

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 to Flint EDC's Limited Obligation Revenue Refunding Bonds, Series 2022 (State of Michigan Department of Health and Human Services Office Building Project)

28 Jul 2022

New York, July 28, 2022 -- Moody's Investors Service has assigned a Aa3 rating to the approximately \$6.6 million Limited Obligation Revenue Refunding Bonds, Series 2022 (State of Michigan Department of Health and Human Services Office Building Project) issued by the Economic Development Corporation of the City of Flint. The bonds are expected to be priced on August 9. The outlook is stable.

RATINGS RATIONALE

The rating, two notches below the state's issuer rating, incorporates the need for annual legislative appropriation of funds for lease payments as well as the additional complexity caused by the role of a private developer in the financing. The rating is supported not only by legal features that mitigate these risks but also by the very essential nature of the financed facility - an office building for the state's Department of Health and Human Services.

RATING OUTLOOK

The state's stable outlook incorporates governance practices that make Michigan likely to respond rapidly to developing economic or fiscal challenges, and the fact that the state's economy, while still linked to the automobile manufacturing industry, has become increasingly diversified.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Upgrade of the state's issuer rating
- Elimination of non-governmental third-party entity from the transaction

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Downgrade of the state's issuer rating
- Indications of decreased likelihood of timely appropriations for debt service

LEGAL SECURITY

The bonds are supported by lease payments to be made by the state's Department of Health and Human Services. Payments are subject to annual legislative appropriation. The underlying facility lease is subject to abatement risk or cancellation under certain circumstances that we consider to be very unlikely and, in the case of cancellation due to damage or destruction of the facility, mitigated by required property, liability and business interruption insurance.

USE OF PROCEEDS

The offering will refinance previously issued bonds that financed construction of a Department of Health and Human Services office building Flint, Michigan.

PROFILE

The Economic Development Corporation of the City of Flint is a public corporate entity created under state law and incorporated by the city of Flint (unrated since 2006). It is a separate legal entity from the city with its own board of directors. It is authorized to issue bonds and to use the proceeds for various purposes, including to finance commercial projects. In 2011, it issued bonds for the state's Human Services Office Building Project, which will be refinanced by the current transaction. The EDC serves as lessor (and project owner for the term of the lease).

The Department of Health and Human Services is a division of the state government's executive branch that uses a network of field offices to deliver critical state programs including Medicaid, behavioral health services, psychiatric hospitals, public health programs, child welfare services and public assistance. The department's spending accounts for about 45% of the state's total budget (\$33 billion in fiscal 2023, according to the governor's proposed budget).

METHODOLOGY

The principal methodology used in this rating was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/api/rmc-documents/356901> . 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 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 .

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