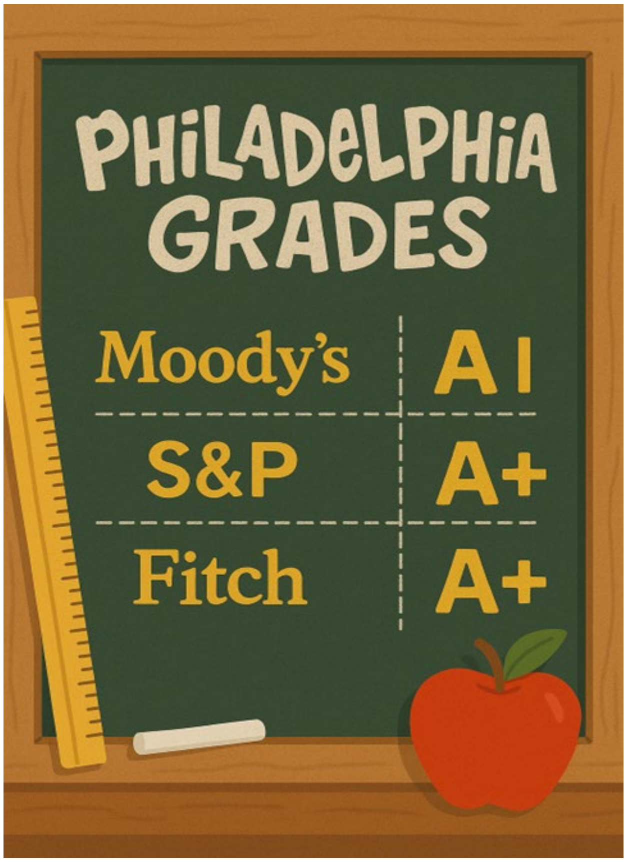
Making the Grade: Philadelphia Credit Ratings Affirmed in September 2025



The City of Philadelphia, through the Philadelphia Authority for Industrial Development (PAID), is issuing $128.8 million in new bonds this fall for previously approved Rebuild projects and $41.7 million to refinance existing debt. Through the Philadelphia Redevelopment Authority, the City seeks to borrow $400 million for the new H.O.M.E. Initiative. To provide investors with an understanding of Philadelphia's ability to repay the debt and help inform the interest rates that the City will have to pay, the City sought new credit rating reviews by the three major rating agencies, Moody's, Fitch, and S&P.

All three agencies' ratings are unchanged from the last review and remain the highest the City achieved in four decades. Even so, the City's ratings are still below eight of the ten largest cities in the country and are the lowest tier of A grades, with AAA at the pinnacle.

Like PICA, the rating agencies evaluate the City's financial stability and utilize methodologies and metrics to assess where the City stands and is likely to go in the future.

Rating Agency	Rating	Outlook
Moody's	A1	Stable
S&P Global	A+	Stable
Fitch	A+	Stable

What's Going Well?

While each rating agency has its own approach to assessing Philadelphia's credit worthiness, there are several common threads that contribute to the City's trajectory of improving ratings:

- Philadelphia has a low ratio of outstanding debt to its revenues compared to other cities. In FY23, Philadelphia finished paying off the funds borrowed through PICA to get the City out of fiscal crisis, and in FY29, the City is expected to nearly finish paying off funds borrowed in 1999 to bolster the Pension Fund by making a balloon payment. This lowers the City's fixed costs, providing more flexibility to make other operating or capital investments or build reserves.
- Reserve levels are higher than in the past, including a labor reserve to accommodate new union contracts and a growing Budget Stabilization Reserve. A City's default risk is reduced if it can withstand negative fluctuations in revenue collections and spending.
- The governance structure required by the PICA Act with its robust five-year planning and quarterly reports.

How Can Philadelphia Up Its Grades?

Maintaining its improved ratings is an accomplishment but given that Philadelphia's ratings still trail most other big cities, which translates into higher borrowing costs, Philadelphia should pursue steps recommended by the rating agencies that could lead to upgrades in the future. Opportunities for improvement include:

- Achieving recurring fund balances at higher levels (ex. Moody's suggests over 15 percent, Fitch recommends unrestricted reserves of at least 10 percent).
- Growing Philadelphians' incomes and reducing poverty. Through an expanded tax base, Philadelphia will be better positioned to repay funds.

What's Holding Philadelphia Back?

The City's outlook is stable, but backsliding or failing to improve in some areas could lead to negative ratings actions in the future. The City will need to be attentive to several areas of its finances and broader environment:

- The poorly funded pension system, with weaker funding ratios than other large cities and PA peers, remains a looming risk despite significant progress. If the Pension Fund cannot meet its obligations and continue with plans to strengthen the system, its outlays could be prioritized over debt repayment.
- Spending outpacing revenues. The City's financial reserves will shrink and could disappear if the City continues to have structural imbalances. The FY26-30 Plan projects imbalances in four of the five years.
- High unemployment, low educational attainment and other less than desirable demographic and socioeconomic trends. The size and vitality of the City's tax base and the service needs of its residents will determine how and how much the City will spend in the future. A shrinking base and/or rising service needs would make repayment of debt harder.

The ratings reveal little new information about Philadelphia's fiscal footing but should serve as an opportunity to recommit to strategies and decisions that will maintain and enhance the City's financial condition. Making sustained efforts to raise reserves, reduce pension liabilities, and grow our economy are essential elements of Philadelphia's fiscal curriculum for success.

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