

Rating Action: Moody's upgrades City of New Orleans, LA GO to A2; outlook stable

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Assigns A2 to new \$50 million GOULT bonds

New York, September 10, 2019 -- Moody's Investors Service has upgraded to A2 from A3 ratings for the City of New Orleans, LA's general obligation unlimited tax (GOULT) and limited tax (GOLT) debt. At the same time, Moody's has assigned an A2 rating to the city's \$50 million Taxable Public Improvement Bonds, Issue of 2019. The outlook is stable. Post sale, the city will have \$574 million in outstanding unlimited tax debt, all rated, and \$145.3 million in rated outstanding limited tax debt.

RATINGS RATIONALE

The upgrade to A2 reflects the city's consistent trend of economic growth which has led to increased revenues and an improved financial position. The upgrade further incorporates the city's large and growing tax base and economy which benefits from the presence of several institutions of higher education and a thriving tourism industry. Investments of over \$14 billion by the federal and state governments along with the city have boosted the city's resilience to environmental risks, as well as continued strategic planning for further capital improvements to mitigate the impact of environmental events. These initiatives on top of the city's improved financial profile positions the city as better prepared to manage future challenges associated with its significant exposure to environmental risks. The A2 rating remains constrained by weaker resident income levels, reserves, that though improved, remain weak compared to peers, and moderate long term liabilities including debt and pensions drive high fixed costs.

The lack of rating distinction between the GOULT and GOLT ratings reflects the ample taxing headroom which provides more than two times debt service coverage of all parity GOLT debt. The rated GOLT debt is secured by the city's constitutional millage which supports operations. Per state law, upon reassessment, millages must be set to be at least revenue neutral, providing some stability to the pledged revenue stream.

RATING OUTLOOK

The stable outlook reflects the expectation that the growing economy and tax base and management's willingness to maintain adequate reserve levels and balanced operations despite budgetary challenges such as high fixed costs and public safety and infrastructure needs will allow the credit profile to remain stable.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Continued balanced operations and material improvement in reserve levels
- Significant expansion and diversification of the local economy
- Improved funding levels of pension liabilities resulting in more moderate long-term liabilities and fixed costs

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Structurally imbalanced operations driving a deterioration in reserves
- Substantial debt issuance absent corresponding tax base and revenue growth

LEGAL SECURITY

The bonds are secured by the city's full faith and credit as well as a special dedicated unlimited tax pledge. Additionally, the bonds are secured through state statute.

USE OF PROCEEDS

Proceeds will be used for various capital improvements throughout the city including street repairs.

PROFILE

New Orleans was founded in 1718, incorporated in 1805, and with an estimated population of 388,182 as of 2017 is the largest populated city in the state. The city is located in the southeastern portion of the state and lies along the Mississippi River near the Gulf of Mexico. The city's economy is driven by tourism, trade, health care, and higher education.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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