapter C earnings and profits at the close of the taxable year if more than 25% of the gross receipts of such S corporation is passive income.

Attention is invited to the fact that ownership of the 1998 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement Benefits and taxpayers, including banks, thrift institutions and other financial institutions, subject to Section 265 of the Code who may be deemed to have incurred or continued indebtedness to purchase or carry the 1998 Bonds. We express no opinion as to any such consequences.

In rendering this opinion, we have assumed compliance by the Authority with the covenants contained in the Indenture and compliance by the Authority and Participants which execute Loan Agreements, with the covenants in the Loan Agreements which are intended to comply with the provisions of the Code relating to actions to be taken by the Authority in respect of the 1998 Bonds after the issuance thereof or the Participants under the Loan Agreements, in each instance, to the extent necessary to effect or maintain the exclusion from federal gross income of the interest on the 1998 Bonds.

This opinion is rendered on the basis of federal law and the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof. We express no opinion as to any matter not set forth in the numbered paragraphs herein, including, without limitation, with respect to the accuracy or completeness of the preliminary or final Official Statement prepared in respect of the offering of the 1998 Bonds, and make no representation that we have independently verified the contents thereof.

For the purposes of this opinion, the enforceability but not the validity of the documents mentioned herein may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws now or hereafter enacted by any state or by the federal government affecting the enforcement of creditors' rights generally and the phrase

"enforceable in accordance with its terms" shall not mean that specific performance would necessarily be available as a remedy in every situation.

We call your attention to the fact that the obligations of the Authority under the Indenture and the 1998 Bonds are limited obligations of the Authority payable only from the Trust Estate under the Indenture and do not create any indebtedness of or pledge the credit or the taxing power of the United States of America, the Commonwealth of Pennsylvania or any political subdivision thereof, including Bucks, Chester, Delaware and Montgomery Counties, Pennsylvania. The Authority has no taxing power.

MESIROV GELMAN JAFFE  
CRAMER & JAMIESON, LLP

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Appendix V

**CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is dated September 2, 1998 and is executed by the Delaware Valley Regional Finance Authority (the "Authority") and Commerce Bank/Pennsylvania, National Association, as dissemination agent (the "Dissemination Agent") in connection with the issuance of Delaware Valley Regional Finance Authority, Local Government Revenue Bonds, 1998 Series A, B and C, in the aggregate principal amount of \$300,000,000 (the "Series 1998 Bonds"). The Series 1998 Bonds are being issued pursuant to a Trust Indenture, dated as of August 1, 1998, between the Authority and Commerce Bank/Pennsylvania, National Association (the "Trust Indenture"). The proceeds of the Series 1998 Bonds are expected to be provided by the Authority to certain local government units (individually each a "Borrower" and collectively the "Borrowers") pursuant to Loan Agreements between the Authority and each Borrower (the "Loan Agreements"). The Authority and the Trustee as Dissemination Agent, as defined below, covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority and the Dissemination Agent for the benefit of the Bondholders and in order to comply with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Indenture or the Loan Agreements, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section or elsewhere in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean each Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Bondholder" shall mean the person or persons in whose name a Series 1998 Bond is registered on the books of the Authority kept by the Dissemination Agent for that purpose in accordance with the Trust Indenture and the Series 1998 Bonds. For so long as any Series 1998 Bond shall be registered in the name of the Securities Depository or its nominee, the term "Bondholder" shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits evidencing beneficial ownership interest in the Series 1998 Bonds; provided, however, that the Dissemination Agent shall have no obligation to determine the identity of beneficial owners of the Series 1998 Bonds.

"Disclosure Representative" shall mean Calhoun, Baker Inc., Program Administrator for the Authority, on behalf of the Authority, or such other person as the Authority shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean Commerce Bank/Pennsylvania, National Association, acting in the capacity as Dissemination Agent hereunder, or any entity which is a successor trustee under the Trust Indenture or any successor Dissemination Agent designated in writing by the Authority and which has accepted in writing and filed such designation with the Authority.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"National Repository" shall mean each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") for purposes of the Rule. Currently, the following are the National Repositories:

Bloomberg Municipal Repositories  
P.O. Box 840  
Princeton, New Jersey 08542-0840  
Phone: (609) 279-3200  
Fax: (609) 279-5962  
Internet: MUNIS@Bloomberg.com

Thomson NRMSIR  
Attn: Municipal Disclosure  
395 Hudson Street, 3<sup>rd</sup> Floor  
New York, New York 10004  
Phone: (212) 807-5001 or (800) 689-8466  
Fax: (212) 989-2078  
Internet: Disclosure@Muller.com

Kenny Information Systems, Inc.  
65 Broadway - 16th Floor  
New York, New York 10006  
Attn: Kenny Repository Service  
Phone: (212) 770-4595  
Fax: (212) 797-7994

DPC Data, Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
E-Mail: NRMSIR@DPCDATA.com

"Participating Underwriter" or "Underwriter" shall mean any of the original underwriters of the Series 1998 Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Securities Depository" shall mean The Depository Trust Company, New York, NY, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the Trust Indenture.

"State" shall mean the Commonwealth of Pennsylvania.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purposes of the Rule. As of the date of this Agreement, there is no State Repository.

"Trustee" shall mean the Trustee of the Local Government Revenue Bonds, 1998 Series issued by the Delaware Valley Regional Finance Authority, initially Commerce Bank/Pennsylvania, National Association.

### SECTION 3. Provision of Annual Financial Information.

(a) The Authority shall, not later than July 1 of each year, commencing on July 1, 1999, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report.

(b) If by ten (10) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Disclosure Representative and request that the Annual Report be provided.

(c) If the Dissemination Agent has not received the Annual Report and is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Trustee shall send a notice to each Repository in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall determine each year twenty (20) Business Days prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any, it being understood that the Dissemination Agent may rely on an opinion of counsel concerning the identity of each entity designated as a National or State Repository and provide such information to the Authority.

SECTION 4. Content of Annual Financial Information. Each Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements for the Authority prepared in accordance with generally accepted accounting principles ("GAAP");

(b) Updates of the sections of the Official Statement captioned: "THE AUTHORITY."

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Authority is an "obligated person" (as defined in the Rule), which have been filed with each of the National Repositories and the State Repository, if any, or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such document so incorporated by reference.

The Authority reserves the right to modify from time to time the specific types of information provided and the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Authority; provided that the Authority agrees that any such modification will be done in the manner consistent with the Rule. The Authority may, at its option, satisfy this obligation by providing an official statement for one or more series of bonds or by specific reference, in accordance with the Rule, to one or more official statements previously provided and available from the MSRB.

SECTION 5. Reporting of Significant Events.

(a) The Authority agrees that it shall provide through the Dissemination Agent, in a timely manner, to the MSRB and to each State Repository, if any, notice of the occurrence of any of the following events with respect to the Bonds, if material within the meaning of the Rule:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
5. Substitution of credit or liquidity providers, if any, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Series 1998 Bonds;

7. Modification to the rights of the holders of the Series 1998 Bonds;
8. Series 1998 Bond calls;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Series 1998 Bonds; and
11. Rating changes.

The foregoing eleven (11) events are quoted from the Rule.

(b) The Dissemination Agent shall, within five (5) Business Days of the day on which the responsible corporate trust administrator with responsibility for the Series 1998 Bonds obtains actual knowledge of or receives written notice of the occurrence of any of the Listed Events (except events listed in clauses (a)(i), (viii) or (ix)) contact the Disclosure Representative and request that the Disclosure Representative promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Disclosure Representative shall as soon as possible determine if such event would constitute material information for Bondholders of Series 1998 Bonds.

(d) If the Disclosure Representative has determined that knowledge of the occurrence of a Listed Event would be material, the Disclosure Representative shall promptly notify the Dissemination Agent in writing. Such notice shall contain the text of any Listed Event that is to be included in the notice filed pursuant to subsection (f) and shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Disclosure Representative determines that the Listed Event would not be material, the Disclosure Representative shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Disclosure Representative to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence, together with a cover sheet substantially in the form attached hereto as Exhibit B, with the Municipal Securities Rulemaking Board and each National Repository and State Repository, if any, with a copy to the Disclosure Representative. Notwithstanding the foregoing:

(i) Subject to the knowledge requirements of subsection (b) notice of the occurrence of a Listed Event described in subsections (a)(i), (viii) or (ix) shall be given by the Dissemination Agent;

(ii) Notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Bondholders of affected Series 1998 Bonds pursuant to the Trust Indenture; and

(iii) If the Disclosure Representative fails to give the Dissemination Agent notice pursuant to Section 5(d) or (e) with respect to a Listed Event other than as described in Subsections (a)(i), (viii), or (ix), the Dissemination Agent shall deliver the notices provided for in this Section 5(f).

(g) Nothing in this Disclosure Agreement is intended to modify or limit the right of Commerce Bank/Pennsylvania, National Association in its capacity as Trustee under the Trust Indenture to provide notices and other information to Bondholders and such other parties as it deems appropriate in the performance of its duties as Trustee.

(h) Each notice of occurrence of a Listed Event filed pursuant to the first sentence of subsection (f) shall contain on the cover page in bold face type the following: "The information contained herein is being filed by the Delaware Valley Regional Finance Authority for the purpose of complying with its obligations under Securities and Exchange Commission Rule 15c2-12. The information contained herein is as of the date set forth below. Commerce Bank/Pennsylvania, National Association as Dissemination Agent has not participated in the preparation of this notice, has not examined its contents and makes no representation concerning the accuracy and completeness of the information contained herein."

