RatingsDirect®

Summary:

Philadelphia; Note

Primary Credit Analyst:
Hilary A Sutton, New York (1) 212-438-7093; hilary.sutton@standardandpoors.com

Secondary Contact:
Timothy W Little, New York (212) 438-7999; timothy.little@standardandpoors.com

Table Of Contents

Summary:

Philadelphia; Note

Credit Profile		
US$130.0 mil TRANs ser 2014 due 06/30/2015		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' rating to Philadelphia's series 2014-2015A tax and revenue anticipation notes (TRANs).

The rating reflects our opinion of the city's:

- Strong projected debt service coverage (DSC) of 3.2x at maturity;
- An overall reduction in cash flow borrowing due to improved internal liquidity;
- Access to ample alternate liquidity in the consolidated cash funds.

The TRANs are a general obligation (GO) of Philadelphia, but the city has not pledged its taxing power; therefore, it is not required to levy ad valorem taxes for TRAN payments. The notes, however, are payable from fiscal 2015 general fund receipts, including general property taxes; wage, earnings and net profits taxes; business privilege taxes; sales and use taxes; and revenue from other governments. Although not pledged as security, consolidated cash funds provide additional liquidity.

TRAN proceeds will pay Philadelphia's general expenses prior to the receipt of income to be received in fiscal 2015 and pledged for note repayment. Principal and interest are due June 30, 2015, which coincides with the city's fiscal year-end. However, the repayment structure includes a repayment account held by the trustee into which officials are required to deposit the amount of principal borrowed on May 22, 2015, and the amount of accrued interest on June 26, 2015. It is our understanding these aggregate deposits will be sufficient to pay TRAN principal and interest due at maturity.

Philadelphia has a long history of cash-flow borrowing to finance seasonal cash flow needs. While the principal amount for fiscal 2015 is up relative to the last two years ($130 million compared with $100 million in 2014 and $127 million in 2013), it remains well below the $232 million average issuance since fiscal 2006. In our view, the overall reduction in TRAN size is due to the city's improved cash balances. According to unaudited results, Philadelphia ended fiscal 2014 with a $448.9 million general fund cash balance after repayment of the annual TRAN borrowing. Unaudited coverage of principal and interest was 5.5x at maturity, better than the 3.9x projected at the time of the sale.

Projected fiscal 2015 DSC of principal by general fund cash balances is, in our view, a strong 3.6x on the May principal set-aside date. We also view projected DSC of principal and interest at maturity as strong at 3.2x. Although not pledged, when including consolidated cash, DSC increases to 3.7x at maturity.

We believe the assumptions driving the city's fiscal 2015 cash flow projection to be conservative. Supporting this view is the projected 2.8% year-over-year decrease in total current revenue after deducting $700 million related to the proposed sale of Philadelphia Gas Works. Management reports the decrease is largely due to the expiration of the city's 1% sales tax as well as the continuation of tax reform measures related to the business income and receipts tax. The city's largest revenue category is wage, earnings, and net profits (36% of total projected receipts), for which it is projecting modest growth of 3.6% year-over-year. Real estate taxes, which comprise 15% of the total, are projected to rise 1.3%. Business income and receipts taxes account for 12% of total receipts and are projected to decline 2.6% due, in part, to the aforementioned tax cuts. The city projects current-year appropriation, after deducting the $700 million appropriation related to the PGW sale, will rise 5.3% year-over-year in fiscal 2015.

What we regard as conservative budgeting practices and financial oversight from Pennsylvania Intergovernmental Cooperation Authority; the recent modest improvement in general economic conditions; and alternate cash balances that, while unpledged, management could use to support note repayment provide additional support.

Related Criteria And Research

Related Criteria

USPF Criteria: Short-Term Debt, June 15, 2007