

New Issue: [Lowell \(City of\) MA](#)

**MOODY'S REMOVES NEGATIVE OUTLOOK AND ASSIGNS MIG 1 RATING TO CITY OF LOWELL'S (MA) \$2.5 MILLION BANS**

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**AFFIRMS A3 UNDERLYING RATING AFFECTING \$161 MILLION OUTSTANDING LONG-TERM GENERAL OBLIGATION DEBT; ENHANCED RATING OF Aa3 WITH STABLE OUTLOOK ALSO APPLIES**

Municipality  
MA

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Bond Anticipation Notes	MIG 1
<b>Sale Amount</b> \$5,000,000	
<b>Expected Sale Date</b> 06/24/08	
<b>Rating Description</b> Bond Anticipation Notes	

**Opinion**

NEW YORK, Jun 23, 2008 -- Moody's Investors Service has assigned a MIG 1 rating to the City of Lowell's (MA) \$2.5 million Bond Anticipation Notes, dated June 30, 2008 and payable September 19, 2008. Concurrently, Moody's has affirmed the city's A3 underlying long-term rating and removed the negative outlook, affecting roughly \$161 million in outstanding long-term debt. All of the city's rated outstanding long-term debt is authorized under the Commonwealth of Massachusetts' Qualified Bond Program (QBP), which is rated Aa3 with a stable outlook. The current note issue is secured by the city's limited tax pledge as debt service has not been voted exempt from the limitations of Proposition 2 1/2. The MIG 1 rating incorporates the city's demonstrated access to capital markets, its satisfactory underlying credit profile and the expectation that the notes will be permanently financed by bonds issued under the QBP. The A3 rating reflects the city's improving financial position, which remains strained but has begun to stabilize after several years of reserve draws, as well as a sizeable and growing tax base and a manageable debt profile with significant future borrowing plans. Removal of the negative outlook reflects the city's progress in effectively reversing the city's fiscal decline through implementing financial policies and generating positive operating results in fiscal 2007.

**COMMONWEALTH QUALIFIED BOND PROGRAM PROVIDES ENHANCED SECURITY**

The Aa3 rating and stable outlook assigned to the Commonwealth of Massachusetts' Qualified Bond Program reflects the inherent strength of the direct-pay arrangement authorized by state statute in which the State Treasurer makes debt service payments on qualified bonds and notes directly to a state-approved paying agent. The State Treasurer then withholds an amount equivalent to the debt service payment from the local unit's quarterly state aid payments. Moody's believes that the program's proven history of timely payments, sound mechanics and Lowell's ample 6 times (fiscal 2009, projected) coverage levels provide sufficient funds for timely debt service payments. The qualified bond program rating is linked to the Commonwealth of Massachusetts' strong credit rating of Aa2 with a stable outlook.

**SATISFACTORY HISTORY OF MARKET ACCESS**

The city received five bids on its most recent note sale dated September 21, 2007, four bids on its note sale dated June 28, 2007 and six bids on both its taxable and tax-exempt note sales dated September 22, 2006. All bids were from major regional and national financial institutions. Moody's expects that the city will continue favorable access to the note markets, indicating its ability to refund the notes, if necessary, at their September 2008 maturity.

**FINANCIAL POSITION STRENGTHENING AS NEW MANAGEMENT TEAM IMPLEMENTS POLICIES DESIGNED TO PROMOTE FISCAL STABILITY**

The city's financial position was seriously weakened by four consecutive significant draws on reserves, bringing the city's general fund balance to \$5 million, a very narrow 1.8% of general fund revenues in fiscal 2006 from a peak of \$30.2 million, a healthy 11.5% of revenues, in fiscal 2002. A new management team has

been appointed and has completed a thorough review of the city's finances and developing long-range financial forecasts, all guided by comprehensive financial policies incorporated in the fiscal 2008 budget. Operations in fiscal 2007 were positive and generated a \$5 million surplus, boosting general fund balance to \$10 million, a still slim 3.4% of revenues. Additionally, the fiscal 2006 \$2.2 million free cash deficit was reduced to roughly \$1 million in fiscal 2007 and management expects to eliminate the deficit at the close of fiscal 2008. Operations in fiscal 2008 are also expected to yield a surplus of at least \$1 million due primarily to surplus property tax collections and local receipt revenues. The budget for fiscal 2009 includes a 4.8% expenditure increase over the fiscal 2008 budget and is balanced with approximately \$2 million in additional solid waste user fees and property tax increases as allowed under Proposition 2 ½. Notably, the city has not reduced its comfortable \$5 million property tax levy capacity and plans to establish enterprise funds for water system and parking operations in fiscal 2009. Future rating reviews will focus on the city's ability to maintain positive operations and rebuild available reserves to comparable levels for similarly rated communities.

