Moody's Investors Service

Global Credit Research
Rating Update
18 APR 2008

Rating Update: Philadelphia City Authority for Ind. Dev., PA

MOODY'S ASSIGNS Baa1 UNDERLYING RATING TO $348.23 MILLION IN OUTSTANDING LEASE REVENUE DEBT ISSUED BY THE PHILADELPHIA AUTH. FOR IND. DEV. (PA); OUTLOOK IS STABLE

RATING BASED ON UNCONDITIONAL PLEDGE OF CITY OF PHILADELPHIA TO PAY DEBT SERVICE

Municipality
PA

Opinion

NEW YORK, Apr 18, 2008 -- Moody's Investors Service has assigned an underlying Baa1 rating to the Philadelphia Authority for Industrial Development's $50.32 million Fixed Rate Lease Revenue Refunding Bonds, Series 2007A, $289.68 million Multi-Modal Lease Revenue Refunding Bonds, Series 2007B, and $8.23 million Fixed Rate Lease Revenue Bonds, Series 2001A. The underlying rating is being assigned in conjunction with a substitution of a letter of credit for the existing credit enhancement and liquidity facility for the Series 2007B bonds. Bonds are secured by unconditional General Fund payments made by the City of Philadelphia under two Prime Lease agreements with the authority, whose payments represent the ultimate security for the bonds. Proceeds from the original 2001 bonds were used to assist in the construction costs of two stadiums for the Philadelphia Phillies and the Eagles. The 2007 bonds were used to advance refund the 2001B bonds.

The Baa1 rating reflects the credit quality of the City of Philadelphia, whose General Obligation bonds are also rated Baa1, given the unconditional nature of the city's obligation to service these bonds from current revenues in each fiscal year. The city's G.O. rating, in turn, reflects the city's improving, although still weak, demographic and economic trends, modest property value growth, and a heavy burden of tax-supported debt. Mitigating these weaknesses, city finances are subject to oversight by a state body, with well-established five-year planning and quarterly monitoring procedures in place. The city's budgetary management has been effective, which contributed to maintenance of a positive unreserved General Fund balance for over a decade. Three years of large operating deficits, however, depleted reserves and created a negative unreserved fund balance as of the end of fiscal 2004. The city returned to surplus operations in fiscal years 2005, 2006 and 2007. Although a budget deficit is projected for fiscal 2008, which ends on June 30, 2008, the city will once again end the year with a positive fund balance. Moody's stable outlook reflects the expectation that financial operations will remain stable going forward, as reflected in the city's Five Year Plan which currently demonstrates narrow, but adequate reserves for the next few years. Moody's rating also acknowledges that a potential large pension obligation bond issue later this year could significantly increase the city's general obligation bond debt burden, although the city expects it to reduce the overall fixed costs relating to payment of pension obligations by the city. For more information on the city's general obligation rating, please see Moody's report dated April 2, 2008.

BONDS SECURED BY UNCONDITIONAL CITY PAYMENTS

The bonds are limited obligations of the authority, ultimately secured by rental payments from the city which include provision for debt service payment when due. Pursuant to two Prime Lease Agreements, one for each of the stadiums, the city has covenanted to budget and appropriate each fiscal year for all rental payments, including the portions representing debt service, when due and payable, without suspension or abatement of any nature. Failure to appropriate is an event of default under the Prime Leases. This legal obligation is similar to those associated with approximately $2.6 billion of other outstanding debt obligations of the city, including its pension, neighborhood transformation and convention center obligations. In view of the non-contingent nature of the pledge, as well as the city's strong financial oversight and resulting reasonable level of financial flexibility in its General Fund, these obligations have all been rated at the same level as the city's unlimited tax G.O. bonds. The city is required to balance its budget each year and to raise taxes if necessary to achieve such balance.

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