

Pennsylvania Intergovernmental Cooperation Authority

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Credit Profile

US\$372.95 mil spl tax rfdg bnds due 06/15/2023

Long Term Rating	AA/Stable	New
Pennsylvania Intergovernmental Coop Auth spl tax (City Of Philadelphia Fdg Prog) ser 2008A&B (FSA)		
Long Term Rating	AAA/A-1+/Negative	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Pennsylvania Intergovernmental Coop Auth (City of Philadelphia Funding Prog) earned income (wage tax)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to Pennsylvania Intergovernmental Cooperation Authority's (PICA) special tax revenue refunding bonds (City of Philadelphia Funding Program) series of 2009. At the same time, we affirmed the 'AA' rating on the debt obligations outstanding.

The ratings reflect what we view as PICA's:

- Enabling legislation that precludes additional future debt issuance;
- Strong debt service coverage that has ranged from 3.5x-4.0x in the past six fiscal years; and
- Projected debt service coverage that is expected to steadily improve annually, most significantly after fiscal 2009 as annual debt service requirements decline.

Other rating factors in our view include:

- An economically sensitive revenue stream that has performed reasonably well over time; and
- Philadelphia's employment base, which is projected to rise at a moderate pace.

**RatingsDirect
Publication Date**

June 9, 2009

Proceeds from the series 2009A bonds will be used to refund series 1999 special tax revenue refunding bonds outstanding and pay the costs of terminating an interest rate swap transaction.

The bonds are secured by a first lien on a 1.5% wage tax levied on city residents and on the net profits earned in business, professions, and other activities conducted by city residents. PICA was created in June 1991 to provide a financing vehicle to assist in resolving Philadelphia's fiscal crisis. By legislation, this portion of the tax was ceded to PICA by the city in June 1991. The city has no recourse to these taxes until PICA debt service needs, as well as indenture requirements for reserves, are fully funded; excess wage taxes then flow as surplus for general city purposes.

PICA's enabling legislation prohibited new money debt issuance after Dec. 31, 1996. We believe the lack of future debt issuance, and rapidly declining debt service structure, should result in coverage levels strengthening considerably.

Historically, coverage levels of maximum annual debt service requirements have exceeded the 1.75x test, ranging from 2.82x in 1999 to 4.0x in fiscal 2008. Coverage levels have been increasing in the past eight years due to savings generated from previous refundings, as well as growth in the wage tax due to overall improvement in Philadelphia's economy. While it is unlikely that current fiscal year tax receipts (\$290 million through the end of April) will meet the \$352 million in the city's financial plan, we believe coverage will still remain strong at nearly 3.9x.

Standard & Poor's maintains a PICA debt derivative profile (DDP) score of '1.5' on a scale of '1' to '4', with '1' representing the lowest risk and '4' the highest. A DDP score of '1.5' indicates that PICA's swap portfolio represents a low risk to its credit rating.

Outlook

The stable outlook reflects what Standard & Poor's views as a strong coverage and declining amortization costs, which would provide a cushion should pledged revenue decline, coupled with a statutory inability to issue additional debt.

Bond Provisions

In Standard & Poor's view, bond provisions are sound, insulate the revenue stream from the general operations of the city of Philadelphia, and make improving coverage of future debt service likely. The bonds are secured by a 1.5% tax on the salaries, wages, commissions, and other compensation earned by Philadelphia residents and on the net profits earned in business, professions, and other activities conducted by residents of the city. The tax is collected by Philadelphia, as agent for the Pennsylvania Revenue Department, and is deposited on the day of receipt in a special account separate from the city's funds, for remittance the following day to the commonwealth, and held by the state treasurer with Pennsylvania's other funds.

Pursuant to authorizing legislation, the proceeds and amounts on deposit are, at all times, the sole property of PICA and are not subject to appropriation by the city of Philadelphia or the commonwealth of Pennsylvania. Upon direction of PICA, payments are made directly by the state treasurer to the trustee.

