

Rating Action: Moody's Assigns Aa3 to new LA GO Bonds and Affirms GO and Related Ratings; Outlook Negative

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New York, March 13, 2017 -- Issue: General Obligation Bonds Series 2017-A; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: \$179,615,000; Expected Sale Date: 03/22/2017; Rating Description: General Obligation;

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to Louisiana's approximately \$180 million General Obligation Bonds Series 2017-A, and affirmed the Aa3 on outstanding state general obligation bonds. Lease appropriation bonds have been affirmed at A1, A2 and A3. The new issue bonds are expected to price on March 22. Concurrently, Moody's has affirmed the Aa2 rating on Louisiana Gas and Fuels Tax senior lien bonds, the Aa3 on the Louisiana Gas and Fuels Tax subordinate lien bonds, and the A1 rating on the State Highway Improvement Fund bonds. The affirmation of the GO rating recognizes that while the state's financial circumstances remain stressed, the state is unlikely to experience sharp deterioration in liquidity and has time and motivation to address large budget gaps that emerge in fiscal 2019. The Aa3 rating level incorporates the state's large and diverse tax base, moderate combined debt and pension burden and adherence to financial best practices. The rating also reflects the economic and revenue strain created by the continuing low oil price environment, the impact of tax rate sunset provisions leading to a significant budget gap in fiscal 2019, and the cumulative effects of years of structural imbalance on the state's reserves and liquidity. The affirmation of the Gas and Fuels Tax Bonds and State Highway Improvement Fund Bonds reflects the credit strength of these bonds based on their special tax pledges, as well as their link to the financial and economic condition of the state. Their ratings are tied to the state's GO rating and carry the state's negative outlook. The senior lien Gas and Fuels Tax bonds are capped at one notch higher than the state's rating.

Rating Outlook

The negative outlook on the state's GO reflects continuing risks regarding a fiscal cliff looming in fiscal 2019 as tax increases roll off, uncertain revenue forecasts, implementation challenges and legislative reluctance to enact significant changes to the state's revenue structure.

Factors that Could Lead to an Upgrade

Increased diversification of the economy leading to more stable economic growth

Recurring and sustainable actions to address economic and revenue declines

Establishment of reserve funds commensurate to the risk associated with oil and gas industry volatility

Factors that Could Lead to a Downgrade

Inability to balance budgets with preponderance of recurring actions

Significant deterioration in liquidity

Legal Security

The GO bonds are general obligations of the State of Louisiana and are backed by the state's full faith and credit. Lease bonds are backed by cooperative endeavor agreements making debt service payments subject to annual legislative appropriation. Special tax bonds are backed by pledges of certain gas and fuels taxes (Gas and Fuels Tax bonds) or vehicle registration fees and taxes on trucks and trailers (State Highway Improvement Fund bonds).

Use of Proceeds

The proceeds of the bonds will be used for various capital purposes of the state.

Obligor Profile

Louisiana is the 25th largest state by population, at 4.6 million. Its state gross domestic product is 34th largest. The state's has below average wealth, with 2016 per capita personal income equal to 88% of the US level and the third highest poverty rate among states.

Methodology

The principal methodology used in the general obligation rating was US States Rating Methodology published in April 2013. The principal methodology used in the lease-backed rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. The principal methodology used in the special tax rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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