SECTION 6. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Agreement shall terminate (1) upon the defeasance, prior redemption or payment in full of all of the Series 1998 Bonds, (2) upon repeal or rescission of Section (b)(5) of the Rule or (3) upon a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

SECTION 7. Amendment; Waiver. The Authority and the Dissemination Agent may amend this Disclosure Agreement only in a manner which is consistent with the Rule. Prior to executing any amendment, the Authority or the Dissemination Agent may request that an opinion be provided by counsel knowledgeable in Federal Securities laws and acceptable to the Authority and the Dissemination Agent. The Disclosure Representative shall provide notice of any amendment to the Dissemination Agent and the Dissemination Agent shall promptly file such notice with the MSRB and each Repository.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that

which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Agreement, the Bondholders' sole remedy shall be to institute an action against the Authority for specific performance of its obligations hereunder.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent and Dissemination Agent.

(a) The Authority hereby appoints Commerce Bank/Pennsylvania, National Association to serve as Dissemination Agent under this Agreement. The Authority may discharge the Dissemination Agent, with or without appointing a successor to it. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Agreement. If at any time there is not a designated Dissemination Agent, the Authority shall perform all duties and obligations of the "Dissemination Agent" under this Agreement.

(b) The Dissemination Agent accepts and agrees to perform the duties imposed upon it by this Agreement, but only upon the terms and conditions set forth herein. To the extent that Commerce Bank/Pennsylvania, National Association's duties as Dissemination Agent conflict with its duties as Trustee under the Trust Indenture, the duties of Commerce Bank/Pennsylvania, National Association as Trustee shall take precedence.

(c) The Disclosure Representative and the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Authority releases the Disclosure Representative and the Dissemination Agent from any claim arising out of the discharge of any duties hereunder and the Authority agrees to indemnify and defend and save the Disclosure Representative, the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the gross negligence or willful misconduct of the Disclosure Representative or the Dissemination Agent. The obligations of the Authority under this Section shall survive the resignation or removal of the Dissemination Agent and payment of the Series 1998 Bonds.

(d) The Dissemination Agent shall be under no obligation to institute any suit, or to take any proceeding under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability. The Dissemination Agent may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Dissemination Agent, without indemnity, and in such case the Authority shall reimburse the Dissemination Agent upon demand for all costs and expenses, outlays and

counsel fees and other reasonable disbursements properly incurred and against all liabilities in connection therewith.

(e) If at any time it shall be necessary or desirable for the Dissemination Agent to make any investigation respecting any fact preparatory to taking or not taking any action or doing or not doing anything as such Dissemination Agent, and in any case in which this Disclosure Agreement provides for permitting or taking any action, the Dissemination Agent may rely upon any certificate required or permitted to be filed with it under the provisions of this Disclosure Agreement, and any such certificate shall be evidence of such fact to protect the Dissemination Agent in any action that it may or may not do, in good faith, by reason of the supposed existence of such fact. Except as otherwise provided in this Disclosure Agreement, any request, notice or other instrument from the Authority to the Dissemination Agent shall be deemed to have been signed by the proper party or parties if signed by the Chairman or Vice-Chairman, and the Dissemination Agent may accept a certificate signed by an individual who represents to the Dissemination Agent in writing that he or she is an authorized officer of the Authority as to any action taken by the Authority.

(f) The Dissemination Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably believed by it to be in accordance with the terms of this Disclosure Agreement, or upon any resolution, order, notice, consent, waiver, certificate, statement, affidavit, requisition, bond or other paper or document which it shall in good faith believe to be genuine and to have been adopted or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement, or upon the written opinion of any attorney or accountant, and the Dissemination Agent shall be under no duty to make any investigation or inquiry as to statements contained or matters referred to in any such instrument or opinion, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Dissemination Agent may execute any of the powers hereof and perform the duties required of it hereunder by or through attorneys, agents, receivers or employees, and shall be entitled to advice of counsel concerning all matters of law and its duty hereunder, and the Dissemination Agent shall not be answerable for any act or omission of any such attorney, agent or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or for anything whatever in connection with the performance of its duties hereunder, except only for its own willful misconduct or gross negligence. For purposes of this Disclosure Agreement, matters shall not be deemed to be known to the Dissemination Agent unless they are known by a responsible officer in the Dissemination Agent's corporate trust group with responsibility for the Series 1998 Bonds.

(g) The Dissemination Agent may resign and thereby become discharged from the duties as such under this Disclosure Agreement by notice in writing mailed, postage prepaid, to the Authority, such resignation to become effective on the tenth (10th) Business Day following the Authority's receipt of notice thereof (or at such different date and time as stated in such notice). Any such resignation shall take effect immediately upon the appointment of a new Dissemination Agent hereunder, if such new Dissemination Agent shall be appointed before the time stated in such notice (if any) and shall then accept the duties of Dissemination Agent hereunder.

SECTION 11. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an Original and all of which shall constitute but one and the same instrument.

SECTION 12. Notices. Any notice or communication to or among the parties to this Disclosure Agreement may be given as follows:

to the Authority: Delaware Valley Regional Finance Authority  
Chesley Office Campus  
The Jamestown Building  
102 Chesley Drive  
Media, PA 19063

to the Dissemination Agent: Commerce Bank/Pennsylvania, National Association  
One Commerce Square  
Philadelphia, PA 19103  
Attn: Corporate Trust Administration

to the Disclosure Representative: Calhoun, Baker Inc.  
1811 Bethlehem Pike  
Flourtown Commons, Suite 350  
Flourtown, PA 19031

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriters and the Bondholders and shall create no rights in any other person or entity.

SECTION 14. Compensation of Dissemination Agent. The Authority shall pay or reimburse the Dissemination Agent (within 30 days of notice) for all reasonable expenses, charges and other disbursements including, without limitation, the fees and costs of its officers, directors, attorneys (including in-house counsel), agents and employees incurred in and about the administration and execution of the duties created by this Agreement and the performance of its powers and duties hereunder, and shall indemnify and save the Dissemination Agent and its officers, directors, attorneys and employees harmless from and against any losses, costs, expenses or other liabilities including all costs, expenses, outlays, counsel fees and expenses, and other disbursements which any of them may incur in the exercise and performance of its duties hereunder.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals the date and year above first written.

**DELAWARE VALLEY REGIONAL  
FINANCE AUTHORITY**

By: \_\_\_\_\_  
Name:  
Title:

**COMMERCE BANK/PENNSYLVANIA,  
NATIONAL ASSOCIATION, as  
Dissemination Agent**

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF POSSIBLE FAILURE TO FILE ANNUAL REPORT**

Name of Authority: Delaware Valley Regional Finance Authority

Name of Bond Issue: \$300,000,000 Delaware Valley Regional Finance Authority, Local Government Revenue Bonds, 1998 Series A, B and C

Name of Obligated Issuer: Delaware Valley Regional Finance Authority

Date of Issuance: \_\_\_\_\_, 1998

NOTICE IS HEREBY GIVEN that to the best of the knowledge of Commerce Bank/Pennsylvania, National Association as Dissemination Agent, Delaware Valley Regional Finance Authority has not provided an Annual Report with respect to the above-named 1998 Series A, B and C Bonds as required by Section 3 of the Continuing Disclosure Agreement dated September 2, 1998 between the Authority and Commerce Bank/Pennsylvania, National Association, Trustee as Dissemination Agent.

Dated: \_\_\_\_\_

COMMERCE BANK/PENNSYLVANIA, NATIONAL ASSOCIATION, as Dissemination Agent on behalf of the Delaware Valley Regional Finance Authority.

cc: Delaware Valley Regional Finance Authority

**EXHIBIT B**

**COVER SHEET REPORTING OCCURRENCE OF A MATERIAL EVENT**



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**Appendix VI**

**EXPLANATION OF FLOATs AND RITES**

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## Appendix VI

### EXPLANATION OF FLOATS AND RITES

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## Appendix VI

### EXPLANATION OF FLOATS AND RITES

#### GENERAL

The 1998 Series B Bonds (“1998 B Bonds”) will be issued as Floating Auction Tax-Exempts (“FLOATs”), and the 1998 Series C Bonds (“1998 C Bonds”) will be issued as Residual Interest Tax-Exempt Securities (“RITES”). The FLOATs shall be dated September 2, 1998, and the RITES shall be dated August 1, 1998. The FLOATs and RITES (collectively, “FLOATs and RITES”) shall mature on August 1, 2018. Certain capitalized terms used in this Appendix and not defined in “CERTAIN DEFINITIONS,” below shall have the respective meanings specified in the Indenture.

The Depository Trust Company, New York, New York (“DTC”, together with any successor securities depository, the “Securities Depository”) will serve as securities depository under a book-entry system for the FLOATs and RITES. See “BOOK-ENTRY-ONLY SYSTEM” in the Official Statement. Unless such system is discontinued, the provisions described under “BOOK-ENTRY-ONLY SYSTEM” in the Official Statement (including provisions regarding payments to and transfers by the owners of beneficial interests (“Beneficial Owners”) in the FLOATs and RITES will be applicable to the FLOATs and RITES. Purchases of beneficial interests in the FLOATs and RITES may be made only in denominations of \$50,000 or any multiple in excess thereof. If such system is discontinued, the provisions described under “Discontinuation of Book-Entry-Only System” in the Official Statement will be applicable.

