

Rating Action: Moody's upgrades Louisiana issuer rating to Aa2 from Aa3, upgrades most related credits and revises outlook to stable

25 May 2022

New York, May 25, 2022 -- Moody's Investors Service has upgraded Louisiana's issuer rating to Aa2 from Aa3. In conjunction with this action, Moody's upgraded the state's outstanding general obligation bonds to Aa2 from Aa3 and upgraded to Aa3 from A1 the ratings on the lease appropriation Custodial Receipts, Louisiana Transportation Authority bonds, New Orleans Federal Alliance Project bonds, Louisiana State Capitol Complex Program bonds, I-49 North Project & I-49 South Project (Unclaimed Property Special Revenue) bonds, Hurricane Recovery Program bonds and the Tollroad Refunding bonds. Moody's also upgraded to A1 from A2 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. Moody's upgraded to Aa3 from A1 the state's tax-backed State Highway Improvement Revenue bonds. The state's issuer rating outlook and the outlook for the State Highway Improvement Revenue bonds were revised to stable. Concurrently, Moody's affirmed the Aa2 and Aa3 ratings on the state's Gasoline and Fuels Tax bonds. The rating outlook on the Gasoline and Fuels Tax bonds is stable. The action affects approximately \$8 billion in debt.

RATINGS RATIONALE

The upgrade to Louisiana's issuer rating reflects the significant progress the state has made restoring its financial reserves and liquidity in recent years by structurally aligning revenue and spending, despite a generally declining trend and volatility in gas and oil production and unfavorable demographic trends.

The Aa2 issuer rating reflects the state's large and diverse tax base and moderate combined debt and pension burden. The rating also incorporates the state's vulnerability to the volatility in the energy sector and its exposure to social risks, including slow population growth, low per-capita personal income and a low labor force participation rate, and its above-average exposure to environmental risk, particularly hurricanes and flooding.

The state's Aa2 general obligation rating is at the same level as the issuer rating as the state pledges its full faith and credit to the bonds.

The Aa3 ratings on certain appropriation bonds are one notch below the state issuer rating, because of the essentiality of the funded projects to state government and moderate legal security. Remaining lease appropriation transactions are rated A1, a two-notch distinction reflecting the essentiality of projects financed and the greater complexity of transactions that involve nonprofit entities in lease arrangements, exposing the bonds to bankruptcy risk and weakening the legal security.

The Aa3 rating on the State Highway Improvement Revenue bonds is based on strong legal protections to bondholders and a record of stable to improving revenue collections of the state's pledged truck and trailer registration fees.

The Aa2 rating on the Gasoline and Fuels Tax First Lien Revenue bonds is based on strong legal provisions that include constitutional protections of revenues for transportation purposes, no appropriation risk and healthy current coverage by pledged revenues. The senior lien on pledged revenues is closed.

The Aa3 rating on the Gasoline and Fuels Tax Second Lien Revenue bonds is supported by the same strong legal provisions as the First Lien bonds, offset by greater exposure in the flow of funds to the requirement that a portion of the pledged revenues must first flow through the state's Bond Security and Redemption Fund. The transportation-related revenues pledged to the First and Second Lien Revenue bonds are tied to the energy-dependent state's volatile economy and its financial condition.

RATING OUTLOOK

The state's stable outlook reflects its powers to balance its budget in response to economic shocks and cautious financial management practices that help mitigate the state's exposure to financial volatility and weak

economic fundamentals.

The stable rating outlook on the State Highway Improvement Revenue bonds reflects our expectation that revenue trends will continue to provide adequate and stable coverage of debt service.

The stable rating outlook on the Gasoline and Fuels Tax bonds reflects our expectation that revenue trends will continue to provide adequate and stable coverage of debt service

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the issuer rating:

- Long-term growth and diversification of the state economy
- Changes in state, legal and institutional structures to promote greater financial flexibility and allow accumulation of more significant reserves

For general obligation debt:

- Upgrade of the issuer rating

For appropriation-backed debt:

- Upgrade of state issuer rating

For State Highway Improvement Revenue debt:

- Upgrade of state issuer rating combined with material improvement in coverage of debt service by pledged revenue

For Gasoline and Fuels Tax debt:

- Upgrade of state issuer rating combined with increase in coverage of debt service by revenues

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For issuer rating:

- Failure 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 general obligation debt:

- Downgrade of Louisiana's issuer rating

For appropriation-backed debt:

- Downgrade of state issuer rating or indications of a weakening commitment to timely legislative debt service appropriations

For State Highway Improvement Revenue debt:

- Deteriorating coverage of debt service by pledged revenue

For Gasoline and Fuels Tax debt:

- Downgrade of state issuer rating or unfavorable revenue trends

LEGAL SECURITY

General obligation bonds are secured by the full faith and credit of the state of Louisiana.

Lease appropriation bonds are backed by cooperative endeavor agreements making debt service payments subject to annual legislative appropriation.

Special tax State Highway Improvement Revenue bonds are secured by an irrevocable pledge of statewide collections of truck and trailer licensing fees and taxes, which are not subject to legislative appropriation.

Special tax Gasoline and Fuels Tax bonds are secured by constitutionally protected pledge of a tax on gas, motor and special fuels.

PROFILE

Louisiana is the 25th-largest state by population, at 4.6 million. Its state gross domestic product is 26th largest. The state has below-average wealth, with 2021 per-capita personal income equal to 86% of the US level, and has among the highest poverty rates in the country.

METHODOLOGY

The principal methodology used in the issuer rating, general obligation ratings, and lease ratings was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/api/rmc-documents/356901>. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at <https://ratings.moodys.com/api/rmc-documents/70024>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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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