

RatingsDirect®

Summary:

Philadelphia Authority for Industrial Development Philadelphia; General Obligation; General Obligation Equivalent Security; Joint Criteria

Primary Credit Analyst:

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

Secondary Contact:

Linda Yip, New York (1) 212-438-2036; linda.yip@standardandpoors.com

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Summary:

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Credit Profile

7US\$56.3 mil lease rev rfdg bnds ser 2014B

Long Term Rating

A+/Stable

New

Philadelphia GO

Long Term Rating

A+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to the Philadelphia Authority for Industrial Development (PAID), Pa.'s series 2014B lease revenue refunding bonds. At the same time, Standard & Poor's affirmed its 'A+' long-term rating and underlying rating (SPUR) on the city of Philadelphia's general obligation (GO) debt and GO-equivalent debt supported by the city and issued by the Philadelphia Municipal Authority and the Philadelphia Redevelopment Authority. The outlook is stable.

The long-term rating reflects the security provided by an unconditional lease agreement by which the city will make annual rent payments sufficient to pay debt service on the 2014B bonds; therefore, the rating reflects Philadelphia's GO credit characteristics.

Bond proceeds will finance the current refunding of the 2007 B-4 multimodal lease revenue refunding bonds as well as related swap termination payments.

The rating reflects our assessment of the following strengthening factors for the city:

- Very strong management conditions with strong policies;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Adequate budgetary performance, which takes into account fiscal oversight provided by the Pennsylvania Intergovernmental Cooperation Authority (PICA);
- Adequate budgetary flexibility, with 2013 reserves at 7.4% of general fund expenditures; and
- Adequate economy due to a drop in the unemployment rate to 10.0% in 2013 from 10.8% in 2012.

Our view of tempering factors includes the city's weak debt and contingent liabilities position.

Adequate budgetary flexibility

In our opinion, the city's budgetary flexibility is adequate. Financial statements are audited according to generally accepted accounting principles (GAAP), though management also reports results on a budgetary basis given the significant amount of business income and receipts tax (BIRT) payments received in advance of being earned on the

modified accrual basis. As a result, we have adjusted the city's GAAP results to reflect the budgetary basis. In addition, we adjusted revenues and expenditures for various one-time items. The general fund balance for fiscal 2013 is \$256.9 million, up from \$146.8 million at the close of 2012, and represents 7.4% of adjusted expenditures. We believe this factor score could weaken in fiscal 2014 as management currently projects an ending general fund balance of \$119.8 million, which, while \$33.3 million higher than the adopted budget, is well below the 2013 balance. The mayor's budget for fiscal 2015 calls for a further reduction of fund balance to \$49.5 million due, in part, to the expiration of the 1% sales tax. We believe the city has shown the ability and willingness to raise taxes in recent years, demonstrated by a 9.9% real estate tax increase in fiscal 2011 and a five-year sales tax that expires in fiscal 2014.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity, with total government available cash at 8.5% of total governmental fund expenditures and 144.5% of debt service. We believe the city has exceptional access to external liquidity as it has issued multiple security types frequently in the past 15 years.

Philadelphia's series 2009B multimodal refunding GO bonds are variable rate and hedged with a swap. The bonds, with \$100 million outstanding, are also supported by a letter of credit with BNY Mellon that expires March 2016. The reimbursement agreement between the city and bank includes events of default we consider permissive and the remedies available to the bank include declaring principal on any outstanding liquidity advances immediately due and payable. The city also has a direct purchase agreement and lease purchase agreements with acceleration risk following what we believe are permissive events of default. In our view, these are nonremote contingent liabilities, but the risk is moderated by the city's strong cash balances relative to principal at risk of acceleration.

Adequate budgetary performance

The city's budgetary performance has been adequate overall, with a surplus of 5.6% for the general fund in fiscal 2013 and 4.4% for the total governmental funds. The principal general fund revenue categories are wage, earnings, and net profits tax (34% of the total on a budgetary basis), real estate tax (15%), and BIRT (12%). While we believe there is some volatility in this revenue stream, we view PICA's strong financial controls and oversight, which have been in place since Philadelphia encountered financial stress in the early 1990s, as credit strengths. The city has proactively managed its budget since posting a cumulative \$137 million deficit in fiscal 2009, but we believe it still faces significant spending pressure. Supporting this view is the mayor's proposed five-year financial plan that shows declining general fund balances through fiscal 2016 (bottoming at \$23.7 million) before rising incrementally in the final years.

Adequate economy

We consider Philadelphia's economy adequate, with participation in the broad and diverse Philadelphia-Camden-Wilmington metropolitan statistical area (MSA). Philadelphia County, coterminous with the city, had an unemployment rate averaging 10% in calendar 2013. The city's projected per capita effective buying income is 75.4% of the nation and its per capita market value is \$64,578 for fiscal 2014.

Weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is weak, with total governmental funds debt service at 5.9% of total governmental funds expenditures and net direct debt at 58.6% of total governmental funds revenue. Additional debt is planned for the near term in support of the city's capital improvement plan.

Strong institutional framework

The Institutional Framework score for Pennsylvania first-class cities is strong.

For additional information on the GO characteristics of the city, please see the summary analysis published April 4, 2014.

Outlook

The stable outlook reflects Standard & Poor's view of the city's adequate budgetary performance due, in part, to PICA's oversight. We believe that if the economic recovery stagnates or retrenches, Philadelphia's strong management practices will allow it to continue to take the necessary actions to address imbalances and balance its five-year financial plan. We do not expect to change the rating in the next two years, but note that rating direction will likely hinge on continued economic expansion as well as improved reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of May 30, 2014)		
Philadelphia go rfgd bnds ser 2013B due 06/30/2039		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Philadelphia GO multi modal ser 2009B		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia GO rfdg bnds		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Philadelphia Redev Auth (Neighborhood Transformation Rev) (wrap of insured) (FGIC & AMBAC) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia GO		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Redev Auth		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Auth for Indl Dev, Pennsylvania		
Philadelphia, Pennsylvania		
Philadelphia Auth for Indl Dev rev bnds RMKTD 5/31/2012 ser 2007B-2		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed

Ratings Detail (As Of May 30, 2014) (cont.)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Auth for Indl Dev (Philadelphia) city svc agreement rfdg rev bnds (Retirement Sys)		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Philadelphia Auth for Indl Dev pension fdg		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Auth for Indl Dev (Cultural & Commercial Corridors Prog)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Auth for Indl Dev (Philadelphia) multi modal lse - 2007B-4		
<i>Unenhanced Rating</i>	NR(SPUR)	
Philadelphia Auth for Indl Dev (Philadelphia) GO		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Mun Auth, Pennsylvania		
Philadelphia, Pennsylvania		
Philadelphia Mun Auth (Philadelphia) city agreement rev rfdg bnds (Philadelphia) ser 2013A due 11/15/2018		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Philadelphia Mun Auth (Philadelphia) city svc agmt (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Mun Auth (Philadelphia) lse rev		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Philadelphia Mun Auth (Philadelphia) lse		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Philadelphia Redev Auth, Pennsylvania		
Philadelphia, Pennsylvania		
Philadelphia Redev Auth (Philadelphia) rev rfdg bnds (City of Philadelphia Neighborhood Transformation Initiative) ser 2012		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Philadelphia Redev Auth (Philadelphia) (City of Philadelphia Neighborhood Transformation Initiative) (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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