

CITY OF SHREVEPORT

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PRESS RELEASE

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Stagnant Revenues and Lack of Economic Growth Cited in City's General Obligation Bond Downgrade

The City of Shreveport was informed today by Moody's Investors Service of a downgrade to its General Obligation Bond Rating to A3. This downgrade does not affect the status of its revenue bonds. General Obligation bonds were last voted on in 2011 and have been issued since that time to conduct various infrastructure improvements throughout the City.

"This downgrade will not affect the City's ability to continue infrastructure improvements," said Mayor Ollie S. Tyler.

A major contributing factor to the downgrade was that the local economy has been limited due to weakness in the energy sector. Moody's noted that "ongoing development was minimal... absent economic recovery and new development; the city's tax base will likely remain sizeable but stagnant." Moody's also noted that "the negative outlook reflects the expectation that the city will be challenged to rebuild liquidity absent economic growth given a reliance on economically sensitive revenues and increasing fixed costs."

Moody's has provided the City with factors that could lead to an upgrade that include; material improvement in liquidity with sustained balanced operations and improvement in resident income levels and employment trends.

Mayor Tyler said the City will evaluate the recommendations of Moody's and continue efforts to improve its fiscal condition.

-Shreveport-

CREDIT OPINION

25 August 2017

Update

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Shreveport, LA

Rating Update - Moody's Downgrades Shreveport's (LA) GOULT to A3; Assigns Negative Outlook

Summary Rating Rationale

Moody's Investors Service has downgraded the City of Shreveport's, LA outstanding general obligation bonds to A3 from A2 and assigned a negative outlook. The action affects \$177.6 million in outstanding rated debt.

The downgrade to A3 reflects the city's limited liquidity position, reliance on economically sensitive revenues which have softened, and elevated long term liabilities with growing fixed costs. The rating also incorporates the city's sizeable and stable tax base which benefits from institutional presence but remains challenged by the softened energy sector coupled with weak income and employment trends.

Credit Strengths

- » Sizeable tax base is relatively stable despite weakness in oil and gas industry
- » Institutional presence in region with large Air Force base, several universities, and significant state employment

Credit Challenges

- » Very limited liquidity
- » Weak income and employment trends
- » Elevated long term liabilities with high and growing fixed costs

Rating Outlook

The negative outlook reflects the expectation that the city will be challenged to rebuild liquidity absent economic growth given a reliance on economically sensitive revenues and increasing fixed costs. Inability to maintain structurally balanced operations while increasing pension contributions could result in negative rating action.

Factors that Could Lead to an Upgrade

- » Material improvement in liquidity with sustained balanced operations
- » Improvement in resident income levels and employment trends

Factors that Could Lead to a Downgrade

- » Continued erosion of liquidity and fund balance

- » Trend of tax base contraction
- » Debt issuance absent tax base growth

Key Indicators

Exhibit 1

Shreveport (City of) LA	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 13,106,704	\$ 13,273,988	\$ 13,375,262	\$ 13,591,787	\$ 13,602,121
Full Value Per Capita	\$ 65,501	\$ 66,134	\$ 66,646	\$ 67,954	\$ 68,975
Median Family Income (% of USMedian)	76.1%	75.6%	75.8%	74.0%	74.0%
Finances					
Operating Revenue (\$000)	\$ 242,095	\$ 235,024	\$ 241,049	\$ 235,155	\$ 245,432
Fund Balance as a % of Revenues	22.8%	24.5%	29.2%	28.1%	25.8%
Cash Balance as a % of Revenues	8.1%	5.8%	10.6%	7.5%	2.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 220,773	\$ 196,330	\$ 313,756	\$ 281,864	\$ 260,676
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	1.3x	1.2x	1.1x
Net Direct Debt / Full Value (%)	1.7%	1.5%	2.3%	2.1%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.5x	2.6x	2.6x	2.7x	2.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	4.6%	4.6%	4.6%	4.6%	5.0%

Source: City of Shreveport Comprehensive Annual Financial Reports, Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Local Economy Stagnant and Limited by Weakness in Energy Sector

