S&P Global
Ratings

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Research Update:

Philadelphia's $570.5 Million City Service Agreement Revenue And Revenue Refunding Bonds Assigned 'A+' Rating

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Overview

- S&P Global Ratings assigned its 'A+' long-term rating to the Philadelphia Authority for Industrial Development's (PAID) expected $128.8 million series 2025A city service agreement revenue bonds (Rebuild Project) and $41.7 million series 2025B city service agreement revenue refunding bonds (Cultural and Commercial Corridors Program).
- S&P Global Ratings assigned its 'A+' long-term rating to the Philadelphia Redevelopment Authority's (PRA) expected $315.0 million series 2025A federally taxable and $85.0 million series B tax-exempt city service agreement revenue bonds (City of Philadelphia H.O.M.E. Plan).
- At the same time, we affirmed our 'A+' rating on the city's outstanding general obligation (GO) bonds, city service agreement revenue bonds, and PAID lease revenue bonds.
- We also affirmed our 'AA+/A-1' rating on certain PAID debt, with TD Bank providing liquidity support. For more information on recent rating actions related to this debt, see Various Ratings Lowered On 87 Joint-Supported Bond Issues On TD Bank N.A. And Toronto Dominion Bank Downgrades, Oct. 18, 2024.
- The outlook, where applicable, is stable.

Rationale

Security

The series 2025A and 2025B PRA bonds and existing city agreement revenue bonds are limited obligations of the city, payable solely from service fees from the current revenues of the city under the city service agreement. The series 2025A PAID bonds are secured by the Rebuild service fee, service fee payments from current revenues of the city under the Rebuild service agreement. The series 2025B PAID bonds are secured by the corridors service fee, service fee payments from current revenues of the city under the corridors service agreement. Philadelphia has covenanted in the service agreement and the ordinance to include in its annual operating budget and appropriate in each fiscal year amounts sufficient to pay all service fee payments in the year it is due. Although current city revenue secures service fees, the city service agreement provides that as long as the bonds remain outstanding, Philadelphia's obligation to pay service fees is absolute and unconditional. Therefore, under our Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness criteria, Jan. 22, 2018, we rate these bonds equivalent to the GO rating.

Proceeds of the series 2025A PAID bonds will finance costs of the Rebuild Program, which invests in the city's parks, recreation centers, and libraries; the series 2025B PAID bonds will refund the series 2016A corridors bonds.

The proceeds of the series 2025A and 2025B PRA bonds will finance costs of the H.O.M.E. plan, an initiative to produce and preserve 30,000 housing units.

Credit highlights

Philadelphia's general fund performance remains positive, partly due to funding from the American Rescue Plan Act (ARPA), which allowed to the city to build its reserve balance to $1.05 billion, or 17.5% of general fund revenue in fiscal 2024--a historical high for the city, and an increase from the city's $290.7 million reserve balance in 2020. The city's operational balance is also driven by growth in the city's major revenue sources, particularly wage taxes, which improved during the post-pandemic economic expansion. However, the city is reliant on more economically sensitive revenue streams, and the significant policy uncertainty affecting macroeconomic forecasts could further diminish its economic growth prospects and may mute projected revenue increases. (See Economic Outlook U.S. Q3 2025: Policy Uncertainty Limits Growth, June 24, 2025.) The city has a history of building reserves during economic expansion and of drawing down on those reserves during economic contraction as service demands increase. We will monitor how overall economic trends affect the city's revenue streams and view an economic slowdown as a potential downside risk. We will also be watching the city's finances; both revenue and expenditure projections; the trend in the outyear budget gaps; and any changes in projected total reserve levels.

As noted above, the city's finances were reliant on $1.4 billion in ARPA funds to achieve budgetary balance in recent years, including fiscal 2025 (ended June 30). With the expiration of ARPA funding, the city will be required to make budgetary adjustments to ensure it can avoid a structural deficit in the near-to-medium term. The city's fiscal 2026 budget projects a general fund deficit as costs rise and revenue falls, and operating deficits of more than 3% in fiscal years 2026-2027. As a result, the city is expecting to draw down its reserves by over $690 million during the next three fiscal years. While we would still view the city's reserve fund balances levels as credit-supportive, if results are worse than projected, we could take a negative rating action.

