

## RESEARCH

## Summary:

**Philadelphia, Pennsylvania; Note**

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**Credit Profile**


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 US\$200. mil TRAns ser 2008 due 06/30/2008

Short Term Rating

SP-1+

New

**Rationale**

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Philadelphia, Pa.'s series 2008 TRAns.

The rating reflects the city's:

- Good general fund liquidity position, and
- Good historical and projected debt service coverage (DSC) from net ending general fund cash balances on the segregation dates and TRAN maturity date.

The TRAns are general obligations of the city ('BBB' GO rating, stable outlook), though the city has not pledged its taxing power and is not required to levy ad valorem taxes for their payment. The notes are payable from fiscal 2008 general fund receipts. Proceeds will finance the city's seasonal cash flow needs. The TRAN repayment account will be held by the trustee (Wells Fargo, N.A.). The city is required to deposit funds with the trustee on May 30, 2008, and June 27, 2008, which in the aggregate will be sufficient to pay principal and interest on the bonds, due June 30, 2008. The city reserves the right to issue an additional \$50 million in notes secured by the pledged revenue.

The city's cash flow borrowing for fiscal 2008 represents a \$110 million reduction from fiscal 2007 borrowing and \$170 million reduction from fiscal 2006 borrowing. Projected DSC of principal by general fund cash balances is a strong 3.26x on the May 30 segregation date. Projected coverage of principal and interest at maturity is 3.05x.

The city's \$310 million fiscal 2007 borrowing exhibited 2.87x coverage at set-aside, while fiscal 2006 borrowing (\$370 million) enjoyed 1.85x coverage at set-aside. A degree of comfort is afforded by conservative budgeting practices and financial oversight from the Pennsylvania Intergovernmental Cooperation Authority (PICA); modest recent improvement in general economic conditions; and modest alternate cash balances that, while unpledged, could be used to support repayment of the notes.

Philadelphia's cash flow projections have been conservative over the past 10 years. The city expects a fiscal 2007 general fund ending cash balance of \$490.4 million, a significant improvement over the balance initially forecasted. The city projects it will close fiscal 2008 with a general fund cash balance of \$430.8 million.

Philadelphia's 'BBB' GO rating reflects the following weaknesses:

- Despite showing improvement in fiscal 2006, the city's financial results have been historically erratic, and its financial position is expected to decline in 2007.
- There are continuing longstanding fiscal problems at the Philadelphia School District and

Philadelphia Gas Works (PGW), which could cause the city operating stress.

- Income levels are below average, with per capita effective buying income at about 91% of the national level.
- The city's overall net debt burden is high, due in large part to significant deficit financing related to fiscal distress during the early 1990s, a significant neighborhood revitalization program, and the issuance of general-fund-supported debt to finance the construction of two new stadiums. Debt levels are even higher when pension obligation bonds--issued in 1999 to partially extinguish the city's unfunded pension liability--are factored in.

Also reflected in the rating are the following credit strengths:

- Continued fiscal oversight provided by PICA; and
- The city's location in the center of a diverse regional economy that, despite modest growth experienced over the past several years, has economic growth projected to lag the nation's growth rate over the next several years.

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#### Ratings Detail (As Of 20-Jul-2007)

Philadelphia TRANS ser 2008 due 06/30/2008

*Short Term Rating*

SP-1+

New Rating

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