MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Affirms A2 on Philadelphia, PA's GO Bonds; Outlook Remains Negative

Global Credit Research - 04 Dec 2017

New York, December 04, 2017 -- Summary Rating Rationale

Moody's Investors Service has affirmed the A2 rating on Philadelphia, PA's $1.5B in outstanding General Obligation debt. Moody's has also affirmed the A2 rating on the city's outstanding service fee bonds (non pension) and the A3 rating on the city's PAID Series 1999A-C and Series 2012 bonds. The outlook is negative. The A2 general obligation rating reflects the city's large tax base, and its position as a regional economic center anchored by a significant nonprofit institutional presence and a number of major corporations and other large employers. The rating also incorporates the city's heavy debt burden, high fixed costs, and weak financial position. Affirmation of the A2 rating on the city's outstanding service fee bonds (non pension related) reflects the strong legal structure clearly laid out within the city's home rule charter, bond ordinances, and service fee/lease 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 (same line item as General Obligation debt) 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. Affirmation of the A3 rating on the city's PAID Series 1999A-C bonds and Series 2012 bonds (the "POB debt") reflects the additional risk of a higher loss given default for these securities relative to the city's other service-fee and lease-rental debt. The POB debt originally funded a portion of the unfunded liability for the city's retirement system and are not secured by the city's unlimited taxing power. In the event of a default, creditor recourse would likely be extremely limited, because of the narrow security pledge consisting only of the city's contractual obligation to make service fee payments.

Rating Outlook

The negative outlook reflects the city's weak financial reserve levels as well as school district funding challenges that the city may face in fiscal 2019, given the State Reform Commission's (SRC) recent decision to dissolve itself and the fact that the school board will revert back to mayoral appointment. While reserves in fiscal 2017 are expected to strengthen due to conservative budgeting and positive revenue trends, details on the city's financial plans for funding the school district will not be known until the spring of 2018. Until the city's funding plans are known, the effect on the city's already thin reserves, if any, is unclear.

Factors that Could Lead to an Upgrade

Expansion in the tax base and strengthening of the socioeconomic profile

Ability to achieve and maintain structural balance

Growth of reserves to levels consistent with higher rating categories

Substantial decrease of unfunded pension liabilities

Factors that Could Lead to a Downgrade

Significant tax base declines

Inability to achieve structural balance

Decrease in reserves beyond current expectations through fiscal 2019

Increased support to school district reducing the city's financial flexibility

Failure to fund pension plan on sound basis going forward

Change in service/fee legal structure

Legal Security

The city's GO bonds are secured by the city's General Obligation unlimited tax pledge.Service Fee and Lease Debt are supported by service fee and lease rental payments which 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.

Use of Proceeds

Not applicable

Obligor Profile

Philadelphia is the sixth-largest city in the US, with a population over 1.6 million. The city has a General Fund budget of $4.1 billion, and $3.6 billion (June 30, 2017) of tax-supported debt outstanding.

Methodology

The principal methodology used in this general obligation rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in this lease 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.moodys.com for a copy of these methodologies.

Regulatory Disclosures

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Christopher Coviello
Lead Analyst
Regional PFG Northeast
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Orlie Prince
Additional Contact

Regional PFG Northeast
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.