The 'A+' rating reflects our assessment of the following:

- The city is anchor of the local southeastern Pennsylvania and southern New Jersey economy, with a significant presence in education and health care, but poverty and unemployment metrics are weaker relative to those of other major U.S. cities.
- Management is professional and proactive, demonstrated by robust long-term planning and strong budgeting practices.
- Reserve levels are at an all-time high, but a return to deficit budgeting is likely as one-time federal revenue expires.

- Fixed costs are manageable, but pension and other postemployment benefits (OPEB) are poorly funded. The city's commitment to making pension contributions in excess of its statutory requirements resulted in pension funding progress to 65.7% funded as of its July 1, 2024, valuation, up from 46.4% funded in 2018. However, the city's pension funding ratios are weaker than those of many other large cities or its peers in Pennsylvania.
- For more information on our institutional framework assessment for Pennsylvania municipalities, see Institutional Framework Assessment: Pennsylvania Local Governments, Sept. 9, 2024. We view Philadelphia's transparency score as a strength compared to other Pennsylvania municipalities due to its financial reporting on a generally accepted accounting principles (GAAP) basis. The city also benefits from oversight from the Pennsylvania Intergovernmental Cooperation Authority (PICA), which requires the city to submit quarterly budget-to-actual reports and annual, rolling five-year financial plans for approval. In cases where material challenges occur after the five-year plan's introduction, PICA requires the city to submit a revised plan.

Environmental, social, and governance

Philadelphia benefits from a governance structure opportunity, provided by PICA, and the legislation requiring these budgeting and financial planning approvals was extended through at least 2047, pursuant to the recent amendment of the PICA Act by the state legislature.

We view social capital factors as a potential weakness in terms of long-term economic growth. We continue to monitor work patterns as they evolve post-pandemic. Notably, the city's commuter tax still applies to nonresidents if work-from-home is considered an optional benefit rather than a requirement, which we believe may mitigate some future losses. The nonresident portion of the wage and earnings taxes is estimated to be 14% of 2024 general fund revenue. In addition, social capital risks are reflected in the city's relatively weaker sociodemographic profile, including higher-than-average unemployment and poverty levels than the other largest U.S. cities, which have inhibited Philadelphia's ability to raise or collect revenue and increase demand for services during economic downturns.

We view the city's environmental factors as neutral in our credit analysis, though we note that it is addressing physical risks through its Office of Sustainability, which was established in 2014, and various resiliency, adaptation, and climate justice plans, which are outlined in the city's climate action playbook.

Outlook

The stable outlook reflects our view that the city will hold its combined available general fund reserves and budget stabilization reserve (BSR) at credit-supportive levels while simultaneously containing expenditure growth, shrinking its outyear budget gaps, and showing its continued commitment to funding its pensions and building the BSR.

Downside scenario

We could take a negative rating action if we view the city as unable to reduce budgetary gaps in the coming years, potentially a result of a softening in revenue, sudden changes in federal support, or escalating expenditures, leading to a reduction in reserves to levels we do not consider credit supportive. An additional consideration for a negative rating could be the city's inability to fund its pensions in line with its revenue recognition policy (RRP), resulting in a deterioration of plan funding.

Upside scenario

We could raise the rating if the city outperforms its budget projections while maintaining its combined general fund reserves and BSR at current levels, adjusting its revenues so that they are less sensitive to economic cyclicality, and continuing to make funding progress on its pensions while reducing its net pension liability.

Credit Opinion

Economy

Philadelphia's economy enjoyed a strong rebound post-pandemic, with education, health care, and social services leading the way in job growth; though with the current economic headwinds, we expect growth to slow. The city is home to several universities and hospitals, and these industries are major drivers of its gross county product (GCP), which makes up 20% of the local economy and nearly one-third of employment. The city's finance and professional services, which account for 21% and 19% of GCP, respectively, remain large economic drivers, though they employ fewer people than the education and health care industries. S&P Global Market Intelligence reports that job growth decelerated during 2024 and is projected to slow to 1.0% in 2025--roughly in line with the national economy.