Shreveport's local economy will remain stagnant, because growth will be limited due to weakness in the energy sector, a major contributor to the economy. However, the area benefits from institutional presence in the region. Located in the northwest corner of the state near the Arkansas/Louisiana/Texas border, the city encompasses 118 square miles. As natural gas prices have remained low, reduced drilling activity in the Haynesville Shale has weakened the overall local economic trends, and riverboat gaming has also softened. Offsetting some of this weakness is the presence of Barksdale Air Force Base in nearby [Bossier City](#) (Aa3 lawfully available funds rating) which employs 11,000 people in the region, several universities and colleges, significant state government employment (12,000), and a strong health care sector for the region. Despite stability in these other sectors, overall demographic and employment trends remain a weakness for the credit. The population has increased modestly (0.4%) since 2010 to 200,015, but the labor force has been shrinking since 2008. Unemployment within the city was fairly high as of June 2017 at 6.9% compared to 5.9% for the state and 4.5% for the nation. Resident income levels are weak relative to the nation with median family income equal to 74% of the US as of the 2015 American Community Survey.

The city's tax base remains sizeable and relatively stable. The fiscal year 2017 full value is \$13.5 billion derived from an assessed value of \$1.5 billion. Growth has been minimal with the five year average annual change in full value at 0.6%. The base is relatively diverse with top taxpayers representing 9.1%. Ongoing development is minimal and includes one new subdivision with 145 homes, two subdivisions undergoing expansions, and a shopping center that is adding new stores. Absent economic recovery and new development, the city's tax base will likely remain sizeable but stagnant.

Financial Operations and Reserves: Financial Position Challenged by Weak Liquidity and Reliance on Sales Tax Revenues

Shreveport's financial profile will remain narrow and improvement will be challenged by stagnant revenues driven by economic weakness, limited revenue raising flexibility, and growing fixed costs. The city has realized general fund deficits in four out of the past six years while operating fund performance, which includes the debt service fund, has yielded mixed results. Deficits have been

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driven by weak revenue performance, particularly sales taxes which comprise over 50% of general fund revenues, coupled with flat to increasing expenditures largely due to growing pension contributions. Overall reserve levels have deteriorated with the available general fund balance falling from 7.8% of revenues in fiscal 2011 to 5.4% of revenues in fiscal 2016 and the available operating fund balance falling from 31.6% to 25.8% over the same period.

For fiscal 2017, which started January 1 2017, the city reduced the sales tax budget by 2.1% and kept expenditures effectively flat while requiring departments increase pension and health care contributions. Year-to-date through July, sales taxes are up a modest 0.4% over the prior year, and total general fund revenues are up 6% year-over-year while expenditures are 6% below for the same period last year. City officials anticipate stable ending reserve levels in both the general and operating funds at fiscal year end. Preliminary expectations for fiscal 2018's budget include level department budgets which must again accommodate increased pension contributions. The city's revenue raising flexibility is limited as voters must approve the majority of property tax and sales tax levies, though the council maintains the ability to set various fees. Several property tax millages are up for renewal in 2018, and officials report the possibility of approaching voters for an increase at that time. The city's goal is to maintain a general fund reserve position equal to 7% of expenditures, but there are no formal policies in place or specific actions planned to achieve that goal.

LIQUIDITY

Liquidity is a particular challenge for the credit and a key driver of the downgrade. The general fund has historically maintained narrow liquidity attributed to the timing of receivables, particularly property taxes, relative to the fiscal yearend in December. Previously this has been offset by stronger liquidity in the debt service fund which has supported overall adequate operating fund liquidity levels. In fiscal 2016, the operating fund cash and investments fell to \$5.4 million (a narrow 2.2% of operating fund revenues) from \$17.7 million in the prior year. At the same time, amounts due to the debt service fund from the general fund, internal services fund, and pension fund increased, which officials largely attribute to timing issues. Officials report the amounts have since been collected and repaid to the debt service fund.

The city pools from all government funds to manage cash flow, and has not accessed the market for any cash flow borrowing. However, total primary government liquidity has weakened in recent years. Excluding bond and capital funds, the total primary government unrestricted cash and investments (includes governmental and business type activities) has fallen from \$95 million in fiscal 2011 to \$59 million in fiscal 2016. Future reviews will focus on the city's ability to improve liquidity in the operating funds as well as government-wide. Further deterioration will drive negative rating action.

