

Pennsylvania Intergovernmental Cooperation Authority

New Issue Summary

Sale Date: On or about October 29, 2019

Series: Pennsylvania Intergovernmental Cooperation Authority (PICA) special tax revenue refunding bonds (City of Philadelphia Funding Program) series of 2019 and series of 2020 (forward delivery).

Purpose: To refund PICA's outstanding series 2009 and 2010 bonds.

Security: The outstanding bonds are limited obligations of the authority payable from pledged revenues, consisting of a 1.5% tax on wages and other compensation earned by city residents, as well as the net profits earned in business, professions, and other activities conducted by residents. Payment of the pledged revenues to PICA is not subject to city or state appropriation.

The 'AAA' rating reflects solid growth prospects for PICA's pledged revenues, supported by Philadelphia's expanding economy. The security structure is extremely resilient to economic downturns with robust coverage and history of limited revenue volatility. While the authority has no plans or statutory authority to issue new money bonds, the ratings would likely remain stable even if PICA were authorized by the commonwealth legislature to issue new money bonds up to the full legal additional bonds test (ABT).

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated July 23, 2019) that proposes to limit the distance between local government special revenue and true sale security ratings and the related government's IDR. If applied in the proposed form, the criteria change would have no impact on the PICA special tax revenue bond ratings discussed in this report.

Economic Resource Base: Philadelphia serves as a regional economic center in the Northeast, with a stable employment base weighted toward the higher education and healthcare sectors. Jobs expansion since the Great Recession has been steady and strong, but comparatively low wealth levels and modest population increases persist, limiting growth prospects. The population is approximately 1.6 million.

Key Rating Drivers

Solid Pledged Revenue Growth Prospects: Fitch anticipates growth in the pledged wage, earnings, and net profits tax revenues will be solid and between the pace of national economic growth and inflation. Historical trends indicate a relatively resilient stream, with limited declines and recent acceleration in growth. Pledged revenue growth prospects are linked to the city of Philadelphia's overall economy.

Robust Resilience: Coverage of PICA special tax revenue bonds from pledged revenues should remain strong through a moderate downturn given the ample current coverage, limited historical revenue volatility, and extremely strong resilience of the security structure.

No Exposure to Operating Risk: Fitch considers the ratings distinct from both the city of Philadelphia (IDR A-/Positive) and the commonwealth of Pennsylvania (IDR AA-/Stable). Pledged revenues remain the property of PICA until paid to the trustee and are not subject to commonwealth or city appropriation. Fitch does not consider PICA's own operating risks to be a material credit consideration given its limited function as a fiscal oversight entity without direct service responsibilities.

New Issues

\$43,570,000 Pennsylvania Intergovernmental Cooperation Authority (Philadelphia Funding Program) Special Tax Revenue Refunding Bonds, Series 2019	AAA
\$25,465,000 Pennsylvania Intergovernmental Cooperation Authority (Philadelphia Funding Program) Special Tax Revenue Refunding Bonds, Series 2020 (Forward Delivery)	AAA

Outstanding Debt

Pennsylvania Intergovernmental Cooperation Authority (Philadelphia Funding Program) Special Tax Revenue Bonds	AAA
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Related Research and Criteria

[Fitch Rates Pennsylvania Intergovernmental Cooperation Auth's Special Tax Revs 'AAA'; Outlook Stable \(October 2019\)](#)

[U.S. Public Finance Tax-Supported Rating Criteria \(April 2018\)](#)

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Rating Sensitivities

Sound Coverage Cushion: The ratings on the Pennsylvania Intergovernmental Cooperation Authority special tax revenue bonds are sensitive to Fitch's expectations for the maintenance of a robust coverage cushion from the pledged revenues, consistent with the current rating level.

Credit Profile

Dedicated Tax Credit Profile

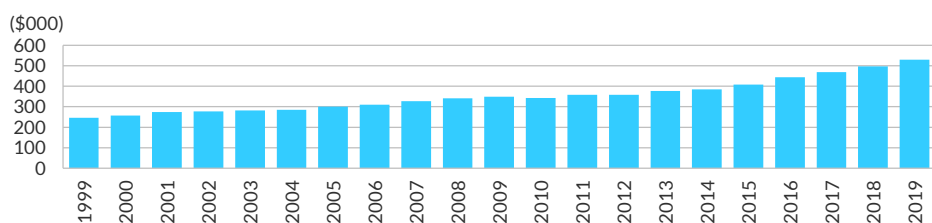
PICA was created by state legislation in 1991 (Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, or the Act) to assist the city in its financial recovery. The authority has broad powers to review and approve city budgets and multi-year financial plans. If PICA certifies the city's noncompliance to the state, Pennsylvania withholds certain state aid due to the city. PICA was given statutory authority to issue wage tax-secured bonds to fund the operating deficits and capital expenditures of the city. PICA has exhausted its borrowing authorization. Any additional issuance, except for refunding purposes as in the proposed transaction, would require consent of the authority's board and legislative approval by the commonwealth. PICA reports that it has no plans to seek additional authorization and Fitch considers it highly unlikely.

The 1.5% tax pledged to the bonds is exclusively the property of PICA, and the city and state have covenanted not to reduce the tax as long as PICA bonds are outstanding.