#### CERTAIN DEFINITIONS

“**After-Tax Equivalent Rate,**” on any date of determination, means the interest rate per annum equal to the product of (i) and (ii) below.

- (i) The “‘AA’ Composite Commercial Paper Rate” on such date, which on any date of determination, shall mean:
  - (a) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated “AA” by S&P, or the equivalent of such rating by S&P or another nationally recognized securities rating agency, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination; or
  - (b) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the Commercial Paper Dealers, for the close of business on the Business Day immediately preceding such date of determination.

If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the “AA” Composite Commercial Paper Rate, the “AA” Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Authority to provide such quotation or quotations not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Authority does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the “interest equivalent” of a rate stated on a discount

basis (“discount rate”) for commercial paper of a given days’ maturity shall be equal to the product of

- (A) 100 times
- (B) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1% of (x) the discount rate (expressed in decimals) divided by
- (C) the difference between (1) 1.00 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360; and

(ii) 1.00 minus the lower of:

- (a) the “Statutory Corporate Tax Rate” on such date, which shall mean, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, and which on the date hereof is 35%; and
- (b) the “Statutory Personal Tax Rate” on such date, which shall mean, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of a natural person as set forth in Section 1 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, and which on the date hereof is 39.6%.

For the purposes of this definition: “**Commercial Paper Dealers**” means Merrill Lynch & Co. and such other commercial paper dealer or dealers as the Authority may from time to time appoint, or, in lieu of any thereof, their respective affiliates or successors; and “**Substitute Commercial Paper Dealer**” shall mean any such other commercial paper dealer or dealers as the Authority may from time to time appoint, or their respective affiliates or successors, if such person is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

“**Applicable Percentage,**” on any date of determination, means the percentage determined below (as such percentage may be adjusted as described below under “Adjustment of Percentage Used in Determining Maximum, Minimum and Non-Payment Rates”) based on the lower of the credit ratings of FLOATs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

<u>Moody’s Credit Rating</u>	<u>S&amp;P Credit Rating</u>	<u>Applicable Percentage</u>
“Aaa”	“AAA”	175%
“Aa” to “Aa1”	“AA-” to “AA+”	175%
“A” to “A1”	“A-” to “A+”	200%
“Baa” to “Baa1”	“BBB-” to “BBB+”	250%
Below “Baa”	Below “BBB-”	300%

In the event that the FLOATs are not rated by a nationally recognized securities rating agency, the Applicable Percentage shall be 300%. For purposes of this definition, S&P’s rating categories of “AAA,” “AA,” “A” and “BBB,” and Moody’s rating categories of “Aaa,” “Aa,” “A” and “Baa,” refer to and include the respective rating categories correlative thereto if either or both of such ratings agencies have changed or modified their generic rating categories or if Moody’s or S&P no longer rate the FLOATs or have been replaced.

**“Index”**, on any date of determination, means

- (i) the tax-exempt money market rate index for 30-day variable rate obligations prepared by Merrill Lynch & Co. published on The BLOOMBERG provided through Bloomberg Financial Markets of Bloomberg L. P., or on Dalcomp Systems on such date of determination or
- (ii) if such rate is not published by 9:00 a.m., New York City time, on such date of determination, the interest index selected by the Market Agent, representing the weighted average of the yield on tax-exempt commercial paper, or tax-exempt bonds bearing interest at a commercial paper rate or pursuant to a commercial paper mode, having a range of maturities or mandatory purchase dates between 25 and 36 days traded during the immediately preceding five Business Days.

**“Maximum Rate,”** on any date of determination, means the interest rate per annum equal to the lesser of:

- (i) the Applicable Percentage multiplied by the higher of (A) the After-Tax Equivalent Rate on such date and (B) the Index on such date; and
- (ii) 10.849% per annum minus the Service Charge Rate on such date;

provided that, if the ownership of the FLOATs is no longer maintained in book-entry form by DTC or a successor Securities Depository, the Maximum Rate, on any date of determination, shall equal the lesser of (x) the Applicable Percentage of the higher of (1) the After-Tax Equivalent Rate on such date and (2) the Index on such date and (y) 10.849% per annum and, provided further, that in no event shall the Maximum Rate be more than the maximum rate permitted by law.

**“Minimum Rate,”** on any date of determination, means the rate per annum equal to 90% (as such percentage may be adjusted as described below under “Adjustment in Percentage Used to Determine Maximum, Minimum and Non-Payment Rates”) of the lesser of:

- (i) the After-Tax Equivalent Rate on such date and
- (ii) the Index on such date;

provided that in no event shall the Minimum Rate be more than the Maximum Rate.

**“Non-Payment Rate,”** on any date of determination, means the interest rate per annum equal to the lesser of:

- (i) 300% of the Index on such date (as such percentage may be adjusted as described below under “Adjustment in Percentages Used to Determine Maximum, Minimum and Non-Payment Rates”) and
- (ii) 10.849% per annum;

provided that in the event that an Auction was held on the Business Day immediately preceding the first day of an Interest Period during which the FLOATs are to bear interest at the Non-Payment Rate, the Non-Payment Rate as determined pursuant to (i) or (ii) above shall be reduced by an amount equal to the Service Charge Rate on such date of determination and provided further that in no event shall the Non-Payment Rate be more than the maximum rate permitted by law.

**“Payment Default”** means (i) the default by the Authority in the due and punctual payment of any installment of interest with respect to the FLOATs or the RITES or (ii) the default by the Authority in the due and punctual payment of any interest, principal or premium, if any, with respect to the FLOATs or the RITES at their maturity or pursuant to a mandatory redemption, which, in either case, is followed by failure of the Bond Insurer to

make due and punctual payments to the Owners of the FLOATs and the RITES under the (Bond Insurance Policy) of such installments or payments described in clauses (i) and (ii).

## **INTEREST ON THE FLOATs AND RITES**

### **Interest Payment Date**

Each date on which interest on the FLOATs or RITES is payable is herein referred to as an “Interest Payment Date.” The “Interest Period” for each Interest Payment Date (during which interest shall accrue) shall be measured from, and including, the previous Interest Payment Date (with respect to the FLOATs, the Closing Date, and with respect to the RITES, August 1, 1998, in the case of the first Interest Period) to, but excluding, such Interest Payment Date.

Interest on the FLOATs, unless such FLOATs have been Fixed, is payable on September 30, 1998 (the “Initial Interest Payment Date”), and on each succeeding fourth Wednesday and at maturity (each, a “Subsequent Interest Payment Date”); provided, that if such day is not a Business Day, interest otherwise payable on such day will be payable on the immediately preceding Business Day. The Interest Period ending on September 30, 1998, is herein referred to as the “Initial Interest Period” and each subsequent Interest Period is herein referred to as a “Subsequent Interest Period.”

Interest on the RITES and on Fixed Bonds is payable on February 1 and August 1 of each year, commencing on February 1, 1999 (each, a “Semiannual Interest Payment Date”); provided, that if such day is not a Business Day, interest otherwise payable on such day will be payable on the immediately preceding Business Day. Each Interest Period for the RITES and Fixed Bonds is herein referred to as a “Semiannual Interest Period.”

Interest payments are to be made by the Trustee to the Securities Depository, as the registered owner of the FLOATs and RITES, as of the second Business Day preceding each Interest Payment Date (the “Regular Record Date”). See “BOOK-ENTRY-ONLY SYSTEM” in the Official Statement for a description of how the Securities Depository, as owner, is expected to disburse such payments to Beneficial Owners.

### **Interest on FLOATs**

The rate per annum at which interest is payable on the FLOATs for the Preliminary Interest Period, the Initial Interest Period or any Subsequent Interest Period (each an “Interest Period”) is hereinafter referred to as the “Applicable FLOATs Rate.” Interest on the FLOATs shall be computed on the basis of a 360-day year for the number of days actually elapsed. Interest rates with respect to the FLOATs are set forth below:

1. The interest rates with respect to the FLOATs for the Initial Interest Period will be 3.915% for the 1998 B Bonds, consisting of 3.640% which will be paid to the Owners of the 1998 B Bonds, and the Service Charge Rate of 0.275%, with respect to each of the 1998 B Bonds, which will be paid by the Trustee to the Auction Agent and the Broker-Dealers.
2. For each Subsequent Interest Period, the Applicable FLOATs Rate will equal the sum of:
  - (i) the rate (the “Auction Rate”) that the Auction Agent (The Chase Manhattan Bank or any successor) advises the Trustee resulted from an Auction for the FLOATs held on the Business Day immediately preceding the first day of such Subsequent Interest Period; and
  - (ii) the Service Charge Rate (initially 0.275%).

Under the following circumstances, the Auction Rate will not be used to set the interest rate with respect to FLOATs:

- (i) If a notice of an adjustment in the percentage used to determine the Maximum Rate, the Minimum Rate, and the Non-Payment Rate (in each case, defined below) shall have been given by the Market Agent and because of a failure to satisfy either of the conditions set forth in “AUCTION PROCEDURES –

Adjustment of Percentages Used to Determine Maximum, Minimum and Non-Payment Rates” below such adjustment shall not have taken effect, then an Auction shall not be held on the Auction Date (defined below) immediately preceding the next succeeding Subsequent Interest Period and the rate of interest for such Subsequent Interest Period shall equal the sum of the Maximum Rate on such Auction Date and the Service Charge Rate on such Auction Date;

- (ii) If, at the close of business on the Regular Record Date immediately preceding any Subsequent Interest Period, all Outstanding FLOATs are Fixed, then an Auction shall not be held with respect to such Subsequent Interest Period and the rate of interest for such Subsequent Interest Period shall equal the Minimum Rate (defined below) on the Business Day immediately preceding the first day of such Subsequent Interest Period; or
- (iii) If, on any Auction Date, an Auction is not held for any other reason, the rate of interest for the next succeeding Subsequent Interest Period shall equal the sum of the Maximum Rate on such Auction Date and the Service Charge Rate on such Auction Date.