The city's revenue base benefits from being the anchor of the southeastern Pennsylvania, south New Jersey, and Delaware economy, and commuter income taxes are a significant revenue stream. While the city continues to be affected by some employees working from home, officials informed us that wage and earnings tax revenue continues to grow year-over-year post-COVID, partly due to the strength of the U.S. economy.

S&P Global Market Intelligence notes that while, historically, high wage and business tax rates may have dampened Philadelphia's economic growth prospects, the city has been steadily lowering its tax rates and its cost of living is moderate relative to that of peers. It also has lower incomes than the national average and the lowest median income of the 10 largest U.S. cities; however, incomes have improved somewhat in recent years.

Management

In our view, the city's experienced management team adheres to prudent policies and sound long-term planning, while also providing institutional knowledge and stability. City management practices include the following:

- Revenue and expenditure assumptions are developed during budget preparation, based on an evaluation of past trends as well as external economic models for revenue forecasting.
- Management has developed robust, annual five-year financial plans that elected officials review and PICA approves. In cases where material challenges occur after the five-year plan's introduction, PICA requires the city to submit a revised plan for approval.
- The city submits quarterly budget-to-actual and cash flow reports to elected officials and PICA.
- A six-year capital improvement program, updated annually, identifies funding sources for each project.
- A formal investment policy requires monthly monitoring and reporting of holdings to the treasurer's office, coupled with quarterly meetings to evaluate performance.

- The city's debt that includes various quantitative targets, such as level debt service; 50% of tax-supported principal amortized in 10 years; net direct debt less than 3.5% of total assessed value; 6% of general fund expenditures for tax-supported debt (excluding pension obligation bonds [POBs]); 7% of general fund expenditures for tax-supported debt service, plus other fixed payments; and 20% of general fund expenditures for tax-supported debt, other fixed costs, and pension costs combined.
- The city has a target of maintaining at least 6%-8% of general fund revenue in reserve. Also, the city home-rule charter calls for a BSR deposit of 0.75% when the general fund balance is 3%-5% of projected revenue, a deposit of 1.0% when the balance is 5%-9%, and a deposit of up to 17% when the balance is greater than 9%. While currently well above this target, reserves have historically fallen below it; we will monitor to see how the city is able to build and maintain its BSR during the outlook period.
- In our view, management is taking steps to address cyber-related risks.

Financial performance, reserves, and liquidity

In fiscal 2024 (June 30), the city achieved a $221.2 million (3.7%) surplus that was largely supported by $391 million of ARPA funding. In our estimate, without the federal funds and adjusting for one-time expenditures, the deficit would have been roughly $272 million (negative 4.8%). The city deposited $42.3 million into its BSR in fiscal 2024, growing the combined BSR and available general fund reserves to a record $1.168 billion (19.3% of revenue) on a budgetary basis.

The fiscal 2025 budget projected an operating deficit of $96.1 million, and the city's end-of-year quarter budgetary report is roughly in line with this projection, slightly increasing to a $121.8 million deficit. The fiscal 2025 budget included the city's remaining $419.0 million in ARPA funds. While the city did not change its tax rates, it shifted its property tax millage to Philadelphia schools by one percentage point to 56%, which equated to approximately $24 million in fiscal 2025. While revenue outperformed projections, expenditures were up due to service purchases, payments to reserve funds, and costs of materials outpacing the budget. Due to the uncertainty in federal funding over the last six months, officials set aside $95 million in reserves for any potential loss in federal support going forward. Given current projections, the city's combined available general fund reserves and BSR will likely remain unchanged.

