FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Philadelphia, PA's $706.89MM Series 2025 ABC GOs 'A+'; Outlook Stable

Thu 22 May, 2025 - 12:28 PM ET

Fitch Ratings - New York - 22 May 2025: Fitch Ratings has assigned a 'A+' rating to the city of Philadelphia, PA's $706,890,000 series 2025ABC general obligation (GO) bonds.
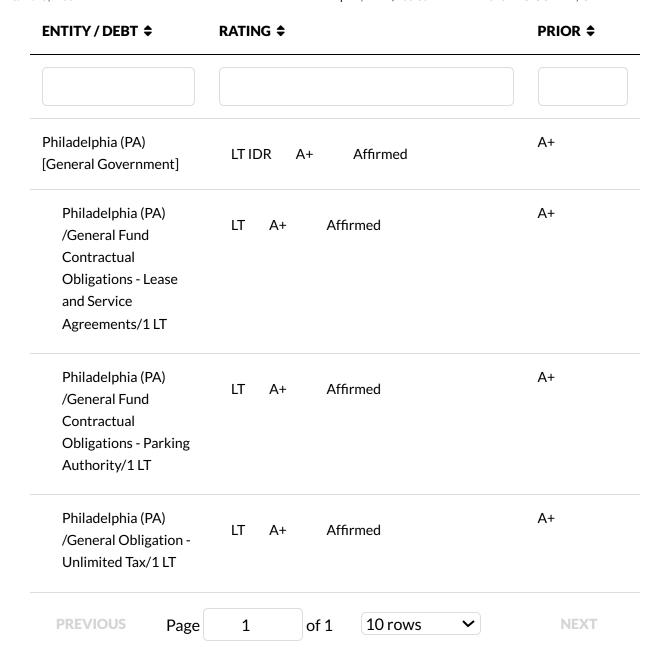
The 2025A and 2025B bonds are being issued to fund certain projects in the city's capital budgets. The 2025C bonds are being issued to refund certain series of outstanding bonds. The bonds are expected to sell on June 10, via negotiation.

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

--Unlimited tax 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+	Affirmed	A+
Philadelphia (PA) /General Fund Contractual Obligations - Lease and Service Agreements/1 LT	LT	A+	Affirmed	A+
Philadelphia (PA) /General Fund Contractual Obligations - Parking Authority/1 LT	LT	A+	Affirmed	A+
Philadelphia (PA) /General Obligation - Unlimited Tax/1 LT	LT	A+	Affirmed	A+

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VIEW ADDITIONAL RATING DETAILS

The 'A+' IDR reflects the city's 'bbb' financial resilience assessment. The assessment 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 2024 unrestricted general fund reserves totaled $1.27 billion or 21.1% of spending. However, multi-year projections show reserve levels settling around the city's reserve target of at least 6%-8%.

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. However, unemployment is higher than the national rate and household income is

well below the median of Fitch's local government rating portfolio. Philadelphia's long-term liability (LTL) metrics are 'Strongest' 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 5% 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;

-- An approximate 50% decline in long-term liabilities and carrying costs absent a commensurate increase in personal income or governmental resources;

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

SECURITY

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.

The outstanding PRA revenue bonds and outstanding obligations of PAID and PEA 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.

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: 'AA-' (Numerical Value: 7.05)

-- Metric Profile: 'A+' (Numerical Value: 6.05)

-- Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

Philadelphia's Model Implied Rating is 'AA-'. The associated numerical value of 7.05 is at the lower end of the 7.0 to 8.0 range for a 'AA-' rating.

KEY RATING DRIVERS

VARIATIONS TO MODEL IMPLIED RATING

The application of the -1 notch model deviation reflects the uncertainty of long-term liability burden metrics and unemployment metric volatility and Fitch's expectation that the MP could remain in the 6.0 - 7.0 range, which would result in an 'A+' rating.

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: >=5.0%

-- Current year fund balance to expenditure ratio: 21.1% (2024)

-- Lowest fund balance to expenditure ratio for the fiscal-year period 2020-2024: 8.4% (2020)

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: -4.2% (2024)

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 - 'Weak'

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

Population trend: 0.3% 2023 median of 10-year annual percentage change in population (21st 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 2024 are assessed as 'Weak' on a composite basis, performing at the 36th percentile of Fitch's local government rating portfolio. This is due to very low median-issuer indexed adjusted MHI and elevated unemployment rate offsetting high education attainment levels.

-- Unemployment rate as a percentage of national rate: 112.5% Analyst Input (33rd percentile) (vs. 112.5% 2024), relative to the national rate of 4.0%

-- Percent of population with a bachelor's degree or higher: 34.7% (2023) (63rd percentile)

-- MHI as a percent of the portfolio median: 73.7% (2023) (12th percentile)

Economic Concentration and Population Size - 'Strongest'

Philadelphia's population in 2023 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: 1,563,349 (2023) (above the 15th percentile)

-- Economic concentration: 40.5% Analyst Input (above the 15th percentile) (vs. 38.4% 2024 Actual)

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 U.S.

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.

The analyst input for unemployment uses the 2024 unemployment rate. The analyst input for economic concentration uses the standard proxy.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Midrange'

Philadelphia's carrying costs to governmental expenditures and liabilities to governmental revenue remain strong while liabilities to personal income remain weak. The long-term liability composite metric in 2024 is at the 57th percentile, roughly in line with Fitch's local government rating portfolio.

-- Liabilities to personal income: 10.7% Analyst Input (16th percentile) (vs. 10.5% 2024 Actual)

-- Liabilities to governmental revenue: 115.5% Analyst Input (79th percentile) (vs. 114.7% 2024 Actual)

-- Carrying costs to governmental expenditures: 10.9% Analyst Input (78th percentile) (vs. 10.8% 2024 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 and debt amortized in fiscal 2025. 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 2024 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% following the most recent city-wide revaluation.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

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

https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

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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)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Philadelphia Energy Authority (PA)   EU Endorsed, UK Endorsed

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