Notwithstanding the foregoing:

- (A) If the ownership of the FLOATs is no longer maintained in book-entry form by DTC (or a successor Securities Depository), the rate of interest for any Subsequent Interest Period shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Subsequent Interest Period.
- (B) If a Payment Default occurs, Auctions will be suspended and the rate of interest on the FLOATs for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Non-Payment Rate, provided that if an Auction occurred on the Business Day immediately preceding any such Interest Period, the rate of interest for such Subsequent Interest Period shall be the Non-Payment Rate plus the Service Charge Rate.

### **Interest on RITES**

On each Semiannual Interest Payment Date, owners of RITES will receive payments of interest on such RITES equal to the excess, if any, taken (without rounding) to the nearest one-thousandth of 1% (0.001%) of:

- (i) the product of (a) two times (b) the fixed rate of 5.50% per annum (the “Fixed Rate”) times (c) the principal amount of RITES held by an owner times (d) the number of days in such Semiannual Interest Period (assuming a 360 day year consisting of twelve thirty day months), divided by 360, minus
- (ii) interest that has accrued on an equivalent principal amount of FLOATs (including payments due to application of the Service Charge Rate) during such Semiannual Interest Period.

**NO INTEREST ON RITES WILL BE PAYABLE FOR ANY SUBSEQUENT INTEREST PERIOD IN WHICH THE APPLICABLE FLOATs RATE IS 10.849% PER ANNUM.**

### **Service Charge**

The Service Charge, initially 0.275%, will be deducted from the interest payment on each \$50,000 principal amount of the FLOATs for each Interest Period following an Auction Date and paid to the Auction Agent and the Broker-Dealers in respect of the Auction Agent Fee and the Broker-Dealer Fee, unless such FLOATs were Fixed at the close of business on the Regular Record Date immediately preceding such Auction Date. The Service Charge shall equal the product of:

- (i) a fraction, the numerator of which is the number of days in such Interest Period and the denominator of which is 360 days, times

- (ii) the sum of the rate per annum at which the Auction Agent Fee (initially 0.025%) accrues and the rate per annum at which the Broker-Dealer Fee (initially 0.250%) accrues (the “Service Charge Rate,” initially 0.275%) times
- (iii) \$50,000.

See “AUCTION PROCEDURES – The Auction Agent’s Agreement and Fees” and “AUCTION PROCEDURES – Broker-Dealer Fees” below for a description of the circumstances under which the rate at which the Auction Agent Fee or the Broker-Dealer Fee accrues may be increased. A comparable amount will be deducted from the interest payment on the FLOATs for the Initial Interest Period and paid to the Auction Agent and the Broker Dealers in connection with the initial issuance of the FLOATs.

## **AUCTION PARTICIPANTS**

### **Existing Holders and Potential Holders**

Participants in each Auction will include: (1) “Existing Holders,” which shall mean any person who is listed as the owner of FLOATs in the records of the Auction Agent (defined below,) which are not Fixed, at the close of business on the Business Day prior to such Auction; and (ii) “Potential Holders,” which shall mean any person, including any Existing Holder, who may be interested in acquiring FLOATs (or, in the case of an Existing Holder, an additional principal amount of FLOATs). Beneficial Owners of FLOATs which were Fixed at the close of business on the Regular Record Date immediately preceding any Auction Date are not Existing Holders for purposes of the Auction Procedures, whether or not listed as the owner thereof on the records of the Auction Agent, and, with respect to such FLOATs, may not participate in the Auction held on such Auction Date. Such Fixed FLOATs will not be included in the aggregate principal amount of FLOATs held by such Existing Holder for the purposes of the Auction Procedures.

By purchasing FLOATs which are not Fixed, whether in an Auction or otherwise, each prospective purchaser of FLOATs or its Broker-Dealer must agree and will be deemed to have agreed:

- (i) to participate in Auctions on the terms described below;
- (ii) so long as the beneficial ownership of the FLOATs is maintained in book-entry form by DTC (or a successor Securities Depository), to sell, transfer or otherwise dispose of FLOATs which are not Fixed only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of FLOATs so transferred, its Agent Member or its Broker-Dealer advises the Auction Agent of such transfer;
- (iii) to have its beneficial ownership of FLOATs maintained at all times in book-entry form by DTC (or a successor Securities Depository) for the account of its Agent Member of the Securities Depository, which in turn will maintain records of such beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request;
- (iv) that a Sell Order (as defined below) placed by an Existing Holder shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto;
- (v) that a Bid (as defined below) placed by an Existing Holder shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto if the rate specified in such Bid is greater than, or in some cases equal to, the Auction Rate determined in the Auction;
- (vi) that a Bid placed by a Potential Holder shall constitute an irrevocable offer to purchase the principal amount of FLOATs subject thereto if the rate specified in such Bid is less than or equal to the Auction Rate determined in the Auction; and

- (vii) to tender its FLOATs for sale at 100% of the principal amount thereof, plus accrued but unpaid interest, if required as described below under “MANDATORY TENDER OF FLOATs.”

The principal amount of FLOATs purchased or sold may be subject to proration procedures. See “AUCTION PROCEDURES” and “Acceptance and Rejection of Orders” below. Each purchase or sale of FLOATs shall be made for settlement on the first Business Day following the Auction Date at a price equal to 100% of the principal amount thereof. See “AUCTION PROCEDURES” and “SETTLEMENT PROCEDURES” below. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

### **Auction Agent**

The “Auction Agent” is The Chase Manhattan Bank and, as used herein, such term shall include any successor Auction Agent appointed pursuant to the Indenture.

### **Broker-Dealers**

Existing Holders and Potential Holders may participate in Auctions only by submitting Orders (in the manner described below) through a “Broker-Dealer”, including Merrill Lynch & Co., or any other broker or dealer (each as defined in the *Securities Exchange Act of 1934*, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which

- (i) is an “Agent Member” (i.e. a member of, or participant in DTC or any successor Securities Depository) or an affiliate of an Agent Member,
- (ii) has been selected by the Authority and
- (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

### **Market Agent**

The “Market Agent,” initially Merrill Lynch & Co., is responsible under the terms of a Market Agent Agreement with the Authority, for determination of the Index and for determination of any changes to be made in the percentages used in determining the Maximum Rate, the Minimum Rate and the Non-Payment Rate. See “Adjustment of Percentages Used in Determining Maximum, Minimum and Non-Payment Rates.”

### **Successor Auction Agents, Broker-Dealers and Market Agents**

Successor Auction Agents, Market Agents and Broker-Dealers are selected by the Authority from institutions meeting the qualifying conditions under the documents.

## **AUCTION PROCEDURES**

Auctions to establish the Applicable FLOATs Rate will be held on each Auction Date, except as described above under “INTEREST ON THE FLOATs AND RITES – Applicable FLOATs Rate,” by application of the Auction Procedures described herein.

### **Auction Dates**

Except as described above under “INTEREST ON THE FLOATs AND RITES – Applicable FLOATs Rate,” Auctions shall be held on each “Auction Date”, which is defined as the Business Day immediately preceding the first day of each Interest Period, if there is an Auction Agent, other than:

- (i) an Interest Period which is immediately preceded by a Regular Record Date at the close of business on which all of the Outstanding FLOATs were Fixed;

- (ii) each Interest Period commencing after the ownership of the FLOATs is no longer maintained in book-entry form by the Securities Depository;
- (iii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- (iv) any Interest Period commencing less than two Business Days after the cure of a Payment Default.

### **Submission of Orders**

Prior to the Submission Deadline (defined as 1:00 P.M., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Auction Date:

- (i) each Existing Holder of FLOATs may submit to a Broker-Dealer an “Order,” consisting of information as to:
  - (a) the principal amount of Outstanding FLOATs, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period (“Hold Order”);
  - (b) the principal amount of Outstanding FLOATs, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Holder (“Bid”); and/or
  - (c) the principal amount of Outstanding FLOATs, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period (“Sell Order”); and
- (ii) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of FLOATs which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Holder (“Bid”).

Each Existing Holder and each Potential Holder placing an order is herein referred to as a “Bidder.”

Subject to the provisions described below under “Validity of Orders,” a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

- (i) the principal amount of Outstanding FLOATs specified in such Bid if the Auction Rate shall be less than the Rate specified in such Bid; or
- (ii) such principal amount or a lesser principal amount of Outstanding FLOATs to be determined as set forth in subparagraph (1) (d) under “Acceptance and Rejection of Orders” below, if the Auction Rate shall be equal to the rate specified in such Bid; or
- (iii) such principal amount or a lesser principal amount of Outstanding FLOATs to be determined as set forth under “Acceptance and Rejection of Orders” below, if the rate specified therein shall be higher than the Maximum Rate and Sufficient Clearing Bids (as defined below) have not been made.

