



Rating_Action: Moody's upgrades Providence, RI's issuer and GO ratings to A3 and lease debt to Baa1; outlook stable

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New York, March 13, 2023 -- Moody's Investors Service has upgraded the City of Providence, RI's issuer rating to A3 from Baa1. Concurrently, Moody's has upgraded to A3 from Baa1 the rating on the city's outstanding general obligation unlimited tax (GOULT) bonds and upgraded to Baa1 from Baa2 the ratings on the Rhode Island Health and Educational Building Corporation (RIHEBC), Providence Public Building Authority (PPBA), and Providence Redevelopment Agency (PRA) lease revenue bonds. The city has approximately \$749.9 million in debt outstanding. The outlook is stable.

RATINGS RATIONALE

The upgrade of the issuer rating to A3 reflects a stable but still limited financial position with modestly improved reserves, a diverse economy anchored by education and health services and government employment as well as below-average resident income and wealth. The rating upgrade also incorporates sound fiscal management that includes an 11-year trend of pension contributions equal to the actuarial determined contribution reflecting the city's commitment to addressing its unfunded long-term pension liability. Although, despite the funding commitment, the very low funded ratio and large size of the unfunded pension liability remains a significant long-term risk. The city's leverage and fixed costs ratio are likely to remain high driven by the pension and OPEB liabilities, while the debt burden remains stable.

The GOULT bonds are placed at the same level as the issuer rating. The bonds are backed by the city's unlimited property tax pledge. The bonds also benefit from state legislation passed in 2011 that provides a statutory lien on ad valorem taxes and general fund revenues, giving priority to payment of GO debt in bankruptcy.

The Baa1 rating on the RIHEBC, PPBA, and PRA bonds are one notch lower than the city's issuer rating reflecting the need to appropriate det service annually, the essentiality of the projects financed and the legal structure.

RATING OUTLOOK

The stable outlook reflects the city's diverse economy that is expected to support sufficient revenue raising ability to maintain balanced financial operations and continue the city's funding commitment to reduce the unfunded long-term liabilities.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material decline in leverage as a percent of revenue
- Significant growth in pension assets and the funded ratio
- Increase in the available reserves as a percent of revenue

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Increase in leverage as a percent of revenue
- Failure to contribute at least the actuarial determined contribution towards the pension liability
- Trend of pension assets underperformance
- Decline in available reserves

LEGAL SECURITY

GO bonds are backed by the city's general obligation unlimited tax pledge. The bonds also benefit from state legislation passed in 2011 that provides a statutory lien on ad valorem taxes and general fund revenues, giving priority to payment of GO debt in bankruptcy.

The Rhode Island Health and Educational Building Corporation (RIHEBC) bonds are secured solely by a pledge of payments made by the Providence Public Building Authority (PPBA or authority) under the financing agreement between the two parties. Loan payments to RIHEBC are scheduled to be sufficient to pay the principal, sinking fund installments and redemption price of and interest on the bonds. The PPBA's loan payments are made from lease payments the PPBA receives from the City of Providence. Security for the lease obligation between the PPBA and the City of Providence is provided by a pledge of lease rental payments made by the city to the authority. Under the lease agreement, the lease rental payments by the city are subject to and dependent upon annual appropriation. The authority has no taxing power of its own. The authority is required to maintain a debt service reserve (except for Series 2010 A & B) equivalent to maximum annual lease payments, which can be tapped if the city fails to make a payment sufficient to cover its lease payment. Further, the RIHEBC bonds benefit from a monthly pay Intercept Program which is a state-backed enhancement program. The program allows RIHEBC to request an intercept of basic education aid from the General Treasurer of the state. Additionally, security is provided by payment of School Housing Aid (82% of debt service) directly to RIHEBC's trustee from the State.

The PPBA and PRA bonds are secured by the agencies' respective pledges to annually appropriate lease payments equal to debt service on the bonds and by liens on pledged collateral, which is comprised of various city buildings, primarily schools and public safety facilities. Under the lease agreements, these lease rental payments by the city are subject to annual appropriation. The PPBA and PRA have no taxing powers of their own. These bonds are issued under Master Trust Indentures pursuant to separate lease agreements with the city. All outstanding PPBA and PRA debt is fully collateralized by city assets. In the event of default, the Trustee is granted power to sell such real property as may be allowed for cure.

PROFILE

Providence is the third largest city in New England and the capital of Rhode Island. The city is home to several prominent higher education and health care institutions and serves as a regional economic center. The city's population is around 188,812. The city provides municipal services including police, fire, sanitation, parks and recreation, and public education for grades K-12. Water service is provided by the Providence Water Supply Board, an enterprise of the city.

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.

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Nicholas Lehman
Lead Analyst
REGIONAL_NE
Moody's Investors Service, Inc.
101 Arch Street
Boston 2110
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Christopher Coviello
Additional Contact
REGIONAL_NE
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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