The flow of funds are to the debt service fund; the debt service reserve fund; for payment of interest rate exchange, cap, or floor agreements; and to PICA for expenses. Excess monies then flow to the city of Philadelphia. The debt service reserve is funded at maximum annual debt service on the bonds. No additional bonds, other than refunding bonds, are permitting under the authorizing legislation.

With this issue, PICA, in its six supplemental resolution, will require that any additional debt issuance after June 15, 2009, meet a 3.0x additional bonds debt service coverage test. Before this change the additional bonds test was 1.75x. While this will strengthen bondholder security, Standard & Poor's criteria for special tax bonds focuses more on historical debt service coverage as a rating driver.

The Philadelphia Economy

Encompassing 130 square miles, Philadelphia is the fifth-largest city in the nation, with an estimated 2007 population of 1.45 million. The greater nine-county metropolitan population is much larger, estimated at 5.1 million. The Philadelphia regional economy is highly diversified in our view, with an emphasis on health care services, pharmaceutical manufacturing, aerospace manufacturing, education services, and transportation services. This diversity has buffered the Philadelphia economy from a more severe downturn, but has also limited its expansion, as many of the sectors that form the region's core economic base were growing slowly in the last economic expansion. While the city enjoys a moderate cost of living compared with many other large metropolitan areas, its relatively high business costs, large number of poorly educated workers, and high tax rates have inhibited growth. A trend of out-migration has fostered a large disparity in education and income levels between central city and suburban residents. Effective buying incomes within the city represent just 81% of the national benchmark, while per capita incomes for the metropolitan area represent what we consider a strong 117% of the national average.

According to IHS Global Insight Inc., Philadelphia, while clearly in a significant recession, has been experiencing a more moderate downturn than the nation, but has been affected less by the real estate boom and bust. This is because the city did not experience the significant growth and speculation in real estate in the past decade to the extent that many other U.S. cities did. Global Insight estimates that after experiencing a modest decline in employment (0.1%) in 2008, as with the rest of the nation, Philadelphia's employment will decline more rapidly in 2009 (2.9%). Global Insight projects 55,000 jobs will be lost this year and unemployment will reach 8.6%. Employment losses will slow in 2010, with a projected (0.3%) decline, before positive job growth occurs in 2011.

Health services account for a large 10.5% of metropolitan area jobs. We consider growth prospects good for the metropolitan area's core of knowledge-based industries, which include health services, pharmaceuticals, education, and biotechnology, chiefly due to a highly educated workforce drawn from suburban areas. Significant sectoral presence is attributable to numerous hospitals, employing more than 100,000 workers, while private colleges and universities employ more than 50,000. However, high-technology industries provide a relatively low number of jobs and represent about 5% of total employment. Manufacturing continues its weak performance and nondurable manufacturing employment continues to outpace that of durables.

PICA's revenues are derived primarily from a 1.5% wage tax levied on city residents and on the net profits earned in business, professions, and other activities conducted by Philadelphia residents. PICA was created in June 1991 to provide a financing vehicle to assist in resolving Philadelphia's fiscal crisis. By legislation, this portion of the tax was ceded by the city to PICA in June 1991. The city has no recourse to these taxes until PICA's debt service needs, as well as indenture requirements for reserves, are fully funded; excess wage taxes then flow as surplus for general city purposes.

Historically, coverage levels of maximum annual debt service requirements have exceeded the 1.75x test, ranging from 2.82x in 1999 to 4.0x in fiscal 2008. Coverage levels have been increasing in the past eight years due to savings generated from previous refundings, as well as growth in the wage tax due to overall improvement in Philadelphia's economy. While it is unlikely that current fiscal year tax receipts (\$290 million through the end of April) will meet the \$352 million in the city's financial plan, we believe coverage will still remain strong at nearly 3.9x. With the issuance of the series 2009 refunding bonds, we believe pro forma coverage of annual debt service will improve each year, reaching 6.7x in 2017. Further additional coverage through final maturity will likely be afforded by growth in pledged revenue in the long term.

