



Conor Baldwin
Chief Financial Officer

Austin Ball
Deputy CFO

MEMORANDUM

TO: Thomas A. Golden, Jr., City Manager

FROM: Conor Baldwin, Chief Financial Officer

CC: Theodoros Panagiotopoulos, City Treasurer/Collector

DATE: October 10, 2023

SUBJECT: INFORMATIONAL – Bond Sale to fund capital improvements & savings from refinancing

On Wednesday, September 13, 2023, the City of Lowell received competitive bids from bond underwriters for a \$70,130,000, 30-year general obligation state qualified bond issue. Morgan Stanley & Co, LLC was the winning bidder on the Bonds with an average net interest rate of 4.024%. The City received a total of 7 bids on the Bonds. Bond proceeds will be used to fund various municipal capital projects approved by the City Council, most notably \$30 million in high school construction bonds for the LHS project, and refinance bonds of the City originally issued September 12, 2013.

The refunding bonds will generate total net savings of \$399,993 through the remaining life of the bonds refunded. Using a sizeable premium earned on the sale of approximately \$3.4 million; the Finance Department was able to reduce the par value of the sale from \$46.9 million to \$43.6 million. The resizing of the bond will reduce the future debt service on the bonds and save the city an additional \$206,000 over the next 25 years.

Prior to the sale, S&P Global Ratings, a municipal bond credit rating agency, affirmed the City's 'AA-' underlying bond rating. The rating agency cited the City's very strong management with strong financial policies and practices, stable budgetary performance, strong budgetary reserves and liquidity, and strong institutional framework as positive credit factors. Furthermore, S&P Global Ratings assigned the 'AA+' enhanced rating to the Bonds as debt service is secured by the State Qualified Bond Act local state aid intercept program.

To obtain the approval to issue State Qualified Bonds, the City appeared before the Municipal Finance Oversight Board ("MFOB") on July 12th, 2023. The board, chaired by State Auditor Diana DiZoglio, met to consider the financial condition of the city and unanimously granted the approval. Furthermore, the Director of Accounts for the Department of Revenue noted the strong financial conditions in Lowell and credited the finance team for their diligent work in managing the city's finances.



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Bond proceeds will be used to fund various municipal capital projects, including \$8.7 million for sewer separation projects and improvements to the regional Wastewater Utility Facility (a.k.a. “Duck Island”), \$2 million for the city’s share of projects in the Accelerated Repair Program (“ARP”) to replace boilers and roofs at Lowell school facilities, partially funded by the Massachusetts School Building Authority (“MSBA”), \$30 million for the local share of the Lowell High School construction project, \$2 million for bridge repairs to various city bridges, \$6.7 million for roadway and sidewalk improvements, and others. Other projects and purposes financed by the bonds include purchases for vehicles and other equipment, park improvements, improvements to improve the city’s compliance with the Americans with Disability Act (“ADA”), and other purposes approved by this City Council.

A copy of the credit rating is attached for review. As was cited in the report from S&P, the City must be vigilant with reserve levels as S&P could lower the rating if the city draws on its fund balance to weak levels without a plan to replenish. Please let me know if you have any questions.

RatingsDirect®

Summary:

Lowell, Massachusetts; General Obligation

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Lowell, Massachusetts; General Obligation

Credit Profile

US\$72.91 mil GO st qual mun purp loan of 2023 bnds ser 2023 due 09/01/2053

<i>Long Term Rating</i>	AA+/Stable	New
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating and 'AA-' underlying rating to Lowell, Mass.' \$72.910 million general obligation (GO) state qualified municipal purpose loan of 2023 bonds.
- The outlook is stable.

Security

Lowell's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. We base our 'AA' long-term rating on the bonds' eligibility under the Commonwealth's Chapter 44A Qualified Bond Act. The Massachusetts' Municipal Finance Oversight Board has authorized the city to issue bonds or notes as commonwealth-qualified bonds. Under the Qualified Bond Act, the state treasurer pays debt service directly to the paying agent and withholds the amount of the payment from the borrower's annual state aid appropriation, which it receives monthly. The rating is on par with Massachusetts' GO debt and will move in tandem with the state GO rating. The 'AA-' underlying rating reflects the city's credit quality.