Subject to the provisions described below under “Validity of Orders,” a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

- (i) the principal amount of Outstanding FLOATs specified in such Sell Order; or

- (ii) such principal amount or a lesser principal amount of Outstanding FLOATs as set forth under “AUCTION PROCEDURES – Acceptance and Rejection of Orders” below, if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under “Validity of Orders,” a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

- (i) the principal amount of Outstanding FLOATs specified in such Bid if the Auction Rate shall be higher than the rate specified in such Bid;
- (ii) such principal amount or a lesser principal amount of Outstanding FLOATs as set forth in subparagraph (1) (e) under “Acceptance and Rejection of Orders” below, if the Auction Rate shall be equal to the rate specified in such Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001%) of 1%.

If an Order or Orders covering all Outstanding FLOATs held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding FLOATs held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

None of the Authority, the Trustee or the Auction Agent, shall be responsible for any failure of a Broker-Dealer to submit an order to the Auction Agent on behalf of any Existing Holder or Potential Holder, nor shall any such party be responsible for failure by DTC, as securities Depository, to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

If a Broker-Dealer submits an order for its own account in any Auction, it might have an advantage over other Bidders because it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers, if any, in the Auction.

An Existing Holder may submit different types of Orders in an Auction with respect to FLOATs then held by such Existing Holder. An Existing Holder that offers to purchase additional FLOATs is, for purposes of such offer, treated as a Potential Holder. For information concerning the priority given to different types of Orders placed by Existing Holders, see “Validity of Orders” below.

The Maximum Rate is the maximum rate per annum that can result from an Auction. Any Bid specifying a rate higher than the Maximum Rate will be treated as a Sell Order if submitted by an Existing Holder and will not be accepted if submitted by a Potential Holder.

The Minimum Rate is the minimum rate per annum which can result from an Auction. Any Bid specifying a rate lower than the Minimum Rate will be treated as a Bid specifying the Minimum Rate. See “Validity of Orders,” “Determination of Sufficient Clearing Bids and Winning Bids Rates” and “Acceptance or Rejection of Orders” below.

### **Validity of Orders**

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding FLOATs held by such Existing Holder, such Orders shall be considered valid as follows and in the order of priority set forth below.

- (i) Hold Orders. All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of FLOATs held by such Existing Holder, and if the aggregate principal amount of FLOATs subject to such Hold Orders exceeds the aggregate principal amount of FLOATs held by such

Existing Holder, the aggregate principal amount of FLOATs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding FLOATs held by such Existing Holder.

(ii) Bids.

- (a) Any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding FLOATs held by such Existing Holder over the aggregate principal amount of FLOATs subject to any Hold Orders referred to in paragraph (a) above.
- (b) Subject to subparagraph (i) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding FLOATs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess.
- (c) Subject to subparagraphs (i) and (ii) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess.
- (d) In any event, the aggregate principal amount of Outstanding FLOATs, if any, subject to Bids not valid under this paragraph (b) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

(iii) Sell Orders. All Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding FLOATs held by such Existing Holder over the aggregate principal amount of FLOATs subject to Hold Orders referred to in paragraph (i) above and valid Bids referred to in paragraph (ii) above.

If more than one Bid for FLOATs is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of FLOATs not equal to \$50,000 or any multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of FLOATs not equal to \$50,000 or any multiple thereof shall be rejected. Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the Minimum Rate shall be treated as a Bid specifying the Minimum Rate. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

A Hold Order, Bid or Sell Order that has been determined valid pursuant to the foregoing procedures is herein referred to as a "Submitted Hold Order," a "Submitted Bid" and a "Submitted Sell order," respectively, and collectively as, "Submitted Orders".

### **Determination of Sufficient Clearing Bids and Winning Bid Rate**

Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Submitted Orders and shall determine:

- (i) the excess of the total principal amount of Outstanding FLOATs over the sum of the aggregate principal amount of Outstanding FLOATs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available FLOATs"); and
- (ii) from such Submitted Orders whether the aggregate principal amount of Outstanding FLOATs subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate; exceeds or is equal to the sum of:

- (a) the aggregate principal amount of Outstanding FLOATs subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate and
- (b) the aggregate principal amount of Outstanding FLOATs subject to Submitted Sell orders

(In the event such excess or such equality exists, other than because the sum of the principal amounts of FLOATs in subparagraphs (a) and (b) above is zero because all of the Outstanding FLOATs are subject to Submitted Hold Orders, such Submitted Bids in subparagraph (ii) above being hereinafter referred to collectively as “Sufficient Clearing Bids”); and

(iii) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the “Winning Bid Rate”), such that if:

- (a) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of FLOATs subject to such Submitted Bids) and
- (b) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates, were accepted,

the result would be that such Existing Holders described in subparagraph (a) above would continue to hold an aggregate principal amount of Outstanding FLOATs which, when added to the aggregate principal amount of Outstanding FLOATs to be purchased by such Potential Holders described in subparagraph (b) above, would equal not less than the Available FLOATs.

### **Notice of Auction Rate**

Promptly after the Auction Agent has made the determinations described above, the Auction Agent shall advise the Authority and the Trustee of the Maximum Rate and the Minimum Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

- (i) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;
- (ii) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding FLOATs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or
- (iii) if all Outstanding FLOATs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the Minimum Rate.

### **Acceptance and Rejection of Orders**

Existing Holders shall continue to hold the principal amount of FLOATs that are subject to Submitted Hold Orders. Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

- (i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) below, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

- (a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of FLOATs subject to such Submitted Bids;
  - (b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bids;
  - (c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted;
  - (d) each Existing Holders' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding FLOATs subject to all such Submitted Bids shall be greater than the principal amount of FLOATs (the "remaining principal amount") equal to the excess of the Available FLOATs over the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of FLOATs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of FLOATs obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Outstanding FLOATs held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding FLOATs subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and
  - (e) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of FLOATs obtained by multiplying the excess of the aggregate principal amount of Available FLOATs over the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding FLOATs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding FLOATs subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.
- (ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding FLOATs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:
- (a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bids;
  - (b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted; and
  - (c) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the FLOATs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of FLOATs obtained by multiplying the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraph

(b) above by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding FLOATs held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding FLOATs subject to all such Submitted Bids and Submitted Sell Orders.

- (iii) If all Outstanding FLOATs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.
- (iv) If, as a result of the procedures described in paragraph (i) or (ii) above, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of FLOATs that is not equal to \$50,000 or any multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of FLOATs to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of FLOATs purchased or sold by each Existing Holder or Potential Holder shall be equal to \$50,000 or any multiple thereof, even if such allocation results in one or more of such Potential Holders not purchasing any FLOATs.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of FLOATs to be purchased and the aggregate principal amount of FLOATs to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of FLOATs to be sold differs from such aggregate principal amount of FLOATs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, FLOATs.

### **Settlement Procedures**

The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of the Auction Rate for the next Interest Period and, if such order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on the Auction Date. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Auction Rate for the next Interest Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling FLOATs as a result of the Auction and advise each Bidder purchasing or selling FLOATs as a result of the Auction to give instructions to its Agent Member of the Securities Depository to pay the purchase price against delivery of such FLOATs or to deliver such FLOATs against payment therefor as appropriate. The Auction Agent will record each transfer of FLOATs on the registry of Existing Holders to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the Business Day after the Auction Date, the transactions described above will be executed through DTC, so long as DTC is the Securities Depository, and the accounts of the respective Agent Members at DTC will be debited and credited and FLOATs delivered as necessary to effect the purchases and sales of FLOATs as determined in the Auction. Purchasers are required to make payment through their Agent Members in same-day funds to DTC against delivery through their Agent Members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Agent Members in same-day funds.

If any Existing Holder selling FLOATs in an Auction fails to deliver such FLOATs, the Broker-Dealer of any person that was to have purchased FLOATs in such Auction may deliver to such person a principal amount of FLOATs that is less than the principal amount of FLOATs that otherwise was to be purchased by such person but in any event equal to \$50,000 or any multiple thereof. In such event, the principal amount of FLOATs to be delivered shall be determined by such Broker-Dealer. Delivery of such lesser principal amount of FLOATs shall constitute good delivery. For a further description of the Settlement Procedures, see "SETTLEMENT PROCEDURES" below.

## **Adjustment in Percentages Used to Determine Maximum, Minimum and Non-Payment Rates**

The Market Agent shall adjust the percentage used in determining the Minimum Rate, the Applicable Percentages used in determining the Maximum Rate, and the percentage of the Index used in calculating the Non-Payment Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that FLOATs paying the Maximum Rate, the Minimum Rate or the Non-Payment Rate in each case shall have substantially equal market values before and after such Change of Preference Law. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account:

- (i) short-term taxable and tax-exempt market rates and indices of such short-term rates;
- (ii) the market supply and demand for short-term tax-exempt securities;
- (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the FLOATs and RITES;
- (iv) general economic conditions; and
- (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the FLOATs and RITES.

As used herein, "Change of Preference Law" shall mean, with respect to any owner of FLOATs or RITES, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any owner of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

The Market Agent shall communicate its determination to adjust the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate, and the Applicable Percentages used in determining the Maximum Rate, by means of a written notice delivered at least 10 days prior to the Auction Date on which the Market Agent desires to effect the change to the Authority, the Trustee and the Auction Agent. Such notice shall be effective only if it is accompanied by an opinion of Bond Counsel to the effect that such adjustment is authorized by the Indenture, is permitted under the *Local Government Unit Debt Act* and the *Municipality Authorities Act of 1945*, and will not have an adverse effect on the exclusion of interest on the FLOATs and RITES from gross income for federal income tax purposes.