Related Research

USPF Criteria: "Special Tax Bonds," June 13, 2007

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Moody's Investors Service

Global Credit Research

New Issue

3 JUN 2009

New Issue: Pennsylvania Intergovernmental Coop. Auth.

MOODY'S UPGRADES PICA UNDERLYING SPECIAL TAX RATING TO Aa3 FROM A1,

\$565.76 MILLION IN DEBT SECURITIES AFFECTED, INCLUDING CURRENT ISSUE; OUTLOOK IS STABLE

Municipality
PA

Moody's Rating

ISSUE	RATING
Special Tax Revenue Refunding Bonds, Series 2009	Aa3
Sale Amount	\$362,945,000
Expected Sale Date	06/08/09
Rating Description	Special Tax Revenue

Opinion

NEW YORK, Jun 3, 2009 – Moody's Investors Service has assigned a Aa3 underlying rating to the Pennsylvania Intergovernmental Authority's (PICA) \$362.9 million Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program) Series of 2009. The bonds are secured by a pledge of revenues derived from a 1.5% tax on wages and other compensations of residents of the City of Philadelphia (GO rated Baa1/stable outlook). Concurrently, Moody's has upgraded to Aa3 from A1 the rating on the Authority's \$202.9 million in previously-issued parity debt. Proceeds will be used to refund the Authority's Series 1999 bonds in order to convert the debt from variable rate to fixed rate; proceeds will also be used to pay an estimated \$56 million swap termination fee to the counterparty, JP Morgan Chase Bank, N.A. (Issuer Rating of Aa1). The upgrade to the Aa3 rating reflects strengthening of the additional bonds test to 300% from 175%; the rating also incorporates the overall strong legal structure of the pledge, which includes effective separation from the City's general financial operations as well as a covenant not to reduce the PICA tax rate while bonds are outstanding. Additionally, the rating reflects the size and stability of the pledged revenues which provide strong debt service coverage even under stress scenarios.

STRENGTHENING OF BOND COVENANT ENHANCES LEGAL STRUCTURE; PICA TAX REVENUES SEPARATE FROM OTHER CITY REVENUES

Moody's believes that the strengthening of a key bond covenant results in an enhanced legal structure for the protection of bondholders. The Authority was created by special state legislation and first issued bonds in 1992 to provide operating and capital funding assistance to Philadelphia during its early 1990s fiscal crisis; the last new-money issue occurred in 1992. Security for the current and previously-issued PICA bonds is derived by a pledge of a 1.5% dedicated tax on salaries and net business profits on Philadelphia residents (PICA tax) that is statutorily earmarked to first service outstanding PICA debt. The PICA Act requires the state treasurer to remit the proceeds of the tax to the trustee for bond payment. Excess revenues are released semimonthly to the City for any use. The legislation makes it clear that the City has no recourse to these funds and that there is no appropriation risk at the state level.

The enabling legislation also requires that the PICA tax remain in place for the life of all outstanding debt secured by its revenues (currently through 2023) and that no action can be taken by either the Commonwealth, Authority or the City to alter or diminish the flow of revenues to support the debt. Additional legal provisions include a debt service reserve sized at maximum annual debt service (MADS), which previously had been partially satisfied with a surety bond provided by FGIC. While the FGIC surety bond remains in place, the current reserve requirement is fully satisfied with other cash and investments totaling more than \$71.5 million. The Sixth Supplemental Trust Indenture for the bonds has changed the coverage requirement for the issuance of additional bonds from 175% coverage of debt service by net revenues (over

12 consecutive of the previous 15 months) to a 300% coverage requirement. Moody's views this change as significantly reinforcing bondholder protections by reducing the likelihood of dilution of coverage due to additional issuance. Furthermore, as the legislation that authorizes PICA has eliminated its ability to issue any additional debt for capital projects or deficit reductions, it would take state legislative action to permit new parity bonding.

