STANDARD & POOR'S RATINGS SERVICES
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Summary:

Philadelphia; Note

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Credit Profile		
US$175.0 mil TRANs ser 2015-2016A		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' rating to Philadelphia's series 2015-2016A tax and revenue anticipation notes (TRANs).

The rating reflects our opinion of the city's:

- Strong projected debt service coverage (DSC) of 2.5x at maturity; and
- An overall reduction in cash flow borrowing due to improved internal liquidity.

What we regard as conservative budgeting practices, financial oversight from Pennsylvania Intergovernmental Cooperation Authority and the recent modest improvement in general economic conditions provide additional support.

The TRANs are a general obligation of Philadelphia, but the city has not pledged its taxing power and therefore is not required to levy ad valorem taxes for TRAN payments. The TRANs are payable from, and secured by, a pledge of general fund taxes and revenues attributable to fiscal 2016. These amounts include general property taxes; wage taxes; business income and receipts (BIRT); sales taxes; and revenue from other governments.

TRAN proceeds will pay Philadelphia's general expenses prior to the receipt of income to be received in fiscal 2016 and pledged for note repayment. Principal and interest are due June 30, 2016, which coincides with the city's fiscal year-end. However, the repayment structure includes a fund held by the trustee into which officials are required to deposit the amount of principal borrowed on May 27, 2016, and the amount of accrued interest on June 27, 2016. 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 2016 is up relative to the last three years ($175 million compared with $130 million in 2015, $100 million in 2014, and $127 million in 2013), it remains $51.9 million below the 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 2015 with a $400.4 million general fund cash balance after repayment of the annual TRAN borrowing. Unaudited coverage of principal and interest was 4.1x at maturity, better than the 3.2x projected at the time of the sale. The city's quarterly report for the period ending March 31, 2015, shows tax revenues exceeding the adopted budget by $33.7 million, with positive variances in wage and earnings tax receipts ($28.4 million), real estate transfer taxes ($25.1 million), and BIRT ($13.1 million). Negative variances occurred in real

property tax revenue ($19.5 million) and sales tax receipts ($10.8 million). The city reports weaker-than-budgeted property tax revenue was due to ongoing appeal activity related to the 2014 reassessment and is investigating, along with its revenue consultant, the reason for the sales tax decline. Despite rising pension and health/medical costs as well as expenditures tied to labor contract settlements, fiscal 2015 expenditures are estimated by the city to be down $21 million versus 2014 actuals.

Projected fiscal 2016 DSC of principal by general fund cash balances is, in our view, a strong 2.7x on the May principal set-aside date. We also view projected DSC of principal and interest at maturity as strong at 2.5x. In our view, the city uses conservative assumptions when preparing its cash flow projections. Revenues overall are budgeted to rise 4% year-over-year, while expenditures are up 6%. Wage and earnings tax receipts account for 36% of revenue and budgeted to rise 3.4% year-over-year despite the continuation of the wage tax cuts. Property taxes are budgeted at 15% of total receipts, after an 8% increase due to a property tax increase benefitting the school district as well as one-time revenue related to a delay in resolving commercial appeals. Rising expenditures are due, in part, to the pass-through of property tax and parking tax revenue to benefit the school district. The city has agreements in place with all of its major labor groups, which eliminates uncertainty vis-à-vis 2016 expenditure projections.

The city pools cash and investments in a consolidated cash account except those which, for legal or contractual reasons, cannot be commingled. The fund is segregated into two funds; an operating fund that contains the general fund and a capital fund that houses bond proceeds. As of June 30, 2016, the projected balance of the operating fund is $233.5 million, which is slightly lower than the general fund ($276.7 million). When combined with the capital fund exclusive of bond proceeds the city has strong coverage of 2.3x.

Outlook

Not applicable.

Related Criteria And Research

Related Criteria

- USPF Criteria: Short-Term Debt, June 15, 2007
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013

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