An adjustment in the respective percentages used to determine the Minimum Rate, the Maximum Rate and the Non-Payment Rate shall take effect on an Auction Date only if:

- (i) the Trustee and the Auction Agent receive, by 11:00 A.M., New York City time, on the Business Day immediately preceding such Auction Date, a certificate from the Market Agent by telecopy or similar means, in substantially the form required under the Indenture authorizing the adjustment of the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate which shall be specified in such authorization, and confirming that Bond Counsel expects to be able to give an opinion on or prior to such Auction Date to the effect that the adjustment in the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate, is authorized by the Indenture and will not have an adverse effect on the exclusion of interest on the FLOATs and RITES from gross income for federal income tax purposes;

- (ii) the Trustee shall not have delivered to the Auction Agent by 12:15 P.M., New York City time, on such Action Date, notice that a Payment Default has occurred; and
- (iii) the Trustee and the Auction Agent receive by 9:30 A.M., New York City time, on such Auction Date, an opinion of Bond Counsel to the effect that the adjustment in the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate are authorized by the Indenture and will not have an adverse effect on the exclusion of interest on the FLOATs and RITES from gross income for federal income tax purposes.

If any of the conditions referred to in (i) above is not met, the existing percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate shall remain in effect and the rate of interest on FLOATs for the next succeeding Interest Period shall be determined in accordance with the Auction Procedures. If any of the conditions referred to in (ii) or (iii) above is not met, the existing percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate shall remain in effect and the rate of interest for the next succeeding Interest Period shall equal the sum of the Maximum Rate on the Auction Date and the Service Charge Rate.

### **The Auction Agent's Agreement and Fees**

The Chase Manhattan Bank is the initial Auction Agent. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agent Agreement, and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining the pertinent facts.

The Auction Agent may terminate the Auction Agent Agreement upon notice to the Trustee, the Authority and the Market Agent on a date not earlier than 90 days after such notice. If the Auction Agent should resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court for any reason, the Trustee is obligated to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agent Agreement. The Trustee acting at the direction of (1) the Authority on behalf of the Owners or (2) the Owners of 66-2/3% of the aggregate principal amount of the FLOATs and RITES, may remove the Auction Agent.

On the Interest Payment Date for each Interest Period immediately following an Auction Date, the Auction Agent will be entitled to receive a fee payable by the Trustee for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of 0.025% of the aggregate principal amount of the FLOATs which were not Fixed at the close of business on the Regular Record Date immediately preceding such Auction Date ("Auction Agent Fee"). In addition, the Auction Agent will be entitled to receive on the Initial Interest Payment Date the Auction Agent Fee calculated for the Initial Interest Period on the initial aggregate principal amount of the FLOATs for all services rendered by it in connection with the original issuance of the FLOATs.

The Auction Agent Agreement provides that the rate at which the Auction Agent Fee accrues will be such that the Auction Agent receives as compensation for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements an amount comparable to that received by the Auction Agent and other institutions performing similar functions for rendering comparable services to others and which at least reflects the actual costs to the Auction Agent of rendering such services, including the amount of any fees payable by the Auction Agent to the Market Agent. The Auction Agent may, with the consent of the Trustee, change the Auction Agent Fee Rate from time to time, provided, however, prior to such change the Auction Agent shall certify to the Trustee that the new Auction Agent Fee Rate shall be such that the Auction Agent receives as compensation for all

services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements an amount comparable to that received by the Auction Agent for rendering comparable services to others and which at least reflects the actual costs to the Auction Agent of rendering such services, including the amount of compensation, if any, payable by the Auction Agent to the Market Agent. The Trustee shall consent to such change in the Auction Agent Fee upon receipt of such certificate of the Auction Agent. If the rate at which the Auction Agent Fee is to accrue increases, the Auction Agent is required to give notice thereof to all Existing Holders within two Business Days of such change and the Trustee is required to mail a notice thereof to all Existing Holders of FLOATs and RITES within two Business Days of such change. See “INTEREST ON THE FLOATs AND RITES – Service Charge” above for a description of the manner in which the Auction Agent Fee will be paid.

### **Broker-Dealer Fees**

On the Interest Payment Date following each Auction Date, each Broker-Dealer will be entitled to receive a service charge payable by the Trustee with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of 0.250% of the aggregate purchase price of the FLOATs placed by such Broker-Dealer at such Auction (all such fees are collectively referred to herein as the “Broker-Dealer Fee”). For purposes of the preceding sentence, FLOATs will be deemed to have been placed by a Broker-Dealer in an Auction if such FLOATs were

- (i) the subject of Hold Orders deemed to have been made by Existing Holders and were acquired by, such Existing Holder through such Broker-Dealer or
- (ii) the subject of an Order submitted by such Broker-Dealer that is
  - (a) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such FLOATs as a result of the Auction,
  - (b) a Submitted Bid of a Potential Holder that resulted in such Potential Holder purchasing such FLOATs as a result of the Auction or
  - (c) a valid Hold Order.

In addition, if an Auction is for any reason not held on an Auction Date, FLOATs will be deemed to have been placed by a Broker-Dealer in such Auction if such FLOATs were acquired by an Existing Holder through such Broker-Dealer. Each Broker-Dealer will also be entitled to receive the Broker-Dealer Fee on the Initial Interest Payment Date calculated for the Initial Interest Period on the aggregate principal amount of the FLOATs initially sold by such Broker-Dealer or an affiliate thereof as an underwriter in the initial offering of the FLOATs.

The Auction Agent Agreement provides that the rate at which the Broker-Dealer Fee accrues will be the prevailing rate received by broker-dealers for rendering comparable services to others. The Auction Agent has agreed to certify to the Trustee, at least annually, its view of the then-current prevailing rate received by broker-dealers for rendering comparable services to others. If the then-current Broker-Dealer Fee Rate is not, in the opinion of the Auction Agent, the prevailing rate, the Broker-Dealer Fee Rate shall be changed so that it equals such prevailing rate. If the rate at which the Broker-Dealer Fee accrues increases, the Auction Agent is required to give notice thereof to the Existing Holders within two Business Days of such change and the Trustee is required to mail a notice thereof to the Owners of the FLOATs and RITES within two Business Days of such change. See “INTEREST ON THE FLOATs AND RITES – Service Charge” above for a description of the manner in which the Broker-Dealer Fee will be paid.

### **FIXING FLOATs AND RITES – FORMING FIXED OPTION AND PERMANENTLY FIXED BONDS**

A beneficial owner of RITES or FLOATs may fix the interest rate (“Fix”) on such RITES or FLOATs by purchasing an equal principal amount of FLOATs or RITES, as the case may be, and requesting its Broker-Dealer to deliver a request for Fixing (“Fixing Request”) to the Auction Agent (a form of which notice is attached as an exhibit to the Broker-Dealer Agreements) and taking such other action as its Broker-Dealer requests.

THE RITES AND THE FLOATS MAY NOT BE FIXED DURING THE “CLOSED PERIOD”:

- (i) commencing at 11:00 a.m., New York City time, on the third Business Day immediately preceding any Interest Payment Date and ending immediately prior to the opening of business on such Interest Payment Date; or
- (ii) commencing at 11:00 a.m., New York City time, on any Redemption Record Date and ending on the related redemption date. Accordingly, as described below, in order to Fix FLOATs and RITES prior to an Interest Payment Date for the FLOATs AND RITES, a Fixing Request therefor must be received by the Auction Agent no later than 12:00 Noon, New York City time, on the fourth Business Day prior to such Interest Payment Date.

A Fixing Request which is submitted to the Auction Agent by 12:00 noon, New York City time, on a Business Day will, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the Fixing of the RITES and the FLOATs subject to such Fixing Request under a single CUSIP number immediately prior to the close of business on the next Business Day. The Fixing Request shall designate whether the Bonds will be permanently Fixed or subject to a Request to Separate (as described below); notwithstanding such designation, Newly Fixed Option Bonds (as defined below) will be subject to a Request To Separate.

Beneficial owners of FLOATs which were Fixed at the close of business on the Regular Record Date immediately preceding any Auction Date may not participate in the Auction held on such Auction Date.

RITES and FLOATs (other than Newly Separated FLOATs) that become Fixed during a Semiannual Interest Period are herein referred to as “Newly Fixed Option Bonds.” Newly Fixed Option Bonds that are Fixed at the close of business on the Regular Record Date immediately preceding a Semiannual Interest Payment Date are herein referred to as “Regular Fixed Option Bonds” if the Fixing Request for such Newly Fixed Option Bonds designated such Bonds to be subject to a Request to Separate, or “Permanently Fixed Bonds” if the Fixing Request for such Newly Fixed Option Bonds designated such Bonds to be permanently Fixed. Newly Fixed Option Bonds and Regular Fixed Option Bonds are herein referred to as “Fixed Option Bonds.”

Interest on Regular Fixed Option Bonds and Permanently Fixed Bonds will be payable on each Semiannual Interest Payment Date at an interest rate per annum equal to the Fixed Rate applicable to the RITES which were Fixed to create such Regular Fixed Option Bonds or Permanently Fixed Option Bonds. Interest on Newly Fixed Option Bonds will be payable on the Semiannual Interest Payment Date at an interest rate per annum equal to the Fixed Rate applicable to the RITES which were Fixed to create such Newly Fixed Option Bonds; provided, however, that the amount payable to an owner of a Newly Fixed Option Bond will be reduced by the sum of (i) interest on the FLOATs that were Fixed to create such Newly Fixed Option Bonds (the “Fixed FLOATs”) that was accrued and paid on the Fixed FLOATs during such Semiannual Interest Period, plus (ii) the Service Charge accrued but unpaid (in respect of an Auction Date that has occurred) on such Fixed FLOATs and increased by the amount, if any, of interest accrued, but unpaid, as of the beginning of such Semiannual Interest Payment Period.

