

MOODY'S

RATINGS

Rating Action: Moody's upgrades Allentown, PA to A2 from A3

25 Mar 2024

New York, March 25, 2024 -- Moody's Ratings has upgraded the City of Allentown, PA's issuer rating and general obligation debt ratings to A2 from A3, and removed the stable outlook as Moody's does not maintain outlooks for local governments with this amount of debt outstanding. Allentown has approximately \$109 million of debt outstanding as of 2022.

The upgrade to A2 recognizes a much-improved financial position that the city will likely be able to maintain because of solid fiscal management and conscientious long-term financial planning. Economic growth has driven tax revenues significantly higher, which combined with expenditure controls and a property tax increase in 2019 helped the city to achieve structural balance following a long history of budget gimmickry.

RATINGS RATIONALE

The A2 rating incorporates the city's solid financial position, good budget management and growing economy and tax revenues. Following many years of structural imbalance smoothed over with various nonrecurring budget maneuvers, the city has strengthened its financial management and now has an available fund balance of 31.3% of revenue. Although Allentown may face political obstacles to increasing revenues if necessary to balance future budgets, sharp financial management will preserve a more solid financial position going forward. The rating also reflects two key weaknesses: the city's high-poverty, low-income economic base (adjusted median household income is just 71.2% of the US median), and a large Moody's-adjusted net pension liability.

The city's general obligation bonds are rated at the level of the issuer rating because of the full faith and credit pledge supporting the bonds.

RATING OUTLOOK

Moody's typically does not maintain outlooks for local governments with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Moderation of long-term liabilities
- Continued improvement in resident income ratio to 80%
- Sustained available fund balance ratio above 45% in the context of strengthened policies and stable financial management

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Return to structural imbalance
- Deterioration in available fund balance ratio below 25%
- Reversal of recent growth and economic improvement of the city

LEGAL SECURITY

All of the city's outstanding bonds are general obligations to which the city has pledged its full faith and credit.

PROFILE

Allentown is the third-largest city in Pennsylvania, with a population of about 126,000.

METHODOLOGY

The principal methodology used in this rating was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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