Favorably, the city has produced an updated five-year financial plan with reasonable assumptions for revenue and expenditure growth. While the 2009 budget is balanced, balancing future budgets without drawing on levy capacity is currently projected to result in multi-million dollar budget gaps through 2012; however it is not clear how much additional tax burden can be supported by Lowell's relatively weak socioeconomic profile. The city is currently near the commonwealth's required minimum funding level for the school system; any expenditure cuts would have to be imposed on other city departments. Despite recent improvements in fiscal management the city's financial flexibility may remain limited in the medium term. Additionally, no provision for significant replenishment of reserves is included in the current forecast; the city's ability to generate budget surpluses and replenish reserves will remain a critical credit factor going forward.

#### SIZEABLE TAX BASE EXPERIENCING STEADY GROWTH

Moody's anticipates that the city's \$7.3 billion tax base will continue to experience moderate economic expansion, although the weak regional residential real estate markets may cause moderate overall contraction in the short term. Annual tax base growth, which has averaged 11.5% since 2003, has slowed to 4.7% in fiscal 2008 and incorporates significant commercial redevelopment efforts in this mature urban center. Approximately \$140 million in private residential investment has revitalized the downtown area, leveraging favorable commuter rail and highway access at the crossroads of the Route 3 and I-495, and the recently completed state-funded Route 3 expansion has improved vehicular access to the city. The Hamilton Canal District multi-use development is expected to add \$395 million in taxable value (\$6.5 million in additional tax revenues) at the conclusion of its 10-year build-out in approximately 2018. New development activity was robust in fiscal 2008 with new growth revenue of \$2.98 million exceeding the five-year average of \$2.1 million but is lower than the fiscal 2005 value of \$3.3 million. Building permit activity in 2007 was strong at \$163 million, well above the five-year average of \$76 million. The city benefits from a large institutional presence with higher education facilities (including the 12,000-student University of Massachusetts-Lowell campus), hospitals and government facilities. Equalized value per capita is satisfactory at \$70,863, well above the US median of \$66,495 but far below the commonwealth median of \$121,705. Wealth and income levels remain below state and national averages, due in part to the student population.

#### MODERATE DEBT BURDEN WITH FUTURE BORROWING ANTICIPATED

Moody's anticipates that Lowell will continue to maintain a manageable debt position (2.3% of equalized value) given limited near-term borrowing needs, debt service support from enterprise funds and a history of substantial support from the commonwealth for school projects. Although the city has a moderate amount of debt outstanding, approximately 51% of total debt is associated with the significant \$200 million school facilities program undertaken over the last decade that the commonwealth reimburses at a rate of 90%. The adjusted debt position falls to 1.6% of equalized valuation after accounting for the self-supporting sewer enterprise system as well. The city's updated capital improvement plan identifies \$5.5 million in capital needs to be financed in fiscal 2009, with approximately \$2.2 million in water system upgrades to be supported by the water fund, and the \$3.3 million remainder of general fund obligations funding vehicle, boiler, and HVAC system replacement in city buildings. While debt service claimed an above-average 7.8% of general fund expenditures in fiscal 2007, outstanding obligations are amortized at a rapid rate of 73.2% in 10 years, leaving sufficient capacity for future borrowing in fiscal 2010 and beyond in support of the city's updated \$46 million capital improvement plan.

Of the city's \$150 million in authorized but unissued debt approximately \$73 million has been approved for water and wastewater system improvements, including ongoing combined sewer overflow projects, and the city is expected to continue to leverage favorable borrowing terms through the commonwealth's Massachusetts Water Pollution Abatement Trust revolving fund (rated Aaa/stable outlook). The wastewater debt is expected to be fully supported by wastewater enterprise revenues. Approximately \$40 million of the authorizations represent school projects, however under the Massachusetts School Building Authority's (MSBA sales tax bonds rated Aa2/stable outlook) new project guidelines, the city is expected to issue only its share of the project cost, estimated at roughly \$4 million, instead of the full cost including the commonwealth's share as was the historical practice. Moody's believes Lowell will be able to maintain a favorable debt position despite the anticipated need for significant city investment for future capital and development efforts.

#### KEY STATISTICS

2006 population (estimated, US Census): 103,229 (-1.8% since 2000)

1999 Per Capita Income: \$17,557 (67.7% of commonwealth, 81.3% of nation)

1999 Median Family Income: \$45,901 (74.4% of commonwealth, 91.7% of nation)

2007-8 Equalized Value: \$7.32 billion

2007-8 Equalized Value Per Capita: \$70,863

Average Annual Growth, Equalized Value (2002-2008): 15.2%

Adjusted Debt Burden: 1.6%

2007 General Fund Balance: \$10.3 million (3.4% of General Fund Revenues)

2007 Undesignated General Fund Balance: \$1.9 million (0.6% of General Fund Revenues)

Tax Levy Margin (FY 2008): \$5 million

Outstanding Long-term General Obligation Debt: \$161 million

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