A beneficial owner of Regular Fixed Option Bonds may convert its Regular Fixed Option Bonds to Permanently Fixed Option Bonds by requesting its Broker-Dealer to deliver a request to the Auction Agent (a form of the notice is attached as an exhibit to the Broker-Dealer Agreements) and taking such other action as its Broker-Dealer requests. Such request may not be submitted during the Closed Period described above.

FLOATs and RITES which are Fixed may only be transferred together in minimum denominations of \$100,000 (\$50,000 principal amount of RITES and \$50,000 principal amount of FLOATs) and any multiples thereof.

A purchaser of Fixed Option Bonds or Permanently Fixed Bonds in the secondary market will make payment of the purchase price thereof in accordance with the Securities Depository’s normal procedures, which now provide for payment in next-day funds against delivery to its Agent member of such Fixed Option Bonds or Permanently Fixed Bonds.

If the FLOATS AND RITES are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, the FLOATs and RITES may not be Fixed.

## SEPARATING FLOATS AND RITES

A Beneficial owner of Fixed Option Bonds may “Separate” the applicable FLOATs and RITES at any time, other than during a Closed Period, by requesting its Broker-Dealer to deliver a request to Separate (“Request To Separate”) the applicable Fixed Option Bonds to the Auction Agent (a form of which request is attached as an Exhibit to the Broker-Dealer Agreement), and taking such action as its Broker-Dealer requires.

The owner of FLOATs which are not Fixed as of a Subsequent Interest Payment Date, but which were Fixed at the close of business on the Regular Record Date for the immediately preceding Subsequent Interest Period (“Newly Separated FLOATs”), will receive payments of interest on such FLOATs equal to the sum of (i) the interest calculated at the Auction Rate or the Maximum Rate, as the case may be, and (ii) the Service Charge Rate (or, in certain circumstances, the Non-Payment Rate), in each case, for each Interest Period beginning on or after the later of (a) the immediately preceding Semiannual Interest Payment Date and (b) the immediately preceding Subsequent Interest Payment Date on which such FLOATs were not Fixed.

A Request To Separate which is submitted to the Auction Agent by 12:00, New York City time, on a Business Day will, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the redelivery of Separated FLOATs and RITES, under separate CUSIP numbers immediately prior to the close of business on the next Business Day.

## CUSIP NUMBERS

The CUSIP numbers for the different classes of FLOATs and RITES are as follows:

<u>Classes of FLOATs and RITES</u>	<u>CUSIP Number</u>
Regular RITES (1)	246579 E Z 5
Regular FLOATs (1)	246579 E S 1
Newly Separated FLOATs (1) (2) (4)	246579 E X 0
Regular Fixed Option Bonds	246579 E T 9
Permanently Fixed Bonds	246579 E Y 8
Newly Fixed Option Bonds (3)(4)	246579 E U 6

(1) Regular RITES, Regular FLOATs, and Newly Separated FLOATs are RITES or FLOATs that are not fixed.

(2) All Newly Separated FLOATs will automatically become Regular FLOATs on each Auction Date.

(3) All Newly Fixed Option Bonds will automatically become Regular Fixed Option Bonds or Permanently Fixed Bonds on each Auction Date.

(4) Newly Separated FLOATs and Newly Fixed Option Bonds will be assigned a CUSIP Number that may be different from other Newly Separated FLOATs or Newly Fixed Option Bonds, as applicable, depending on when such Bonds were Separated or Fixed, as applicable.

## REDEMPTION

### Optional Redemption

The FLOATs and the RITES are not subject to optional redemption prior to maturity.

### Extraordinary Redemption

The FLOATs and the RITES are subject to extraordinary redemption, subject to certain conditions. See “THE 1998 BONDS – REDEMPTION” in the Official Statement for the prices and provisions governing extraordinary redemption. The Extraordinary Redemption Price of the FLOATs and RITES on any date shall equal

(i) the price (calculated on the basis of a 30 day month and 360 day year) on the date of redemption of a bond assuming a 5.50% semiannual coupon, with a yield of 4.90%, maturing on August 1, 2018, plus (ii) 3%.

The FLOAT/RITES may not be called for redemption by the Authority except as provided below:

- (i) No FLOATs shall be redeemed or delivered to the Trustee for cancellation on any date, unless an equal aggregate principal amount of RITES is redeemed or delivered to the Trustee for cancellation on the same date, and
- (ii) no RITES shall be redeemed or delivered to the Trustee for cancellation on any date, unless an equal aggregate principal amount of FLOATs is redeemed or delivered to the Trustee for cancellation on the same date.

### **Selection of FLOATs and RITES to be Redeemed**

The FLOATs and RITES shall be redeemed in minimum denominations of \$50,000 or any multiples thereof. So long as the ownership of the FLOATs and the RITES is maintained in book-entry form by the Securities Depository, the FLOATs and RITES to be redeemed in part on any Redemption Date shall be selected from the Outstanding FLOATs and RITES as described below:

- (i) An amount equal to the Fixed Percentage (as defined below) of the aggregate principal amount of the FLOATs and the RITES of each maturity to be redeemed on such Redemption Date shall be selected from Permanently Fixed Bonds, Regular Fixed Option Bonds and Newly Fixed Option Bonds (on a pro rata basis in accordance with the relative principal amounts thereof).
- (ii) The remaining amount of RITES to be redeemed shall be selected from Regular RITES, and the remaining amount of FLOATs to be redeemed shall be selected from Regular FLOATs and Newly Separated FLOATs (on a pro rata basis in accordance with the relative principal amounts thereof).
- (iii) If any principal amount of the FLOATs and the RITES selected as provided above is not equal to \$50,000 or any multiple in excess thereof, the Trustee shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amounts so determined.

The Trustee shall give the Securities Depository at least two Business Days notice of the record date selected by it for the purpose of a redemption (each a "Redemption Record Date") and obtain from the Securities Depository a position listing showing at the close of business as of such Redemption Record Date the aggregate principal amounts of Regular FLOATs, Newly Separated FLOATs, Regular RITES, Regular Fixed Option Bonds, Permanently Fixed Bonds and Newly Fixed Option Bonds, respectively. On the basis of such position listing, the Trustee shall calculate the Fixed Percentage as of the Redemption Record Date and determine therefrom the principal amounts to be redeemed and Redemption Prices (plus accrued and unpaid interest thereon to the Redemption Date) of: Regular FLOATs, Newly Separated FLOATs, Regular RITES, Regular Fixed Options Bonds, Permanently Fixed Bonds and Newly Fixed Option Bonds, respectively.

As used herein, "Fixed Percentage," as of any Redemption Record Date, shall mean the percentage obtained by dividing the aggregate principal amount of Outstanding FLOATs and RITES which are Fixed on such Redemption Record Date by the aggregate principal amount of Outstanding FLOATs and RITES on such Redemption Record Date.

If the ownership of the FLOATs and RITES is no longer maintained in book-entry form by the Securities Depository, the FLOATs and RITES to be redeemed will be selected in accordance with the Indenture by the Trustee by lot.

## **Redemption Notice**

The Trustee shall cause a notice of any redemption of FLOATs or RITES to be mailed, postage paid, to all Owners owning FLOATs or RITES to be redeemed in whole or in part not more than 30 days and not less than 15 days prior to the redemption date, but not earlier than, the Interest Payment Date immediately preceding the Redemption Date. Such notice shall be mailed a second time to any owner owning FLOATs and RITES that have been called for redemption if such Owner has not presented such FLOATs or RITES for payment of the Redemption Price within sixty (60) days after the Redemption Date. Failure to mail any such notice to any Owner or any defect in any notice so mailed shall not affect the validity of the proceedings for the redemption of the FLOATs and RITES of any other Owners. Notwithstanding the foregoing, so long as the registered Owner of all of the FLOATs and RITES is the Securities Depository, notice of redemption need only be sent to the Securities Depository.

- (i) The Trustee shall also take the following actions with respect to such notice of redemption. At least two (2) Business Days before the date of publication required by paragraph (b) below such notice shall be given to The Depository Trust Company and to at least two (2) of the following services selected by the Trustee: (1) Financial Daily Called Bond Service of Financial Information, Inc.; (2) Called Bond Service of Kenny Information Service; (3) Municipal and Government of Moody's Investors Service, Inc.; and (4) Called Bond Record of Standard & Poor's Corporation; and
- (ii) At least thirty (30) days prior to the redemption date, such notice shall be published one (1) time in The Bond Buyer or, if such publication is no longer in existence, in some other financial newspaper or journal which regularly carries notices of redemption of other obligations similar to the FLOATs and RITES.

Neither failure to publish any such notice nor any defect in such notice so published shall affect the sufficiency of the proceedings for the redemption of such FLOATs and RITES. Failure by the Trustee to give notice pursuant to paragraph (a) or (b) above to any one (1) or more of the securities depositories or information services named therein shall not affect the sufficiency of the proceedings for redemption. Failure of the Trustee to give notice to an Owner or any defect in such notice shall not affect the validity of the proceedings for redemption of any other FLOATs and RITES.