Historical Pledged Revenues

(Fiscal Years Ended June 30)

■ Pledged Revenues for Pennsylvania Intergovernmental Cooperation Authority Special Tax Revenue Bonds



Source: Pennsylvania Intergovernmental Cooperation Authority.

Strong Coverage

Coverage of annual debt service by pledged revenues has strengthened due to steady revenue growth and a declining debt service schedule. Receipts grew by an annual average of approximately 4% between fiscals 2009-2019, including a robust 6% increase year-over-year (YOY) in fiscal 2019 to approximately \$529 million, providing 11x coverage of debt service.

Growth in pledged revenues is tied to the city's economic trajectory, which Fitch views as solid. Fitch's current IDR for the city is 'A-/Positive Rating Outlook. For more information on the city's economy and growth prospects, see Fitch's press release "Fitch Rates Philadelphia Auth for Industrial Development's, PA's \$160MM Rev Bonds A-", dated Aug. 29, 2019 and available at www.fitchratings.com.

MADS Coverage Summary

(\$000, As of Fiscal 2019)

Pledged Revenues for Pennsylvania Intergovernmental Cooperation Authority Special Tax Revenue Bonds	528,763
MADS ^a	46,944
Coverage (x)	11.3

^aCurrent MADS, prior to series 2019 refunding and series 2020 forward delivery bonds, which will reduce MADS to approximately \$26 million.

Source: Fitch Ratings, Pennsylvania Intergovernmental Cooperation Authority.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	10/18/19
AAA	Upgraded	Stable	2/28/17
AA+	Revised	Stable	4/30/10
AA	Upgraded	Stable	6/5/09
A+	Upgraded	Stable	5/5/08
A	Affirmed	Stable	5/30/03
A	Upgraded	—	3/29/99
A-	Upgraded	—	5/28/97
BBB+	Assigned	—	7/20/93

Solid Growth Prospects

Growth prospects for the pledged wage, earnings and net profits tax revenues are solid and in line with Fitch's expectations regarding the city's economic trajectory. Pledged revenues are derived from a broad citywide economic base, benefiting from Philadelphia's role as a regional center for healthcare and higher education. Jobs expansion since the recession has been steady, but low wealth levels and weak population growth persist and limit growth prospects somewhat.

Historical revenue growth has been generally consistent, through the last two national recessions. Pledged revenues declined only twice since fiscal 1999, never more than 2%, and never for consecutive years. Particularly robust pledged revenue growth in recent years likely reflects economic growth in the city. Fitch does not anticipate that pace to continue, but continued growth between the pace of national economic growth and inflation is likely, leading to a 'aa' assessment for this rating factor.

Robust Resilience

The security provided by the pledged revenues is extremely resilient to economic volatility. Fitch's analysis focuses on current maximum leverage rather than the 3x ABT. While the lien remains open under the indenture, it requires state legislative action to be utilized, which Fitch considers highly unlikely. PICA has no plans to pursue additional authorization, and the city relies on residual revenues for its operating needs. Residual PICA taxes comprise approximately 10% of the city's operating revenues.

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the authority's pledged revenue history, the Fitch Analytical Sensitivity Tool (FAST) generates a 1% scenario decline in pledged wage, earnings, and net profits tax revenues. The largest actual decline was a 1.5% decline in fiscal 2010.

PICA has fully utilized its statutory authorization and Fitch does not anticipate the authority will seek further authorization. Therefore the agency assesses the resiliency of the structure by examining it relative to current debt service, which declines annually. Fiscal 2019 pledged revenues of approximately \$529 million can withstand a 91% decline while still maintaining sum sufficient MADS coverage. This is equivalent to 91x the scenario result, and 61x the worst actual decline in revenues, warranting an 'aaa' assessment for this rating factor.

Even if PICA were to receive additional legislative authorization and issued up to its 3x ABT, Fitch still considers the structure to be extremely robust. Relative to the ABT, fiscal 2019 pledged revenues could withstand a 67% decline, equivalent to a still very strong 67x the scenario result and 45x the worst historical decline.

Dedicated Tax Sensitivity Analysis

(Fiscal 2019 Revenues)	
Fiscal 2019 Pledged Revenue (\$000)	528,763
MADS Coverage at Maximum Leverage (x)	3.0
Revenue Decline to 1.0x MADS (or Coverage Cushion) (%)	(91.1)
FAST Revenue Decline (Negative 1% U.S. GDP Scenario) (%)	(1.0)
Coverage Cushion as Multiple of FAST Decline (x)	91.0
Largest Historical Revenue Decline (%)	(1.5)
Coverage Cushion as Multiple of Largest Historical Revenue Decline (x)	60.7

Source: Fitch Ratings, Pennsylvania Intergovernmental Cooperation Authority.

Exposure to Issuer Operations

Rating Not Linked to Commonwealth or City

Fitch does not cap or link the rating on the bonds at the commonwealth or city's IDR. The city acts as collector of the PICA tax in an agency capacity under an intergovernmental agreement with the state revenue department. Statutory provisions in the act make clear that at all times,

the tax revenues remain the property of PICA. After payment of debt service and fulfillment of indenture requirements, residual revenues flow to the city. Payment of the pledged revenues to PICA is not subject to city or commonwealth appropriation.

PICA's operational risks are minimal as it functions largely as a fiscal oversight body without material operating demands. Accordingly, Fitch does not evaluate PICA's operational profile and does not limit the rating on the bonds to the authority's underlying credit quality.

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