

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns MIG 1 to City of Philadelphia, PA's \$300 million TRANS Series A of 2020-2021

18 Aug 2020

New York, August 18, 2020 -- Moody's Investors Service has assigned a MIG 1 rating to the City of Philadelphia's, PA's \$300 million Tax and Revenue Anticipation Notes, Series A of 2020-2021. Concurrently, we maintain an A2 rating on the city of Philadelphia's General Obligation debt as well as an A2 rating on its outstanding service fee and lease revenue bonds (non-pension related). We also maintain an A3 rating on the city's pension obligation bonds.

The outlook is stable for all long-term rated securities.

Approximately \$3.79 billion of tax-supported debt is currently outstanding.

RATINGS RATIONALE

The MIG 1 rating for the city's Tax and Revenue Anticipation Notes reflects our expectation that satisfactory cash will be available for repayment of the TRAN as necessary, as evidenced by monthly cash flow projections and certain stress assumptions. The city's forecast estimates that cash available for note repayment will be 2.94 times debt service. The MIG 1 rating also incorporates the city's track record of outperforming conservative budget estimates and an adequate note structure including satisfactory set asides for repayment a month in advance of maturity. The short-term credit quality also benefits from the manageable borrowing size of the note, which is only about 6% of anticipated annual receipts in fiscal 2021.

The MIG 1 rating incorporates our long term view of the city's credit profile (A2 stable), which considers its economy and tax base as well as its current financial position. The city currently projects material economic and financial stress due to coronavirus-related business closures and stay-at-home orders. The onset of the pandemic has caused a spike in unemployment, and is expected to adversely impact several of the city's revenue streams, particularly its wage and business income taxes. The city is issuing tax and revenue anticipation notes - its first such issuance since 2018 - to support liquidity during an expected continuation of near-term economic stress due to coronavirus.

Nevertheless, the city benefits from a diverse economy that has grown considerably in recent years, demonstrated conservative governance controls, and a relatively strong reserve position prior to the virus outbreak. We expect Philadelphia's overall credit profile to remain stable as it weathers the pandemic and its aftereffects. We also expect that the city will retain strong market access; though this is the city's first TRAN issuance since 2018, the city has historically, since 1972, issued TRANS annually and through various credit cycles, always with timely repayment.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The city of Philadelphia will face both fiscal and operating challenges as a result of the coronavirus. However, we do not believe that these challenges serve to alter the city's overall credit profile at this time. The situation surrounding coronavirus is rapidly evolving; longer term impacts will depend on both the severity and duration of the crisis. If our view of the credit quality of the city changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

There is no outlook associated with the short term rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not Applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Material decline in the city's liquidity position

LEGAL SECURITY

The Notes are general obligations of the city, payable from funds required to be deposited by the city in the Note Fund established under the Loan Authorization and the Trust Agreement. The Notes are equally and ratably secured by a pledge of, security interest in, and a lien and charge on, general fund taxes and revenues of the city, until the earlier of (i) full repayment of the notes, and (ii) June 30, 2021. As further security for the repayment of the Notes, the city covenants in the Loan Authorization and the Trust Agreement to make certain irrevocable deposits into the Note Fund, with principal deposited by May 26, 2021, thirty days prior to maturity, and interest deposited on June 25, 2021, also prior to the June 30, 2021 final maturity.

USE OF PROCEEDS

The city is issuing the Notes in anticipation of the receipt of current taxes and current revenues. The proceeds of the Notes will be used to provide cash to supplement the receipts of the city in the general fund for the purpose of paying the general expenses of the city in anticipation of income from taxes and other revenue sources.

PROFILE

The city of Philadelphia, located along the southeastern border of the Commonwealth of Pennsylvania (Aa3 stable), is the largest city in the commonwealth and the sixth largest city in the United States with approximately 1.584 million residents (based on 2018 estimates).

METHODOLOGY

The principal methodology used in this rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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