FITCH RATES PHILADELPHIA, PENNSYLVANIA'S GOS 'BBB+'

Fitch Ratings-New York-29 November 2007: Fitch Ratings assigns a 'BBB+' rating to Philadelphia, PA's (the city) approximately $206.3 million general obligation (GO) refunding bonds, series 2007A. The bonds are expected to be insured and are scheduled for negotiated sale Dec. 6, 2007 with a syndicate led by RBC Capital Markets. Both Phoenix Capital Partners and Public Financial Management, Inc. serve as financial advisor for the current offering. The bonds are general obligations of the city, payable from an unlimited ad valorem tax pledge. Bond proceeds will be used to redeem outstanding GO bonds for an estimated net present value savings of approximately 3.1% of the refunded bond par. In addition, Fitch affirms its 'BBB+' rating on the city's $1.2 billion in outstanding GO bonds. The Rating Outlook is Stable.

The 'BBB+' rating on the GO debt is based upon the city's limited financial flexibility following deterioration at the beginning of the current decade. The weakening was attributable to a sustained period of stagnant growth in recurring revenue sources coupled with a rapidly growing fixed-cost burden related to employee benefit and health care costs. The rating also reflects the city's below-average economic indicators and very high debt levels and underfunded pension position, which is exacerbated by its practice of funding the minimum municipal obligation (MMO) rather than the actuarially required contribution (ARC).

Fitch notes that the city performed better than its financial multi-year plan (MYP) projections in each of fiscal years 2005-2007 as several tax sources performed at above-budgeted levels, leading to a favorable increase in reserves. However, much of the overall gain in revenue was driven by growth in economically sensitive business privilege and real estate transfer taxes, and overall financial flexibility remains limited. In addition, Fitch remains concerned regarding the city's most recent MYP, which excludes any provision for new labor contracts for the city's four largest municipal unions following expiration midway through 2008 and relies on the elimination of business tax cuts, among other assumptions.
Fitch also recognizes that the incoming administration is likely to adjust the plan's assumptions.

Economic indicators have recently shown improvement. The city's 2006 unemployment rate declined for the third consecutive year after peaking at 7.5% in 2003. However, the September 2007 unemployment rate of 6.1% still ranks well above the state and nation. The employment base is heavily weighted toward education and health services jobs, with the University of Pennsylvania being the city's largest employer. Commercial and retail development projects, occurring mostly in the downtown area, including the construction of the Comcast Center, which is scheduled to open in fall 2008, will add 1.25 million square feet of office space and 32,000 square feet of retail space to the downtown market.

Although financial flexibility remains constrained by a high fixed-cost burden and limited revenue raising capacity, the city's financial position has shown improvement in recent years. Following positive general fund operations in fiscal years 2005 and 2006, unaudited results for fiscal 2007 show a $297.8 million budgetary basis general fund surplus, driven primarily by stronger than expected growth in wage and business privilege tax receipts. Consequently, the fiscal 2007 unreserved fund balance increased to $152.7 million, equal to 4.1% of general fund spending and transfers out. The fiscal 2008-2012 MYP, which was approved by the Pennsylvania Intergovernmental Cooperation Authority (PICA), the city's state-appointed oversight board, shows negative operations in each year of the plan, and anticipates a decline in the budgetary basis fund balance to $127.7 million by the close of fiscal 2012. Fitch believes the city's long-running schedule of incremental annual wage and business privilege tax reductions will require significant cost-cutting measures and revenue enhancements to maintain a balanced budget in the out-years of the MYP.

The city's overall debt burden remains very high at $4,729 per capita and 17.8% of market value. The 2008-2013 capital improvement plan (CIP) totals $7 billion with slightly more than half supported by operating revenues of and revenue bond issuance by the city's airport and water department. An additional $2 billion is expected to be financed by the commonwealth, federal sources and private sources, and the remainder by the city. Approximately $405 million of new tax-supported borrowing is anticipated over the life of the CIP, including a $185 million issuance planned for the latter part of 2008. Given statutory debt limitations, the city currently maintains only $211 million available GO debt capacity.

Contact: Christopher Hessenthaler +1-212-908-0773 or Jessalynn K. Moro +1-212-908-1608, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526.