

RATING ACTION COMMENTARY

Fitch Rates Philadelphia, PA's \$170MM PAID Revs Ser 2025A&B and \$402MM PRA Revs Ser 2025 A&B 'A+'

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Fitch Ratings - New York - 03 Sep 2025: Fitch Ratings has assigned an 'A+' rating to the \$170,455,000 Philadelphia Authority for Industrial Development (PAID) city service agreement revenue and refunding bonds (Rebuild Project) and (Cultural and Commercial Corridors Program) series 2025A&B, respectively, and the \$402,615,000 Philadelphia Redevelopment Authority (PRA) city service agreement revenue bonds (city of Philadelphia H.O.M.E. Plan) series A&B of 2025, respectively.

The PAID bonds are being issued to fund certain continuing costs of the Rebuild Program and to refund the refunded 2016A Corridors Program bonds. The PRA bonds are being issued to fund certain costs of the H.O.M.E. plan. The PAID bonds are expected to sell on Sept. 16 and the PRA bonds are expected to sell on Oct. 15, both via a negotiated sale.

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+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
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 of Philadelphia'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, multiyear projections show reserve levels settling around the city's reserve target of at least 6%-8%.

Philadelphia's long-term liability (LTL) metrics are 'Midrange' on a composite basis and include elevated liabilities to personal income, but low liabilities to governmental revenue and carrying costs for debt and retiree benefits compared to governmental expenditures.

The ratings incorporate a +1 notch additional analytical factor (AAF) to reflect the fundamental strength and stability of the city's economic base. This strength enhances the city's expected resilience to economic cycles and stress events. Philadelphia is the largest component of the Philadelphia-Camden-Wilmington metropolitan statistical area (MSA), which contributed 2.3% to U.S. GDP as of 2022. Nonetheless, unemployment is higher than the national rate and household income is well below the median of Fitch's local government rating portfolio.

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 10% increase in LTLs and carrying costs, absent an 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 LTLs and carrying costs, absent an increase in personal income or governmental resources;
- A sustained improvement in local area economic fundamentals including population, unemployment and income metrics.

SECURITY

The outstanding PRA and PAID revenue bonds and outstanding obligations of 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 IDR, 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: 7.11)

-- Metric Profile: 'A+' (Numerical Value: 6.11)

-- 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 7.11 is at the lower end of the 7.0 to 8.0 range for a 'AA-' rating.

KEY RATING DRIVERS

DEVIATIONS FROM 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: $\geq 5.0\%$

-- 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: -4.3% (2024)

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 and 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% 2024 (33rd percentile), 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: 1,573,916 Analyst Input (above the 15th percentile) (vs. 1,563,349 2023 Actual)

-- 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 MSA, which contributed 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 nonrecurring 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 for missing sector data.

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 58th percentile, roughly in line with Fitch's local government rating portfolio.

-- Liabilities to personal income: 10.4% Analyst Input (17th percentile) (vs. 9.8% 2024 Actual)

-- Liabilities to governmental revenue: 114.0% Analyst Input (79th percentile) (vs. 107.3% 2024 Actual)

-- Carrying costs to governmental expenditures: 10.3% Analyst Input (81st percentile) (vs. 9.9% 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 nonrecurring 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 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.

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>.

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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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