## **MANDATORY TENDER OF FLOATS**

Any holders of RITES may, at any time and from time to time, notify a Broker-Dealer that:

- (i) such holder intends to submit a Bid for a specified principal amount of FLOATs on the next succeeding Auction Date in order to Fix the same with all or a portion of such RITES, and
- (ii) if such Bid is unsuccessful, in whole or in part, such holder requires that FLOATs (which are not Fixed) in an aggregate principal amount equal to the unsuccessful portion of such Bid be tendered to such holder for purchase on the seventh Business Day prior to the Auction Date following the Auction in which such Bid proved unsuccessful ("Tender Date") at a price equal to the principal amount of FLOATs being purchased plus accrued but unpaid interest to the Tender Date less an amount equal to the Service Charge, if any, applicable to any such FLOATs multiplied by a fraction, the numerator of which is the number of days from and including the immediately preceding Interest Payment Date for such FLOATs to but not including the Tender Date and the denominator of which is the number of days in the Interest Period in which such Tender Date occurs ("Tender Price").

FLOATs subject to mandatory tender as a result of demands made by or on behalf of holders of RITES (each a "Tender Demand") shall be selected by lot, and notice of such mandatory tender ("Tender Notice") shall be given to the Agent Member of each Existing Holder whose FLOATs have been so selected. Such Tender Notice having been given, the Existing Holder or Existing Holders of such FLOATs shall be required to tender the FLOATs specified therein for purchase by such RITES owner on the Tender Date and at the Tender Price therefor.

In the event that any owner of RITES that has submitted a Tender Demand fails to provide the Tender Price for the purchase of the principal amount of FLOATs specified therein on the Tender Date therefor, the purchase of such principal amount of FLOATs may not take place on such Tender Date, and in such event such principal amount of FLOATs shall be deemed to be subject to a Submitted Sell Order for purposes of the next succeeding Auction. The foregoing provisions shall not, however, be deemed to limit the obligations of an owner of RITES to pay the Tender Price specified in any Tender Demand given by or on behalf of such owner or to reimburse any Broker-Dealer or other person on account of the payment of such Tender Price.

The giving of a Tender Notice with respect to a FLOAT shall supersede any Order given by the Existing Holder of such FLOATs with respect to the Auction occurring on the Auction Date following the Tender Date specified in such Tender Notice.

Each Existing Holder of FLOATs agrees that if such owner should receive any payment in connection with any tender transaction to which it is not entitled (as a result of failure of an owner of RITES to provide the Tender Price or otherwise), such owner will take such actions (including return of funds and repayment of interest to any party who provided funds to such holder which such party was not obligated to provide) so that all interested parties (including any Broker-Dealer) are restored to the positions which would have obtained if the tender transaction were effected, or not effected, as the case may be, in accordance with the provisions described above.

## **SPECIAL FACTORS AFFECTING THE RITES**

The magnitude of the increases and decreases in market value of the RITES may be approximately twice as large as a comparable change in market value of an equal principal amount of 5.50% fixed rate bonds having similar credit quality, redemption provisions and maturity (excluding in such comparison any potential premium paid or received for the RITES beyond that which would be paid for 5.50% fixed rate bonds having similar credit quality, redemption provisions and maturity).

Because the interest rate with respect to the RITES will be determined by subtracting the Applicable FLOATs Rate from a fixed amount, the interest rate with respect to the RITES will decrease as the Applicable FLOATs Rate increases, and increase as the Applicable FLOATs Rate decreases. AS A RESULT, THE INTEREST RATE WITH RESPECT TO THE RITES WILL EQUAL ZERO IF THE APPLICABLE FLOATs RATE IS EQUAL TO 10.849% PER ANNUM.

An increase in the amount of FLOATs which are not Fixed could result in a higher Applicable FLOATs Rate and, therefore, a lower interest rate with respect to the RITES.

Under certain circumstances, discussed above under "INTEREST ON FLOATs AND RITES – Applicable FLOATs Rate", the FLOATs could bear interest at the Maximum Rate or the Non-Payment Rate. In any such case, the interest rate with respect to the RITES could be significantly reduced or reduced to zero.

The interest rate applicable to the RITES may also be decreased in the event the Auction Agent Fee or Broker-Dealer Fee is increased because such Fees are components of the Service Charge Rate and of the Applicable FLOATs Rate which is deducted from 11.00% per annum to determine the Applicable RITES Rate.

In order to Fix RITES or FLOATs, a beneficial owner of RITES or FLOATs must also have purchased a like principal amount of FLOATs or RITES, as the case may be. See "FIXING RITES AND FLOATs – FORMING FIXED OPTION BONDS" above. There is no obligation to provide FLOATs to a beneficial owner of RITES who desires to Fix such RITES nor to provide RITES to a beneficial owner of FLOATs who desires to Fix FLOATs. A beneficial owner of the RITES may be able to acquire FLOATs that are not Fixed by bidding in an Auction (normally held every 28 days), provided, that the Existing Holders of such FLOATs do not submit Hold Orders covering all such FLOATs in the Auction. In such event, no FLOATs would be available for purchase at any rate bid by such beneficial owner of RITES in that Auction. See "AUCTION PROCEDURES" above. A beneficial owner of RITES may, however, cause a mandatory tender of FLOATs for purposes of Fixing RITES to the extent it cannot acquire FLOATs in an Auction. See "MANDATORY TENDER OF FLOATs" above. A beneficial owner of FLOATs

might be able to purchase RITES in the secondary market; however, an active secondary market may or may not develop for such RITES.

No assurance can be given that an active secondary market will exist for the RITES or, outside Auctions, the FLOATs. Merrill Lynch & Co. as Broker-Dealer, retains the right to make a secondary market although they have no obligation to do so.

## **SPECIAL CONSIDERATIONS AFFECTING FLOATS**

Existing Holders of FLOATs may be required to tender FLOATs to a beneficial owner of RITES before the completion of an Interest Period in the event such beneficial owner of RITES exercises its rights to require such a tender. See “MANDATORY TENDER OF FLOATS” above.

## **SETTLEMENT PROCEDURES**

Capitalized terms used herein and not defined in “CERTAIN DEFINITIONS” above shall have the respective meanings specified in the Indenture.

- (i) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:
  - (a) the Auction Rate fixed for the next Interest Period;
  - (b) whether there were Sufficient Clearing Bids in such Auction;
  - (c) if such Broker-Dealer (a “Seller’s Broker-Dealer”) submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of FLOATs, if any, to be sold by such Existing Holder;
  - (d) if such Broker-Dealer (“Buyer’s Broker-Dealer”) submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of FLOATs, if any, to be purchased by such Potential Holder;
  - (e) if the aggregate principal amount of FLOATs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of FLOATs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer’s Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer’s Broker-Dealer) acting for one or more purchasers of such excess principal amount of FLOATs and the principal amount of FLOATs to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer’s Broker-Dealers acted;
  - (f) if the principal amount of FLOATs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of FLOATs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller’s Broker-Dealers (and the name of the Agent Member, if any, of each such Seller’s Broker-Dealer) acting for one or more sellers of such excess principal amount of FLOATs and the principal amount of FLOATs to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller’s Broker-Dealers acted; and
  - (g) the Auction Date for the next succeeding Auction.

- (ii) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:
  - (a) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;
  - (b) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of FLOATs to be purchased pursuant to such Bid against receipt of such FLOATs;
  - (c) in the case of Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of FLOATs to be sold pursuant to such Order against payment therefor;
  - (d) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;
  - (e) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and
  - (f) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.
- (iii) on the basis of the information provided to it pursuant to paragraph (i) above, each Broker-Dealer that submitted a Bid or Sell order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (ii) (b) above, and any FLOATs received by it in connection with such Auction pursuant to paragraph (ii) (c) above among the Potential Holders , if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to paragraph (i)(e) or (i)(f) above.
- (iv) On each Auction Date:
  - (a) each Potential Holder and Existing Holder with an order in the Auction on such Auction Date shall instruct its Agent Member as provided in (ii)(a) or (b) above, as the case may be;
  - (b) each Seller's Broker-Dealer that is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to the Agent Member of the Existing Holder delivering FLOATs to such Broker-Dealer following such Auction pursuant to (ii)(c) above the amount necessary to purchase such FLOATs against receipt of such FLOATs, and (B) deliver such FLOATs through the Securities Depository to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (i)(e) above against payment therefor; and
  - (c) each Buyer's Broker-Dealer that is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (i)(f) above the

amount necessary to purchase the FLOATs to be purchased pursuant to (ii)(b) above against receipt of such FLOATs, and (B) deliver such FLOATs through the Securities Depository to the Agent Member of the purchaser thereof against payment therefor.

- (v) On the Business Day following each Auction Date:
  - (a) each Agent Member for a Bidder in the Auction on such Auction Date referred to in (iv)(a) above shall instruct the Securities Depository to execute the transactions described under (ii)(b) or (c) above for such Auction, and the Securities Depository shall execute such transactions;
  - (b) each Seller's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (iv)(b) above for such Auction, and the Securities Depository shall execute such transactions; and
  - (c) each Buyer's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (iv) (c) above for such Auction, and the Securities Depository shall execute such transactions.
  
- (vi) If an Existing Holder selling FLOATs in an Auction fails to deliver such FLOATs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of FLOATs that is less than the principal amount of FLOATs that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of FLOATs to be delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of FLOATs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (vi), any delivery or non-delivery of FLOATs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.