

Rating Action: Moody's Assigns A2 to Philadelphia Municipal Authority, PA's \$84M City Agreement Rev Ref Bonds, Series 2017

Global Credit Research - 15 Mar 2017

New York, March 15, 2017 -- Issue: City Agreement Revenue Refunding Bonds, Series 2017 (Juvenile Justice Services Center); Rating: A2; Rating Type: Underlying LT; Sale Amount: \$84,435,000; Expected Sale Date: 03/20/2017; Rating Description: Lease Rental: Appropriation;

Summary Rating Rationale

Moody's Investors Service assigns an A2 rating to the Philadelphia Municipal Authority, PA's \$84.4 million City Agreement Revenue Refunding Bonds, Series 2017. Moody's maintains an A2 rating on the authority's outstanding \$217 million in service fee debt. The outlook is negative reflecting the negative outlook on the city.

The A2 rating reflects the strong legal structure clearly laid out within the city's home rule charter, bond ordinances, and service fee agreements. As stated in the documents, these service and lease rental payments are legal, valid and binding obligations of the city payable out of current city revenues. While the city does not pledge its full faith and credit and unlimited taxing power, the city covenants to provide for payment in its annual budget and these payments are absolute and unconditional without being subject to any contingencies. For these reasons, we do not differentiate regarding essentiality and render them in the same band of credit quality as an ad valorem pledge.

Rating Outlook

The negative outlook on the bonds reflects the negative outlook on the city.

Factors that Could Lead to an Upgrade

Improvement in the general credit profile of the City of Philadelphia

Factors that Could Lead to a Downgrade

Deterioration of the general credit profile of the City of Philadelphia

Legal Security

The Series 2017 bonds are secured by the City of Philadelphia's unconditional obligation to make debt service payments from the General Fund under a service agreement with the authority. While this pledge is not a direct general obligation of the city, we see the "absolute and unconditional" nature of the agreement to be of equivalent credit quality to the city's general obligation pledge. We therefore rate these bonds on parity with the city's General Obligation bonds.

Use of Proceeds

Proceeds from the Series 2017 Bonds will be used to refund portions of the authority's outstanding Series 2009 Bonds (Juvenile Justice Center Project) for an expected net present value savings of 18.5% of refunded principal.

Obligor Profile

Philadelphia is the fifth-largest city in the US, with a population over 1.6 million. The city has a General Fund budget of \$4.1 billion, and \$3.9 billion of tax-supported debt outstanding.

Methodology

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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