NEWS NEWS

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Rating Agency Reacts to Philadelphia Budget Strain
Economic uncertainty and tax cuts cited for bond downgrade

PHILADELPHIA — In the face of what they have described as poor revenue growth, caused in part by adopted tax cuts, increased fixed costs and spending, the Fitch Rating agency, lowered the bond rating for the City of Philadelphia General Obligation Bonds to "BBB+" from "A-". The rating remains on Negative Outlook.

The agency expressed concern that revenue and spending estimates in the city budget and Five Year Plan are "overly reliant on economic improvement and speculative operating efficiencies to offset already enacted tax cuts and rising benefit costs". Fitch pointed to Philadelphia's structural deficit in which payroll and benefits costs grew two times faster than local tax revenues.

"We are greatly disappointed in the action taken by the Fitch Rating Agency today," said Mayor John F. Street. "Over the last four years, the City of Philadelphia has exercised remarkable financial restraint in the midst of a slow national economy and at a time when other cities have been raising taxes and cutting services. We have, to date, adopted and implemented budgets that strike an appropriate balance between responsible tax reductions and investments in our neighborhoods, children and public safety. Our balanced Five Year Plan demonstrated how the City will navigate its financial challenges over the next several years."

"Although I welcome the on-going public debate about tax reform I would caution those who see tax reduction alone as the key to future growth and prosperity in our city to pause and consider the action taken by the Fitch Rating agency. It is a clear warning that additional tax cuts or lack of will to reduce spending will have an adverse impact on our fiscal stability", the Mayor said.

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The Street administration has worked to implement the kinds of changes that will result in a more streamlined, efficient and affordable city government. These actions include the reduction of 1,041 positions since 2000. The current Five-Year Plan anticipates reducing the size of city government by 2500. Additional cost cutting initiatives include: consolidation of administrative functions into service clusters, fleet reduction, and leveraging technology for citizen-City transactions.

"During the budget process last spring, we tried to make a case for responsible spending cuts that would help us to balance a precarious budget," said Acting Finance Director Ray Zies. "We presented difficult but manageable reductions in spending in most areas of our operating budget, including Recreation, Fleet, cultural institutions, Licenses and Inspections, Streets, and Fire. We had hoped to make the kind of smart rightsizing decisions that would begin to address the structural imbalance in our budget. We were soundly rebuffed."

Other actions also created impediments to realizing the savings the administration proposed in the FY05 budget: the city was dependent on action by the general assembly for re-imbursements for the Department of Human Services. Additionally, the projected savings from redeployment of Fire Department personnel is now pending action by the Court of Common Pleas.

Loss of a strong bond rating can cost the city millions of dollars when it enters the credit markets to do its annual borrowing. While the Fitch rating change alone will not have a substantial impact on the cost of money to the City, the city will have to make a strong case to the two other major rating agencies to protect against further erosion of its credit status. Fitch’s current rating maintains the city’s bonds at investment grade. The rating also apply to bonds issued by Philadelphia Authority for Industrial Development, the Convention Center, the Redevelopment Authority and the Parking Authority.

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