The fiscal 2026 budget calls for a $479.1 million (7.5%) deficit while contributing $58.9 million to the BSR, in line with the city's charter amendment, and $101.6 million to the labor reserve in anticipation of wage increases due to all labor contracts being up for negotiation, most of the city's largest bargaining units have come to an agreement. While the city is cautious in its budgeting for salary and benefit expenditures, with about 80% of all city employees being represented by a labor union, we think it is likely that expenditures may be higher than budgeted. The city will draw on its labor reserve to cover the additional wage costs. The city is also reducing both its wage and earnings tax rate and business, income, and receipts tax (BIRT) rate slightly in an effort to make the city a more attractive place to do business; in our view, the reductions are slight, year-over-year, and unlikely to meaningfully influence the city's operations. With the projected deficit, available reserves are expected to fall to $795.9 million, or 11.9% of revenue, which we still view as credit supportive.

In our view, the city's general fund revenue sources are sensitive to economic downturns, particularly its wage and earnings taxes, which accounted for 30% of general fund revenue in fiscal 2024. The city's second-largest revenue source, property taxes (14%), is more stable, though its third-largest source, BIRT (11%) is also fairly sensitive in our view. The city's general fund is not reliant on federal revenue, though its total budget does include numerous federal grants that totaled $2.2 billion in fiscal 2024. Officials report that in a few cases, federal grants were frozen or canceled, but the nominal influence on the city's budget is not meaningful at this time. Since the city of Philadelphia is coterminous with the county, the government has several other governmental funds that are more reliant on federal revenue sources, including Medicaid. With the policy uncertainty of federal programs, Philadelphia is, in our view, more exposed to these prospective changes than other cities in the commonwealth, which we view as a credit weakness. Furthermore, in our view, given the composition of the city's economy and its focus on higher education and health care leaves it more exposed to potential federal financing and policy changes, which in turn may squeeze its wage, earning, and BIRT revenue.

From fiscal 2026-2030, the city's plan to return to structural balance relies on steady annual revenue growth of 1.2%-3.7%, while holding overall expenditure growth below 2.0%. The forecast projects general fund reserves will decline, but the city will add to its BSR through fiscal year 2027 as required under the charter. Combined available general fund and BSR reserves fall to $429.9 million (6.3%) in fiscal 2029. As a result, we have factored these reserve drawdowns, coupled with the city's limited capacity to reduce expenditures due to its high fixed costs and service demands, into our analysis. While the city has the statutory authority to raise additional revenue and is increasing the real estate transfer tax in fiscal 2026, we believe there are practical limitations to doing so, as it has been focused on reducing various tax rates to lower the cost for businesses. However, if Philadelphia can maintain its combined reserves at higher levels, our assessment of its reserves and liquidity could improve.

Debt and liabilities

In our view, the city's fixed costs are manageable, though on a per capita basis, net direct debt and pension liabilities are a pressure. The city has $7.8 billion in net direct debt, including component units, of which 61% amortizes in the next 10 years. We note that general fund-supported debt service payments are scheduled to decrease significantly in 2030, after the majority of its POBs have fully amortized, which could provide some additional budget flexibility for capital or operations.

In our view, the various liquidity facility agreements supporting service- and lease-agreement debt do not expose the city to nonremote contingent liability risk because, with certain limited exceptions, the service agreements expressly prohibit the acceleration of service fees. The exception is debt issued to fund the city's stadium projects; in those cases, agreements allow for term, but not principal, acceleration. Furthermore, we do not believe the city's swaps create a nonremote contingent liability risk due to the wide margin between the city debt rating and the 'BBB-' rating trigger. Also, it does not have any collateral posting obligations to its counterparties for the swaps.

Philadelphia participates in the following pension and OPEB plans:

- City of Philadelphia Municipal Pension Fund (as of June 30, 2024), with a plan fiduciary net position of 65.7% of the total pension liability and a net pension liability of $4.5 billion.
- City of Philadelphia single-employer OPEB Plan (as of June 30, 2023), with a plan fiduciary net position of 0% of the total OPEB liability and a net OPEB liability of $1.8 billion funded on a pay-as-you-go basis.