PICA TAX REVENUES PROVIDE STRONG COVERAGE WHICH IS PROJECTED TO ESCALATE

Moody's expects the strong debt service coverage on PICA's special revenue debt to continue to increase through final maturity in 2023 given that debt service costs will decline annually going forward and no additional debt is anticipated. Annual revenue from the PICA tax grew a total of more than 20% from 2003 to 2008, with average growth of 3.8% annually over that period. Coverage from collected revenues has improved considerably from 2.6 times in 2003 to 4.0 times in 2008. Despite the economic downturn, which has sharply increased the City of Philadelphia's unemployment levels (9.7% for March, 2009), year-to-date PICA tax collections through April, 2009 were \$8 million higher than the same period for 2008. PICA officials project a 3% increase in collections over last year through the end of the fiscal year (June 30). Officials point to an increase in average wages of those remaining employed in the City to explain the continued growth in fiscal 2009. Debt service coverage is expected to continue to increase through the life of the bonds as debt service will continue to decline each year until final maturity in 2023. PICA's projections, which assume approximately 3% average growth in collections over the life of the bonds, show coverage increasing steadily to well above current levels. Under Moody's internal stress testing, including loss and stagnation of revenues as well as stresses on outstanding variable rate debt and swap exposure, coverage remains robust through the life of the bonds.

CURRENT ISSUE REDUCES VARIABLE RATE AND SWAP EXPOSURE, ALTHOUGH RISKS REMAIN

Although the current refunding issue will significantly reduce the PICA's variable rate debt and swap exposure, approximately 36% of its debt will continue to be in a variable rate mode. The outstanding 2008 bonds are variable rate demand obligations with liquidity provided by JP Morgan Chase Bank, N.A. Some of the bonds supported by the JP Morgan liquidity facility became bank bonds for short periods of time in late 2008 and early 2009, resulting briefly in increased interest rates, although the terms of the SBPA do not include acceleration of principal repayment, insulating PICA from large bank bond principal repayments. None of PICA's bonds are currently held by JP Morgan as bank bonds.

PICA also has several interest rate swaps currently outstanding, all with JP Morgan Chase as the counterparty. As mentioned above, a floating-to-fixed swap, scheduled to become effective on June 15, 2009, will be terminated and the termination payment will be included in the bond issue. Two other floating-to-fixed swaps hedge PICA's Series 2008A and 2008B variable rate bonds. In both swaps, PICA receives 67% of one-month LIBOR in exchange for a fixed rate payment of 5.0% and 5.5%, respectively. PICA is also party to two "basis cap" swaps, whereby PICA receives a fixed rate payment of 0.4% and 0.46%, respectively, and makes payments based on a formula that reflects the ratio of SIFMA to one-month LIBOR minus 70%, multiplied by one-month LIBOR. If that formula equals less than zero, PICA makes no payment. The notional amounts mirror the Series 2008A and the new Series 2009 principal amounts. PICA officials report that they have infrequently had to make payments on these swaps, although they have been making small payments due to the fact that SIFMA is currently higher than one-month LIBOR.

In the case of all of their swaps, JP Morgan is required to post collateral if its rating falls below A3; the bank's rating falling below Baa2 is also a termination event. There are no PICA rating triggers for these swaps and PICA has the right to terminate at any time.

MOST RECENT RATING ACTION AND PRINCIPAL METHODOLOGY

The last rating action with respect to the Pennsylvania Intergovernmental Cooperation Authority was May 16, 2008, when the A1 long term rating and stable outlook were assigned to its Special Tax Revenue Refunding Bonds, Series of 2008A and 2008B.

The principal methodology used for this rating action was "Piercing the G.O. Ceiling", which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

Outlook

The outlook on PICA's special tax revenue bonds is stable. The outlook incorporates the expectation of continued economic retraction in the City including continued job losses. Even if the economic situation deteriorates more than expected, Moody's believes the pledged revenue stream will provide adequate coverage for the bonds.

