

RATING ACTION COMMENTARY

Fitch Rates PRA Rev Bonds, Series 2024A, 2024B and 2025A 'A+'; Outlook Stable

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Fitch Ratings - New York - 20 Nov 2024: Fitch Ratings has assigned an 'A+' rating on \$218.16 million Philadelphia Redevelopment Authority (PRA) city service agreement revenue bonds (Neighborhood Preservation Initiative (NPI) and Neighborhood Transformation Initiative (NTI)) series 2024A, 2024B and 2025A. The bonds will fund the city's NPI and NTI program and is expected to sell on Dec. 10 via negotiation.

Additionally, Fitch has affirmed Philadelphia's (PA) Issuer Default Rating (IDR) and the following Fitch-rated bonds at 'A+':

- Unlimited tax general obligation (GO) bonds;
- Philadelphia Municipal Authority (PMA) bonds;
- Philadelphia Authority for Industrial Development (PAID) bonds;
- Philadelphia Energy Authority (PEA) Bonds;
- Philadelphia Redevelopment Authority (PRA) bonds;
- Philadelphia Parking Authority (PPA) parking system revenue bonds.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Philadelphia (PA) [General Government]	LT IDR	A+ Rating Outlook Stable		A+ Rating Outlook Stable
	Affirmed			
Philadelphia (PA) /General Fund Contractual Obligations - Lease and Service Agreements/1 LT	LT	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Philadelphia (PA) /General Fund Contractual Obligations - Parking Authority/1 LT	LT	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Philadelphia (PA) /General Obligation - Unlimited Tax/1 LT	LT	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The 'A+' IDR reflects the city's 'bbb' financial resilience assessment, which incorporates a 'Low Midrange' level of budgetary flexibility and Fitch's expectation for maintenance of unrestricted general fund reserves (unassigned, assigned, and committed) of at least 5% of spending going forward. Fiscal 2023 unrestricted general fund reserves totalled \$1.1 billion or 18.9% of spending. However, multi-year projections show reserve levels settling around the city's reserve target of at least 6%-8%.

Additionally, the ratings incorporate a +1 notch to reflect the fundamental strength of the city's economic base. This enhances the city's expected resilience to economic cycles and stress events relative to its elevated unemployment relative to the national rate and median levels of household income, which are well below the median of Fitch's local government rating portfolio. Long-term liability (LTL) metrics are 'Midrange' on a composite basis.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A decline in available general fund reserve levels sustained below 5% of spending, which would lower Fitch's assessment of financial resilience to below 'bbb';

--A sustained approximate 80% to 90% increase in long-term liabilities and carrying costs absent a commensurate increase in personal income or governmental resources.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Maintenance of unrestricted general fund reserves at or above 10% of general fund spending over time;

--A sustained improvement in local area economic fundamentals including population, unemployment and income metrics.

SECURITY

The PRA revenue bonds and outstanding obligations of PAID, PEA and PMA, are payable from annual service fee payments by the city of Philadelphia under a non-cancellable agreement from any lawfully available source. PPA revenue bonds, which are payable from parking revenues, reflect the City of Philadelphia's general fund backing, based on an unconditional contractual requirement to restore any draws or deficiencies in the bonds' debt service reserve fund.

The city's obligation to make payments is absolute and unconditional. State law and the city charter obligate the city council to appropriate annual payments through final maturity. Fitch rates these on par with the city's IDR and GO bond ratings given the lack of optionality.

The GO bonds are backed by the city's full faith and credit and are payable from an ad valorem tax without limitation as to rate or amount.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Philadelphia Model Implied Rating: 'A+' (Numerical Value: 6.99)

-- Metric Profile: 'A' (Numerical Value: 5.99)

-- Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

Philadelphia's Model Implied Rating is 'A+'. The associated numerical value of 6.99 is at the upper end of the 6.0 to 7.0 range for its current 'A+' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'bbb'

Philadelphia's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Low' expenditure control assessment, culminating in a 'Low Midrange' budgetary flexibility assessment.

-- Revenue control assessment: 'High'

-- Expenditure control assessment: 'Low'

-- Budgetary flexibility assessment: 'Low Midrange'

-- Minimum fund balance for current financial resilience assessment: $\geq 5.0\%$

-- Current year fund balance to expenditure ratio: 18.9% (2023)

-- Five-year low fund balance to expenditure ratio: 6.0% Analyst Input (vs. 8.4% 2023 Actual)

Revenue Volatility - 'Midrange'

Philadelphia's weakest historic three-year revenue performance has a modest negative impact on the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 2.4% decrease for the three-year period ending fiscal 2009

-- Median issuer decline: -4.7% (2023)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Weakest'

Based on the median of 10-year annual percentage change in population, Philadelphia's population trend is assessed as 'Weakest'.

Population trend: 0.3% 2022 median of 10-year annual percentage change in population (22nd percentile)

Unemployment, Educational Attainment and MHI Level - 'Weak'

The overall strength of Philadelphia's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Weak' on a composite basis, performing at the 34th percentile of Fitch's local government rating portfolio. This is due to very low median-issuer indexed adjusted MHI and elevated unemployment rate offsetting midrange education attainment levels.

-- Unemployment rate as a percentage of national rate: 116.7% 2023 (30th percentile), relative to the national rate of 3.6%

- Percent of population with a bachelor's degree or higher: 33.6% (2022) (60th percentile)
- MHI as a percent of the portfolio median: 75.1% (2022) (13th percentile)

Economic Concentration and Population Size - 'Strongest'

Philadelphia's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

- Population size: 1,550,542 Analyst Input (above the 15th percentile) (vs. 1,566,836 2022 Actual)
- Economic concentration: 40.2% (2023) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

Philadelphia is the largest component of the Philadelphia-Camden-Wilmington Metropolitan Statistical Area, which contributes 2.3% to U.S. GDP as of 2022. The city is also very important to the Commonwealth of Pennsylvania's economy because it is the largest city in Pennsylvania and the sixth-largest in the United States.

The city's economy is anchored by higher education including the University of Pennsylvania, Temple University, Drexel University, and St. Joseph's University and there are more than 30 hospitals including the Children's Hospital of Philadelphia and the Hospital of the University of Pennsylvania. Other large employers include Comcast Corp., Wells Fargo Bank, Accenture and Deloitte.

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may

otherwise skew the time series.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Midrange'

Philadelphia's carrying costs to governmental expenditures has improved while liabilities to personal income remain weak and liabilities to governmental revenue remain strong. The long-term liability composite metric in 2023 is at the 56th percentile, roughly in line with Fitch's local government rating portfolio.

- Liabilities to personal income: 11.3% Analyst Input (15th percentile) (vs. 11.4% 2023 Actual)
- Liabilities to governmental revenue: 110.0% Analyst Input (81st percentile) (vs. 110.9% 2023 Actual)
- Carrying costs to governmental expenditures: 10.9% Analyst Input (78th percentile) (vs. 10.6% 2023 Actual)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

The long-term liability metrics were adjusted to reflect the city's current bond offering, debt amortized in fiscal 2024 as well as the \$91 million issuance issued earlier this year. The net pension liability was adjusted to deduct the portion of the liability attributable to the city's self-supporting enterprise funds.

PROFILE

Philadelphia is the sixth largest city in the U.S. based on population, with a stable employment base weighted toward higher education, healthcare and professional and business services. The 2023 estimated Census population was roughly 1.6 million, up 1.6% since 2010. The city reported significant growth in assessed values in 2023 increasing about 20% as a result of the city revaluation. A subsequent revalue effective 2025 increased the valuation by 12%.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

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