



Conor Baldwin
Chief Financial Officer

Austin Ball
Deputy CFO

MEMORANDUM

TO: Thomas A. Golden, Jr., City Manager 
FROM: Conor Baldwin, Chief Financial Officer 
CC: Austin Ball, Deputy CFO
DATE: November 21, 2024

SUBJECT: **INFORMATIONAL** – Moody’s Investors Service Upgrades Lowell’s Credit Rating

I am very pleased to report that this past week, after a detailed presentation by members of the Administration to a team of credit analysts from Moody’s Investor Service, that the ratings agency has upgraded the City of Lowell’s credit rating from ‘A1’ to ‘Aa3’. This credit upgrade is a significant achievement for the finance team, and the City, as it recognizes the strong financial management of the city, but also the enormous economic development potential on the horizon for the City of Lowell. The work of the entire finance team, as well as the input of DPD, was instrumental in demonstrating the very strong financial management at City Hall, as well as the strong potential in the local economy. The increased credit rating to ‘Aa3’ will have a direct, financial impact on the city’s budget, as the city’s rating will help bolster competition on the sale of future general obligation debt and help to earn a lower interest rate on bonds, thereby reducing the city’s borrowing costs for large financial obligations, such as the remainder of the LHS construction project, and the \$175 million in sewer separation work to be financed over the next decade in the wastewater enterprise.

Moody’s Investor Service is among the world’s most respected, widely utilized sources for credit ratings, research, and risk analysis. Moody’s long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. The “Aa” category of their rating scale is among the highest possible rating for investment-grade obligations and obligations rated “Aa” are judged to be of high quality and are subject to very low credit risk.

In their credit report, an executive summary of which is attached for reference, Moody’s noted that “[t]he upgrade to Aa3 reflects the city’s commitment to strong fiscal management and willingness to tap unused levy capacity and raise property tax revenue when needed to maintain balanced operations. These fiscal practices along with a strong economic development trend set the city apart from other Massachusetts gateway cities and increases our expectation that the city will maintain a stable financial position over the long term.”



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According to the Moody’s report, “[g]overnance is a key rating driver given the strong fiscal policies, forecasting and transparency the city prioritizes to ensure balanced operations.” These comments reaffirm the financial practices supported by the City Council, such as the implementation of a new and improved digital budget book and revamped capital planning process. Furthermore, included with the analysis is a “rating outlook”, which considers the many exciting development projects, such as the Lowell Innovation Network Corridor project at UMass Lowell’s East Campus, and the many housing projects which are in various stages of development, as well as the development initiatives of the City Council and the Administration, such as the Transportation Overlay District (“TOD”). The report goes on to state that the “stable outlook incorporates the city’s growing economy that is expected to help generate growth in property tax revenue while the strong fiscal management will maintain balanced operations and a prudent capital plan.”

This recent development is great news for the City which affirms the Administrations focus on financial stewardship and proactive economic development over the past several years. Challenges remain for the City, primarily to continue to build reserves and control long-term liabilities, such as pension and OPEB costs. However, Moody’s stated that these budgetary pressures are not expected to weaken budgetary performance over the medium term and the rating will not be negatively impacted because of the pressure from long-term liabilities.

Please do not hesitate to let me know if there are any questions.

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades the City of Lowell, MA's issuer and GOLT ratings to Aa3; assigns stable outlook

20 Nov 2024

New York, November 20, 2024 -- Moody's Ratings (Moody's) has upgraded the City of Lowell, MA's issuer rating and rating on the city's general obligation limited tax (GOLT) bonds to Aa3 from A1. Concurrently, we have also assigned a stable outlook. The city has approximately \$384 million in outstanding general obligation debt outstanding.

The upgrade to Aa3 reflects the city's commitment to strong fiscal management and willingness to tap unused levy capacity and raise property tax revenue when needed to maintain balanced operations. These fiscal practices along with a strong economic development trend set the city apart from other Massachusetts gateway cities and increases our expectation that the city will maintain a stable financial position over the long term, albeit at levels below the Aa median.

RATINGS RATIONALE

The Aa3 rating reflects the city's growing economy with a healthy economic development pipeline and strong tax base growth. The city's resident income and wealth levels are below the US median but trending upward. The city's financial position is likely to remain stable with reserves and liquidity trending below the Aa medians but bolstered by strong fiscal management. The city's available fund balance ratio was 14.5% as of the end of fiscal 2023 with a projected surplus adding to reserves at the end of fiscal 2024.

Governance is a key rating driver given the strong fiscal policies, forecasting and transparency the city prioritizes to ensure balanced operations. The city's leverage (long-term liabilities ratio of 212% at the end of fiscal 2023) is expected to remain moderate given a recent increase in debt issuance for a new high school and water and sewer capital projects while the unfunded pension and OPEB liabilities remain manageable.

The Aa3 GOLT rating is placed at the same level as the issuer rating because of the city's full faith and credit pledge and the city's ability to override the Proposition 2 1/2 tax levy limit.

RATING OUTLOOK

The stable outlook incorporates the city's growing economy that is expected to help generate growth in property tax revenue while the strong fiscal management will maintain balanced operations and a prudent capital plan.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Increase in the available fund balance ratio to around 30%
- Significant increase in resident income and equalized value per capita
- Decline in leverage to around 200% of revenue

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of operating deficits
- Decline in the available fund balance ratio to around 10%
- Increase in the long-term liabilities ratio to 300%

LEGAL SECURITY

Lowell's bonds are backed by the city's full faith and credit general obligation limited tax pledge given that the debt service on the bonds has not been voted as excluded from the Proposition 2 1/2 tax levy limit.

PROFILE

Lowell is located 25 miles northwest of Boston and is approximately five miles south of the New Hampshire border. The city has a population of approximately 115,500 and is home to the UMass Lowell campus with a total enrollment of 16,959 and the Tufts Medicine-Lowell General Hospital. The city provides general government services including police and fire protection, solid waste disposal, water and sewer services, street maintenance, parks and recreation services, and preK-12 public education.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.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 on <https://ratings.moodys.com/rating-definitions>.

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Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

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

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

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