

Rating Action: Moody's assigns Aa3 to Pennsylvania's GO bonds; outlook stable

27 Aug 2020

New York, August 27, 2020 -- Moody's Investors Service has assigned a Aa3 rating to the Commonwealth of Pennsylvania's approximately \$470 million General Obligation Bonds, First Series of 2020. The commonwealth anticipates pricing the bonds the week of September 14, 2020. The outlook is stable.

RATINGS RATIONALE

Pennsylvania's Aa3 general obligation rating reflects the commonwealth's very large and diverse economy balanced against high fixed costs and leverage compared to other states. It also incorporates fund balance and budget reserves that remained weak as a share of the state's budget even through the recent economic expansion. This is mitigated by the ability to borrow internally from a healthy and stable pool of liquidity, which is a key factor in consideration of the state's capacity to maintain satisfactory finances through the economic slowdown caused by the coronavirus outbreak.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Pennsylvania. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Pennsylvania changes, we will update our opinion at that time.

RATING OUTLOOK

The outlook for the Commonwealth of Pennsylvania is stable and reflects the expectation that the state's large economy can generate the resources necessary to work towards structural balance under an assumption that the global economy will return to growth in 2021.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Material improvement in the state's budget reserves
- Accelerated economic expansion and job creation that supports revenue growth
- Strong pension plan asset performance that both moderates the state's unfunded liability burden and keeps costs from rising

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A material decline in revenue that intensifies budgetary pressure
- Significant growth in leverage (debt or other unfunded liabilities) or the state's fixed cost burden
- A materially negative change in available liquidity

LEGAL SECURITY

The general obligation bonds are a full faith and credit obligation of the Commonwealth of Pennsylvania.

USE OF PROCEEDS

Pennsylvania will use proceeds of the bonds to fund various capital projects.

PROFILE

Pennsylvania is home to nearly 13 million residents, making it the fifth-largest state by population. It has the sixth-largest economy among US states, measured by an estimated 2019 gross domestic product of \$814 billion.

METHODOLOGY

The principal methodology used in this rating was US States and Territories published in April 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1084466 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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 at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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