Proceeds from this issuance will refund \$21.8 bond anticipation notes outstanding and finance various new capital projects, the largest of which is for Lowell High School, at \$30 million.

Credit overview

Lowell serves as a gateway city and a hub for the broader region participating in the broad and diverse Boston metropolitan statistical area (MSA). Its economy centers on education and health services, but also benefits from manufacturing, trade, and professional services employment. The city has seen revitalization of several of its downtown parcels and industrial parks, which have catered to new development and tax base growth. This has provided unused levy capacity, which has allowed management to maintain steady budgetary performance while also providing flexibility to manage capital and debt needs. The city benefits from strong management and its conservative budgeting practices. Following a strong surplus in fiscal 2021, the city appropriated some of its reserve balances toward nonrecurring capital, and in fiscal 2022, into the city's enterprise accounts. Reserves remain adequate to strong, and the city is projecting a sizable surplus in fiscal 2023 as a result of solid revenue variances, particularly in investment income. The city also saw favorable expenditure variances of upward of \$6.8 million.

The 2024 operating budget for all major fund totals \$549 million, an increase of \$47.4 million, or 9.4% over the previous year. Most of the increase relates to expenditures in education, other fixed costs, and state assessments.

Supporting the budget is additional state funding of \$27.7 million following the implementation of the Student Opportunity Act, which substantially benefits its school department. The city is also assuming a 3.5% property tax levy increase. State aid and property taxes make up 51% and 36% of general fund revenues, respectively.

The city's direct debt totals \$410 million between the government and enterprise funds. Future debt issuances consist of bonds for a new high school, and water and sewer infrastructure. The total debt authorized is \$392.5 million. The Lowell High School project (authorization of \$245.2 million) has an expected completion date set for fall 2026. The city and commonwealth will share the cost of the high school, with Lowell ultimately responsible for 20% of project costs. We believe sizable unfunded retirement liabilities will continue, driving costs upward and potentially pressuring operations if revenues don't keep pace. Rating maintenance is contingent on the city's ability to sustain structural balance and maintain reserves at current levels.

Additional rating factors supporting the 'AA-' rating include the city's:

- Below-average wealth and income indicators, although its economy benefits from its access to, and participation, in a broad and diverse MSA;
- Strong financial policies and practices under our Financial Management Assessment (FMA) methodology and strong institutional framework score;
- Stable budgetary performance and strong budgetary reserves and liquidity heading into fiscal year 2024; and
- Weak debt and contingent liability profile, reflecting a large pension and other postemployment benefits (OPEB) obligation.

Environmental, social, and governance

Our analysis of risk management, culture, and oversight incorporates a significant cyber attack on the city's digital infrastructure earlier this year. The attack proved to be disruptive to the city operationally, but so far has not had a significant financial impact. The city asserts that no sensitive or financial data was compromised, and that services to its main revenue and cost centers were prioritized and restored. The city is working with state and federal officials, and in the 2024 budget is accelerating capital investments to shore up its IT infrastructure. We will continue to monitor and incorporate any credit impact of this cyber attack on the city's management, financial measures, and debt and liability profile. Physical risks consist mainly of flooding in certain sections along the Merrimack River. However, we do not believe these infrequent occurrences pose an abnormal near-term credit risk for the community or its tax base. The city remains very active in resiliency planning and continually invests in infrastructure improvements to mitigate climate-related concerns. Social risks are neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view of Lowell's strong management practices and policies, which will likely continue, supporting strong budgetary performance and budgetary flexibility. We do not expect to change the rating during our two-year horizon.

Downside scenario

We could lower the rating if the city draws on its fund balance to weak levels, without a plan to replenish them.

Upside scenario

We could raise the rating over time if positive economic development were to continue, growing per capita market values to stronger levels. In addition, the city would need to maintain structural balance amid growing debt, pension, and OPEB costs, while sustaining strong budgetary flexibility and addressing its sizable unfunded OPEB liability.

For more information on Lowell, see our analysis, published June 13, 2023, on RatingsDirect.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.