



Rating Action: Moody's Ratings revises Philadelphia, PA's and Philadelphia Water and Sewer Enterprise, PA's outlook to positive, affirms A1

20 Nov 2025

New York, November 20, 2025 -- Moody's Ratings (Moody's) has revised to positive from stable the outlook on the City of Philadelphia, PA and the City of Philadelphia Water and Sewer Enterprise, PA. We have affirmed the outstanding ratings of the city and the water and sewer enterprise as indicated below. The city has about \$9.4 billion of debt outstanding, inclusive of the water and sewer revenue bonds.

The revision of the outlook to positive anticipates that the city may sustain reserves at a level strong enough to justify a Aa3 rating, based on solid financial management and conservative forecasting. The city's available reserves are now in excess of our historical upgrade trigger, and we may upgrade the city's rating if it appears reserves will stay above that threshold. The positive outlook on the water and sewer enterprise mirrors the city's outlook, as the utility's rating may move upward with the city's in the event of an upgrade. Governance is a key driver of this action, given management's track record of conservative budgeting.

We have affirmed the following ratings:

- A1 on city issuer
- A1 on city general obligation bonds
- A1 on city service agreement bonds
- A1 on city lease bonds
- A1 on city pension funding bonds
- A1 on city energy conservation bonds
- A1 on water and sewer enterprise's revenue bonds

RATINGS RATIONALE

Philadelphia's A1 issuer rating captures low leverage and a financial position at its strongest level in many years. The city's available fund balance of 15.6% (based on an unaudited financial statement for fiscal 2025) is now in excess of the level we have historically cited as a potential upgrade trigger, so sustained reserves at this level could apply upward pressure on the rating over the next year or so.

A low leverage burden (long-term liabilities are just 160% 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.

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 third-lowest among the 20 biggest cities by revenue). The dynamic of an employment hub with a significant eds and meds presence that also faces a challenging demographic profile will persist for the city indefinitely.

The A1 ratings on the city's general obligation bonds, service agreement bonds, lease bonds, pension funding

bonds, and energy conservation bonds in all cases reflect the city's unconditional obligation to pay debt service on the bonds.

The A1 ratings on utility revenue bonds of the Philadelphia Water and Sewer Enterprise incorporate adequate debt service coverage (1.63x in 2025), even as leverage grows to fund a \$6.4 billion six-year capital improvement program. The department plans to issue \$500 million to \$700 million of debt annually, meaning the current debt to revenue of about 3.3x may grow closer to 4x by 2028. The department's forecasts show aggressive annual increases to accommodate this additional debt, and its ability to secure these rate increases from the city's Rate Board will be crucial to its credit profile going forward. Finally, the rating incorporates various linkages to the City of Philadelphia (A1 positive). With the city's credit profile improving, the utility's rating may move up alongside it.

RATING OUTLOOK

The city's positive outlook contemplates the possibility that the city will maintain its currently strong financial position, based on solid financial management and conservative forecasting. 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.

The positive outlook on the utility is largely related to the positive outlook on the City of Philadelphia. As the city's financial reserves are now in excess of our upgrade benchmark, it is possible that the city's rating could move up in the next year or so, which could result in the utility's rating moving up alongside it.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- City: Sustained available fund balance ratio above 15% of revenue
- City: Material income growth and reduction in poverty
- City and Utility: Proven ability to address most pressing capital needs while keeping debt at reasonable levels
- Utility: Upgrade of the City of Philadelphia
- Utility: Increase in days cash on hand above 350 days, including rate stabilization fund

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- City: Indication that available fund balance could slip below 6% of revenue
- City: Significant increase in leverage arising from heavy capital needs
- City: Economic underperformance relative to the nation or region
- Utility: Downgrade of the City of Philadelphia
- Utility: Indication that Rate Board will not approve the rate increases necessary to fund the department's capital plan
- Utility: Debt to revenue exceeding 5x

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 \$130 billion.

The Philadelphia Water Department provides drinking water and wastewater treatment to the City of Philadelphia and some surrounding communities, serving a population of approximately 1.6 million.

METHODOLOGY

The principal methodology used in the issuer, general obligation bonds, service agreement bonds, lease bonds, pension funding bonds, and energy conservation bonds ratings was US Cities and Counties published in July

2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. The principal methodology used in the revenue bonds ratings was US Municipal Utility Revenue Debt published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416489>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

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