What could make the rating go UP:

- Stronger economic growth

What could make the rating go DOWN:

- Deterioration in PICA tax revenues and subsequent reduction in coverage levels
- State authorization of additional debt issuance and a subsequent significant reduction in coverage levels

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**Fitch Rates PICA's \$363MM Special Tax Rev Rfdg Bonds 'AA'; Outlook Stable** [Ratings](#)

05 Jun 2009 4:55 PM (EDT)

Fitch Ratings-New York-05 June 2009: Fitch Ratings assigns an 'AA' rating to the Pennsylvania Intergovernmental Cooperation Authority's (PICA) approximately \$362.9 million special tax revenue refunding bonds (City of Philadelphia Funding Program), series 2009. The bonds are scheduled for negotiated sale on June 15, 2009. At this time, Fitch upgrades PICA's \$572 million outstanding special tax revenue bonds rating to 'AA' from 'A+'. The Rating Outlook is Stable.

The upgrade to 'AA' on PICA's bonds is based on consistently strong debt service expected to remain at or close to current levels, at least, as well as the expected enhancement of already strong legal protections. Fitch believes debt service coverage levels should remain consistently strong going forward given the statutory limitation on new debt issuance by PICA coupled with a declining debt service schedule until all outstanding debt matures in 2023. In addition to essentially insulating pledged revenue from the City of Philadelphia (the city) and the Commonwealth of Pennsylvania (the Commonwealth), legal protections now include a significantly stronger additional bonds test requirement of 3.0 times (x) compared to the prior 1.75x test.

PICA was created in 1991 to assist the city in its financial recovery. PICA has broad powers to review and approve city budgets and multi-year financial plans and can certify noncompliance to the state, which would result in withholding of certain state aid. PICA was given statutory authority to issue wage tax secured bonds to fund the operating deficits and capital expenditures of the city. At this time PICA has exhausted its borrowing authorization; any additional issuance not for refunding purposes would require board consent and legislative approval by the Commonwealth. PICA reports that it has no plans to seek additional authorization.

The special tax revenue bonds are secured by a 1.5% tax on the salaries, wages, commissions and other compensation earned by residents of the city and on net profits earned in business, professions and other activities conducted by residents of the city. The 1.5% tax is exclusively for the use of PICA and the city and Commonwealth have covenanted not to reduce the tax so long as PICA bonds are outstanding. The city acts as collector of the authority tax in an agency capacity under an intergovernmental agreement with the state revenue department. At all times, the tax revenues remain the property of PICA. After payment of debt service and any subordinate payments, residual revenues flow to the city. Authority tax revenue has increased by an average of 3.7% annually since 2002, due in large part to growth in wages and improved tax collections over that time period. Coverage of maximum debt service (MADS), which occurs in 2010, was strong at 4.6x using fiscal 2008 revenues, comparing favorably to the 2.7x coverage in fiscal 2002.

Fitch currently rates the city's general obligation debt based upon its stable employment base, anchored by its role as a regional economic center and a strong higher education and health care sectors, with limited financial flexibility, exceptionally high debt levels, a significantly under-funded pension position, a rapidly growing fixed-cost burden related to employee benefits, and below-average economic indicators.

Philadelphia, with an estimated population of 1.5 million residents, benefits from its role as a regional economic center and a stable employment base weighted in the education and health care sectors led by the University of Pennsylvania and Jefferson Health System as the largest private employers. Despite a slowing economy, commercial and retail development projects have continued, including the transitioning of the city's naval yard into a large private sector business park consisting of approximately 80 companies. In addition, Children's Hospital of Philadelphia, the Fox Chase Cancer Center, and the University of Pennsylvania are each making a significant capital investment to expand their respective research facilities. However, despite the size and stability of its employment anchors, the city's unemployment rate, like national trends, has experienced a notable increase over the past year, growing to an above-average 9.7% in March 2009 from a more moderate 6.6% one year prior. Income levels are also weak; approximately one-fourth of the city's residents live at or below the poverty rate according to the U.S. Census Bureau.

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