Debt and Pensions: Elevated Long Term Liabilities with Growing Fixed Costs

The city's long term liabilities are elevated and growing fixed costs will continue to pressure the budget. As of fiscal 2016, the city has \$260.7 million of debt outstanding, equating to 1.9% of the full value. Total debt includes \$188 million of unlimited tax bonds, \$59 million of debt secured by the city's lawfully available funds pledge, \$9.5 million of capital leases, and a modest amount of other loans or notes. The city does not have any future general obligation debt issuance plans though may look to borrow funds for a new arena backed with a lawfully available funds pledge. This potential issuance is contingent on the city being selected for the project.

DEBT STRUCTURE

The city's debt profile includes variable rate debt (14% of the portfolio) from the Series 2008A Convention Center Hotel bonds. The hotel bonds were placed with Regions Capital Advantage for a period of five years through May 2019 and bear interest at 65.1% of one-month LIBOR plus 0.92%. The city intends to refund the bonds to a fixed rate prior in 2019. Debt service is descending and payout is average with 78% of principal retired within ten years.

DEBT-RELATED DERIVATIVES

The city is not party to any swap or derivative agreements.

PENSIONS AND OPEB

Budgetary pressure for pension contributions will remain a challenge for the city which has committed to increasing funding annually to the primary plan through 2021. The city participates in five pension plans, three are city administered defined benefit cost-sharing plans and two are statewide cost-sharing plans. The Shreveport Firemen's Pension and Relief Fund and Policemen's Pension and Relief Fund are both closed and do not have active employees. Police and fire employees hired after 1977 (police) and 1980 (fire) participate in statewide cost-sharing plans. All other city employees participate in the Shreveport Employees' Retirement System (ERS). The total

reported net pension liability across all five plans, net of support from the water and sewer fund and Shreve Memorial Library, was \$351 million as of fiscal 2016. The Moody's adjusted net pension liability (ANPL), net of the noted support, was \$715 million as of fiscal 2016, equating to an above average 5.3% of full value and 2.9 times operating revenues.

The city has historically contributed less than the actuarially determined contributions and fiscal 2016 contributions, net of water and sewer and library contributions, of \$25.5 million also fell short of the Moody's calculated "tread water" amount of \$30.2 million. The "tread water" indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions. Contributions above this level cover all net pension liability interest plus pay down some principal; this is stronger from a credit perspective compared to contributions below this level. Ratios comparing government contributions to the "tread water" level and "tread water" costs to government revenues shed light on budgetary fixed cost burdens. The city has committed to increasing contributions to ERS by 2% of payroll annually through 2021 at which point it will reach 30%. While increased contributions are positive, they also challenge the city to maintain structural balanced in a low revenue growth environment and will likely not be sufficient to "tread water."

The city's other post-employment benefits are funded pay-go with contributions totaling \$10.7 million in fiscal 2016. The unfunded OPEB liability is \$430 million.

Total fixed costs including debt service, pension contributions, and OPEB represented an elevated 29.5% of operating revenues, compared to 31.4% (total fixed costs using the "tread water" metric).

Management and Governance: Moderate Institutional Framework Score

The city is governed by a seven member City Council whose members are elected by district to serve four year terms. The mayor, also elected for a four year term, is not a member of the council but does have veto power. Daily operations are managed by the Chief Administrative Officer. The city's goal is to maintain a general fund reserve position equal to 7% of expenditures, but currently there are limited plans to address that goal. Management's ability to maintain structurally balanced operations with growing fixed costs and improve reserves within revenue raising constraints will be a key consideration in future reviews.

Louisiana Cities have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources, property taxes and sales taxes, are largely subject to voter approval, with the exception of the constitutional millage. The requirement for voter approval limits revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Louisiana is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Legal Security

The outstanding bonds are payable from the annual levy and collection of unlimited ad valorem taxes on all taxable property within the city.

Use of Proceeds

Not Applicable

Obligor Profile

Shreveport is located in northwest Louisiana and serves as a hub for the Arkansas/Louisiana/Texas border. The population as of 2015 is 200,015.

Methodology

The principal methodology used in this rating 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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