

## Philadelphia, PA's Series 2011A And 2011B Water And Wastewater Revenue And Refunding Bonds Rated 'A'

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CHICAGO (Standard & Poor's) Oct. 21, 2011--Standard & Poor's Ratings Services has assigned its 'A' long-term rating to Philadelphia, Pa.'s \$168.565 million series 2011A and 2011B water and wastewater revenue and refunding bonds. The outlook is stable.

Standard & Poor' also affirmed its 'A' long-term rating and underlying rating (SPUR) on the city's existing water and wastewater revenue debt; its 'AAA/A-1' rating on the city's series 2005B bonds, which are jointly secured by the city and the letter of credit (LOC) provider Bank of America N.A. (A+/Negative/A-1); and its 'AAA/A-1+' rating on the city's series 1997B bonds, which are jointly secured by the city and the LOC provider TD Bank N.A. (AA-/Stable/A-1+). The outlook on the ratings is stable, except for when joint criteria have been applied to the issue's long-term rating, in which case the outlook is not meaningful.

The 'A' long-term rating and SPUR are based on the following characteristics:

- A broad service area that covers the city of Philadelphia and several suburbs, but with an overall weak economic profile when comparing income levels and unemployment rates with state and national averages;
- Rates that Standard & Poor's consider competitive, even with the weaker economic profile, along with management's historical willingness to raise rates annually;
- Stable financial performance, albeit with ongoing reliance on its rate stabilization fund to support operations; and
- A sizable capital improvement plan (CIP) combined with an already high system ratio of debt to capital, in Standard & Poor's opinion.

The stable outlook on the various long-term ratings and SPURs assigned on the basis of the pledge of net water and wastewater revenues reflects Standard & Poor's expectation that the water department will continue to adopt rate increases that support financial operations in a fashion that is consistent with historical patterns. "With projections that indicate continued use of the rate stabilization fund to subsidize operations, we also expect that if this draw does occur as projected, management will manage its rate structure to maintain debt service coverage and unrestricted cash levels consistent with historical trends," said Standard & Poor's credit analyst Scott Garrigan. "If financial metrics are not maintained in this fashion, the rating could be lowered or outlook revised. Given the large CIP and the weak demographics of the service base, we do not see the rating improving within the outlook horizon," he added.

The city will use the series 2011A and 2011B bond proceeds for its capital program and to refund its existing series 2001A revenue bonds.

Philadelphia's water and wastewater systems provide service to roughly 1.7 million and 2.2 million, respectively, in the city and suburbs. The systems predominantly serve retail residential customers, but also serve 13 surrounding townships and utility authorities on a wholesale basis. The number of retail accounts has remained relatively stable since 2001; water and wastewater accounts each total about 480,000.

#### RELATED CRITERIA AND RESEARCH

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept.15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

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