

**Rating Action: MOODY'S ASSIGNS MIG 1 RATING TO CITY OF PHILADELPHIA'S (PA) \$173 MILLION TRANS**

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Global Credit Research - 17 Nov 2011

**AFFIRMS A2 LONG-TERM RATING AND STABLE OUTLOOK, AFFECTING \$3.79 BILLION IN PARITY GO AND UNCONDITIONAL DEBT OBLIGATIONS**

New York, November 17, 2011 --

Moody's Rating

Issue: Tax and Revenue Anticipation Notes, Series A of 2011-2012; Rating: MIG 1; Sale Amount: \$173,000,000; Expected Sale Date: Nov. 30, 2011; Rating Description: Tax and/or Revenue Anticipation

Opinion

Moody's Investors Service has assigned a MIG 1 rating to the City of Philadelphia's \$173 million Tax and Revenue Anticipation Notes, Series A of 2011-2012, which mature on June 30, 2012. Issued to fund temporary cash flow imbalances in the city's General Fund during the upcoming fiscal year, the notes are secured by a pledge of taxes and revenues to be received by the General Fund during fiscal 2012 (ending June 30). The city has covenanted to make deposits into a dedicated repayment fund held by the note trustee on May 25, 2012 (full principal amount) and June 27, 2012 (full interest requirement). Concurrently, we have affirmed the A2 rating and stable outlook assigned to the city's \$3.8 billion of general obligation bonds and unconditional General Fund debt obligations.

**SUMMARY RATING RATIONALE**

The A2 rating also reflects the city's ongoing economic challenges, weak demographics and high unemployment, modest property value growth, and a heavy burden of tax-supported debt and unfunded pension liability. Moody's believes the city's weak credit characteristics are mitigated by the fact that it is subject to a state oversight board, with well-established five-year planning and quarterly monitoring procedures.

**STRENGTHS**

- Large, diverse tax base; economic center for a multistate region
- Strong state oversight
- Comprehensive five-year financial planning

**CHALLENGES**

- Weakened financial operations resulting in negative GAAP General Fund balances
- Limited tax base growth, Weak demographics and high unemployment
- Very high debt burden and fixed expenditure pressure

**Outlook**

Moody's rating outlook for the City of Philadelphia's general obligation rating is stable, reflecting indications of financial stability at weaker reserve levels, projected return to positive fund balance levels, and oversight by a state-appointed entity, including 5-year forecasting.

**WHAT COULD MAKE THE GENERAL OBLIGATION RATING GO UP**

- Continued improvement to financial operations and an increase in General Fund balance well above the current levels
- Ability to navigate significant additional pension contributions and reduce unfunded pension liability

**WHAT COULD MAKE THE GENERAL OBLIGATION RATING GO DOWN**

- A return to deficit operations in fiscal 2012 or in subsequent years
- Stagnant or further weakened reserve levels

The principal methodology used in this rating was Short-Term Cash Flow Notes published in May, 2007. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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