The city's pension plan funding levels improved considerably during the last several years due to reforms and higher contributions. The city continues to make contributions in line with its RRP, which directs sales tax revenue and increased employee contributions to fund its pension plan above the state-required minimum municipal obligation (MMO). In 2024, the city was also able to make more than $95 million in one-time contributions to its pension fund above its budgeted RRP amount. The city has gradually lowered its discount rate by 0.05% annually during the last several years, and lowered it again to 7.25% from 7.30%, effective July 1, 2025. However, 7.25% is still high relative to S&P Global Ratings' guideline, a rate that we believe mitigates contribution volatility; therefore, we believe the city could be pressured to increase its pension contributions in the event of a market downturn. One of the keys to Philadelphia reaching its funding goal will be continued strong, above-MMO contribution levels, which it has achieved since 2013, helping it mitigate market fluctuations and potentially lower-than-targeted investment returns.

The city funds OPEB on a pay-as-you-go basis, which leaves it somewhat vulnerable to increasing health care costs. The plan is a self-administered, single-employer, defined-benefit plan, and the benefits are to provide health care for five years after separation for its eligible retirees. The fixed five-year provision window somewhat mitigates these risks, in our view. The city also budgets for these costs in its annual five-year plan and updates its plan accordingly.

Philadelphia--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.76
Economy	2.5
Financial performance	3
Reserves and liquidity	3
Management	1.30
Debt and liabilities	4.00

Philadelphia--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	106	--	106	104
County PCPI % of U.S.	88	--	88	89
Market value ($000s)	231,504,874	207,573,289	203,683,051	171,044,302
Market value per capita ($)	148,046	132,742	128,787	106,307
Top 10 taxpayers % of taxable value	2.3	2.3	2.2	2.6
County unemployment rate (%)	4.5	4.5	4.3	5.0
Local median household EBI % of U.S.	78	78	72	73
Local per capita EBI % of U.S.	87	87	83	82
Local population	1,563,734	1,563,734	1,581,552	1,608,965
Financial performance				
Operating fund revenues ($000s)	--	6,021,032	6,107,678	5,517,513
Operating fund expenditures ($000s)	--	6,028,194	6,137,944	5,338,527
Net transfers and other adjustments ($000s)	--	228,337	127,755	101,512
Operating result ($000s)	--	221,175	97,489	280,498
Operating result % of revenues	--	3.7	1.6	5.1
Operating result three-year average %	--	3.5	2.3	0.4
Reserves and liquidity				
Available reserves % of operating revenues	--	17.5	17.1	14.1
Available reserves ($000s)	--	1,055,700	1,046,700	780,285

Philadelphia--key credit metrics

	Most recent	2024	2023	2022
Debt and liabilities				
Debt service cost % of revenues	--	2.3	2.8	2.9
Net direct debt per capita ($)	4,962	4,620	4,517	4,283
Net direct debt ($000s)	7,759,801	7,224,100	7,144,203	6,891,970
Direct debt 10-year amortization (%)	61	40	--	--
Pension and OPEB cost % of revenues	--	10.0	13.0	10.0
NPLs per capita ($)	--	2,856	3,062	3,378
Combined NPLs ($000s)	--	4,466,649	4,842,308	5,434,292

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$128.79 mil city svc agmt rev bnds (Philadelphia) ser 2025A due 06/30/2045	
Long Term Rating	A+/Stable
US$315.0 mil city svc agmt rev bnds (Philadelphia) ser 2025A due 06/30/2045	
Long Term Rating	A+/Stable
US$41.67 mil city svc agmt rev bnds (Philadelphia) ser 2025B due 06/30/2045	
Long Term Rating	A+/Stable
US$85.0 mil city svc agmt rev bnds (Philadelphia) ser 2025B due 06/30/2045	
Long Term Rating	A+/Stable
Ratings Affirmed	
Local Government	
Philadelphia, PA General Fund Pledge	A+/Stable
Philadelphia, PA Non-Appropriation Lease	A+/Stable
Philadelphia, PA Unlimited Tax General Obligation	A+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.