

Rating Action: Moody's downgrades Holyoke, MA's issuer and GOLT ratings to A2

13 Dec 2022

New York, December 13, 2022 -- Moody's Investors Service has downgraded to A2 from A1 the City of Holyoke, MA's issuer rating and general obligation limited tax (GOLT) rating on the city's outstanding bonds. The issuer rating reflects the city's ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features. This action concludes the review for possible downgrade initiated on November 3, 2022 in conjunction with the release of the US Cities and Counties Methodology. The city has approximately \$62 million in debt outstanding.

RATINGS RATIONALE

The downgrade of the issuer rating to A2 reflects the rating factors and metrics associated with the new US Cities and Counties Methodology. Specifically, the rating incorporates below-average economic metrics including resident income and wealth. Economic and tax base growth has struggled coming out of the great recession, although recent years has seen healthy growth in the tax base. The long term economic challenges contribute to a satisfactory financial position with low reserves and liquidity for the rating category. The rating also reflects manageable leverage and associated fixed costs although the capital asset depreciation ratio is high indicating a large amount of deferred maintenance and a future potential cost shift in leverage. Governance is also a key driver given adverse opinions in the city's financial audit and other internal control challenges.

Holyoke's economy is based in the Springfield metropolitan statistical area. The city continues to see expansion in the residential sector from new development projects and appreciation. The commercial and industrial sectors have recently benefited from the expansion of the Cannabis industry's cultivation, manufacturing and distribution. The city's resident income is below average with median household income adjusted for regional price parity equal to 66.8% of the US median.

The financial position is likely to remain stable over the next few years as the new mayor and management team adheres to a structurally balanced fiscal 2023 budget. The city is also focused on governance and addressing auditor findings and an adverse opinion in the fiscal 2021 audit. Some of which have already been addressed in fiscal 2022 and year to date fiscal 2023. The fiscal 2021 draft audit reflects positive operations that will increase available fund balance to around \$31 million equal to almost 15% of revenue.

Holyoke's leverage is expected to remain manageable given long-term liabilities ratio of 280.5% of revenue as of the latest fiscal 2020 audited information. The debt burden is low, representing only 10% of the total liabilities while the adjusted net pension and adjusted net OPEB liabilities represent 43% and 45%, respectively. Additionally, the city's capital asset depreciation ratio of 78.6% is high and reflects a large amount of deferred maintenance. The city is part of a multi-employer pension plan that currently assumes a 7.25% discount rate and 2035 funding date. Annual pension contributions are scheduled to increase by just over 3% annually.

The A2 rating on the city's GOLT bonds is the same level as the issuer rating because the city has pledged its full faith, credit and taxing authority for repayment of the bonds.

RATING OUTLOOK

Outlooks are usually not assigned to local governments with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material increase in available fund balance and liquidity as a percent of revenue
- Significant increase in resident income and equalized value per capita

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Decline in available fund balance and liquidity
- Material increase in the unfunded pension or OPEB liabilities

LEGAL SECURITY

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

USE OF PROCEEDS

Not applicable

PROFILE

Holyoke is located eight miles northwest of Springfield, MA (A2 stable) and encompasses approximately 21.2 square miles with a population of around 40,160. The city is primarily residential. The city provides general government services including police, fire, garbage removal, K-12 education, water and sewer services, streets, and parks and recreation.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386953>. 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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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://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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