MOODY'S INVESTORS SERVICE

Rating Action: Moody's revises to positive Louisiana's outlook on GO, appropriation, and state hwy impv bonds, affirms all outstanding ratings

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New York, September 17, 2019 -- Moody's Investors Service has affirmed the Aa3 on the state of Louisiana's outstanding general obligation bonds. The lease appropriation Custodial Receipts, New Orleans Federal Alliance Project bonds, Capitol Complex Program bonds, Economic Development Project bonds, 1-49 North Project & 1-49 South Project bonds, Hurricane Recovery Program bonds and the Tollroad Refunding bonds have been affirmed at A1. The lease appropriation LCTCS Facilities Corporation Project bonds, BRCC Facilities Corporation Project bonds, Millennium Housing L.L.C. bonds, and the South Louisiana Facilities Corporation Project bonds have been affirmed at A2. 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 bonds. Except for the Gas and Fuels Tax bonds, the rating outlook on all the bonds has been revised to positive from stable. The rating outlook on the Gas and Fuels Tax senior and subordinate lien bonds remains stable.

RATINGS RATIONALE

The Aa3 general obligation rating reflects the state's large and diverse tax base and moderate combined debt and pension burden. The state follows solid governance practices that include consensus revenue forecasting and debt affordability analysis and debt limitations among other strengths, which are somewhat offset by weaknesses such as supermajority requirements for tax increases and other constraints that reduce financial flexibility. The rating is lower than the average state rating because it also reflects the state's vulnerability to the volatility in the energy sector and its below average socioeconomic profile, including slow population growth, low per capita personal income and low labor force participation rate.

The A1 rating on certain appropriation bonds are one notch off the state GO rating, reflecting the essentiality of the funded projects to state government and strong legal security. Remaining lease transactions are rated A2 and are structured as lease payments made by the state to the trustee under cooperative endeavor agreements (CEAs), subject to appropriation (see above for enumeration of A1 and A2 rated lease appropriation bonds). While benefiting from the essentiality of projects financed, the strength of the state's appropriation pledge and its history of fulfilling commitments under CEAs, these transactions are structured with greater complexity and involve nonprofit entities in lease arrangements. This somewhat weakens the legal structure by introducing potential risk related to the colleges whose projects the transactions finance, warranting an additional notch off the state rating. The nonprofits are limited in purpose and each is controlled by the community college it benefits.

The Aa2 rating on the Gas and Fuels Tax senior lien bonds, the Aa3 rating on the Gas and Fuels Tax subordinate lien bonds, and the A1 rating on the State Highway Improvement bonds reflect the credit strength of these bonds based on their respective special tax pledges, as well as their link to the financial and economic condition of the state.

RATING OUTLOOK

The positive rating outlook on the GO, lease, and State Highway Improvement bonds reflects the significant improvement in the state's financial position, its recent record of closing budget gaps with recurring solutions, and relative stabilization of its economy. We expect the state to continue to balance its budget with a preponderance of recurring actions but we also expect its reserves to continue to fall short of a cushion commensurate with a volatile economic base.

The stable rating outlook on the Gas and Fuels Tax bonds reflects our expectation that stagnant gas tax revenues will hinder meaningful improvements in coverage of debt service by pledged revenues.

FACTORS THAT COULD LEAD TO AN UPGRADE

For general obligation debt:

- Long term growth and diversification of the state economy that offsets the volatility of the energy sector

- Sustained trend of structural budget balance with continued strengthening of reserves and liquidity

For appropriation-backed debt:

- Upgrade of state GO rating

For special tax backed debt:

- Upgrade of state general obligation rating combined with material improvement in coverage of debt service by pledged revenue (specifically by Act 16 portion of the gas tax for the gas and fuels tax bonds)

FACTORS THAT COULD LEAD TO A DOWNGRADE

For general obligation debt:

- Inability to balance budgets with preponderance of recurring actions leading to liquidity drain and shrinking budgetary reserves

- Prolonged deterioration of key economic indicators, including population, employment and income

For appropriation-backed debt:

- Downgrade of state GO rating or failure to appropriate or pay debt service on bonds

For special tax backed debt:

- Downgrade of state general obligation rating or deterioration of coverage by pledged revenues

LEGAL SECURITY

The GO bonds are general obligations of the State of Louisiana and are backed by the state's full faith and credit. Both A1 and A2-rated appropriation 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 bonds).

PROFILE

Louisiana is the 25th largest state by population, at 4.7 million. Its state gross domestic product is 24th largest. The state has below average wealth, with 2018 per capita personal income equal to 85% of the US level and the highest poverty rate among states.

METHODOLOGY

The principal methodology used in the general obligation ratings was US States and Territories published in April 2018. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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