

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 to Philadelphia, PA's \$175M 2015-16A TRANS

Global Credit Research - 21 Jul 2015

PHILADELPHIA (CITY OF) PA
Cities (including Towns, Villages and Townships)
PA

Moody's Rating

ISSUE	RATING
Tax and Revenue Anticipation Notes, Series A of 2015-2016	MIG 1
Sale Amount \$175,000,000	
Expected Sale Date 08/05/15	
Rating Description Note: Tax and/or Revenue Anticipation	

Moody's Outlook STA

NEW YORK, July 21, 2015 --Moody's Investors Service has assigned a MIG 1 rating to the City of Philadelphia, PA's \$175 million Tax and Revenue Anticipation Notes, Series A of 2015-2016.

SUMMARY RATING RATIONALE

The MIG 1 rating on the city's Tax and Revenue Anticipation Notes reflects ample coverage of principal and interest by projected cash balances; a firm trend in tax revenues; adequate long-term credit quality reflected in the city's general obligation rating of A2 and stable outlook; and a history of reasonable and accurate cash-flow projections. The rating also recognizes that the city's revenue composition is economically sensitive and subject to volatility, and that the recent improvements in the city's cash balances and tax revenues have flattened.

OUTLOOK

Not applicable.

WHAT COULD MAKE THE RATING GO DOWN

Declines in coverage

Declines in cash balances

STRENGTHS

Ample coverage of principal and interest by projected cash balances

Solid trend in tax revenues

CHALLENGES

Volatile and economically sensitive revenue composition

Flattening out of recent improvements in tax revenues and cash balances

RECENT DEVELOPMENTS

Recent developments are incorporate in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

LONG-TERM CREDIT QUALITY: ADEQUATE CREDIT QUALITY EVIDENCED BY A2 RATING

The city's long-term credit quality is adequate, and reflected in its general obligation rating of A2 with a stable outlook. With a tax base of nearly \$100 billion and a population of 1.6 million people, Philadelphia is the fifth-biggest city in the United States.

Although beset by a high poverty rate and a long-standing trend of population loss that has only recently begun to reverse, the city has seen a recent growth trend and improvement in its socioeconomic profile.

The city's revenue composition is economically sensitive, with a heavy reliance on taxes driven by employment, wages, and economic activity. Although these taxes have been performing well in the aftermath of the downturn, the city's revenues tend to perform poorly during recessions. With a below-average general fund balance of 5.6% (fiscal 2014) and declining, the city's rating is vulnerable to downward pressure should another downturn depress tax revenues.

CASH FLOW: SUFFICIENT CASH BALANCES AND INFLOWS TO MEET NOTE PRINCIPAL AND INTEREST BEFORE MATURITY

Philadelphia has issued TRANs every year since 1972 because of cash-flow seasonality. With property taxes (16% of revenues), gross receipts taxes (13% of revenues), and most state aid (6% of revenues) received mostly late in the fiscal year, and pension payments due in February and March, the city's net cash balance gets low in March. Projections for 2016 reveal a general fund cash balance (net of TRANs) of about \$65 million in March (or 1.7% of a \$3.9 billion of anticipated receipts). During the downturn, net cash balances were frequently negative.

As the general fund becomes more flush with cash later in the fiscal year, projected cash balances are ample relative to principal and interest on the notes. Projected available cash in May (April's ending cash balance plus net inflows during May) is \$467 million, or enough to cover principal by 2.7 times. After paying principal on the notes, the city's cash balance is projected to be healthy at 7.5% of revenues.

We do note that a positive trend has reversed or at least flattened. After several years of growing revenues and cash balances from 2012 to 2014, the city reduced its TRAN borrowings; the combination of higher revenues, higher cash balances, and lower TRAN borrowings led to ample coverage of principal by cash balances of 4.9 times in 2014 and 4.1 times last year. Thanks to a combination of factors including tax cuts, the revenue trend has flattened and the city has increased its TRAN borrowing. Therefore, coverage likely peaked in 2014 and will not soon return to such a high level. However, we expect coverage to remain adequate. Further, the city pools other funds' cash into a consolidated cash account, which at time of note repayment typically has a positive balance in addition to the general fund share of cash (although such balances are not pledged, the city could choose to pay TRAN debt service with this cash).

DEBT POSITION AND LEGAL COVENANTS: SOLID LEGAL PROVISIONS, SET-ASIDE STRUCTURE

The TRANs are a general obligation of the city, and are secured by general fund revenues, which exclude property taxes collected on behalf of the school district and a portion of the city's wage tax pledged to pay special tax bonds issued by the Pennsylvania Intergovernmental Cooperation Authority (Aa2 stable).

Under a trust agreement, the city has pledged to transfer principal for the notes to the trustee on May 27 (34 days prior to the June 30 maturity) and interest on June 27 (three days prior to maturity).

The city's long-term debt burden is above-average at 4.2% of full value.

MANAGEMENT: CONSERVATIVE PROJECTIONS

Management has consistently underestimated its receipts and cash balances, generally leading to outperformance relative to projections. In last year's TRAN issue, the city projected \$333 million of cash available in May 2015; the city's actual cash available was \$409 million. The prior year, actual cash of \$490 million exceeded the projection of \$436 million.

Philadelphia benefits from state oversight by way of PICA, which requires the city to publish and regularly update a five-year plan, representing a very comprehensive long-term planning regime relative to most other cities.

KEY STATISTICS

Long-term GO rating: A2 stable

Estimated cash balance as a % of total receipts (post-repayment): 7.5% (May 2016)

Timing of receipts: Sufficient cash is available more than 30 days prior to maturity

Amount borrowed as a % of receipts: 4%

Segregation of funds: weighted-average set-aside is 33 days prior to maturity

OBLIGOR PROFILE

Philadelphia is the fifth-biggest city in the United States, with a population of 1.6 million.

LEGAL SECURITY

The notes are general obligations of the city, although they do not pledge the taxing power of the city nor do they require the city to levy ad valorem taxes for their repayment. Noteholders have a lien on general fund taxes and revenues of the city.

USE OF PROCEEDS

Proceeds of the notes will be used to supplement the city's cash flows during certain cash low-points throughout the remainder of the fiscal year.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Short-Term Cash Flow Notes published in April 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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