Rating Action: Moody's Ratings assigns A1 to Philadelphia, PA's 2025 GO Bonds; outlook stable

22 May 2025

New York, May 22, 2025 -- Moody's Ratings (Moody's) has assigned an A1 rating to the City of Philadelphia, PA's proposed $301.6 million General Obligation Bonds, Series 2025A (Tax-Exempt); $100.7 million General Obligation Bonds, Series 2025B (Federally Taxable), and $418.7 million General Obligation Refunding Bonds, Series 2025C (Tax-Exempt). We maintain an A1 issuer rating on the city, which has about $9.5 billion of debt outstanding. The outlook is stable.

RATINGS RATIONALE

Philadelphia's A1 issuer rating captures its very low leverage and a financial position at its strongest level in many years. The city's financial projections show reserves (currently about 12% of revenue on a Moody's-adjusted basis) moderating over the next few years, though management has always been very conservative in its forecasts, one of several positive governance attributes. A low leverage burden (long-term liabilities are just 185% of revenue) will remain a key strength relative to peers. Philadelphia's commitment to funding its pension plan has contributed to the city having among the lowest leverage burdens of any big city.

The rating also incorporates a growing economy with substantial institutional presence including major universities, hospitals, and other significant employers. We note that some of the key drivers of the city's economy are susceptible to federal policy risk, a factor that bears monitoring given recent trends. Philadelphia's biggest credit weakness is its challenging demographic profile, and it lags most other big cities in economic growth and income levels (resident income is 75% of the US median, the lowest among the 20 biggest cities). Other credit considerations include a hefty long-term capital plan, which could modestly add to leverage incrementally over time, although existing general fund-supported debt service drops dramatically after FY29, providing future flexibility.

The A1 ratings on the city's bonds reflect the city's unconditional commitment to pay debt service, whether through a general obligation pledge or, as in the case of the Service Agreement Bonds, through a separate agreement obligating the city to make payments sufficient to cover debt service.

RATING OUTLOOK

The stable outlook recognizes that the city will preserve its fiscal integrity even as it spends down its historically high reserves, thanks to comprehensive long-term planning and effective state supervision. Leverage will remain low and the city will remain a regional economic engine powered by numerous institutional anchors, albeit one with a challenging demographic profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained available fund balance ratio above 15% of revenue

- Material income growth and reduction in poverty

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Indication that available fund balance could slip below 6% of revenue

- Significant increase in leverage arising from heavy capital needs

- Economic underperformance relative to the nation or region

PROFILE

Philadelphia is the sixth-largest city in the United States, with a population of 1.6 million and a nominal gross domestic product of $120 billion.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425429. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.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 on https://ratings.moodys.com/rating-definitions.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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