

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's upgrades Detroit, MI's issuer rating to Ba3; outlook stable**

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22 May 2018

New York, May 22, 2018 -- Moody's Investors Service has upgraded the City of Detroit, MI's issuer rating to Ba3 from B1. Concurrently, Moody's has revised the outlook to stable from positive in light of the upgrade. This issuer rating is equivalent to the general obligation unlimited tax (GOULT) rating we would assign to GOULT debt of the issuer, but does not apply to any of the city's \$1.9 billion of debt outstanding.

#### RATINGS RATIONALE

The upgrade to Ba3 reflects further improvement in the city's financial reserves, which has facilitated implementation of a pension funding strategy that will lessen the budgetary impact of a future spike in required contributions. The upgrade also considers ongoing economic recovery that is starting to show real dividends to tax collections. Also incorporated in the Ba3 rating is the city's high leverage, a very weak socioeconomic profile and the volatile nature of local taxes.

#### RATING OUTLOOK

The stable outlook is based on the city's strong preparation for challenges ahead including the need to make capital investments and absorb pending spikes to fixed costs. Underperformance of pension assets and revenue volatility remain notable budgetary risks, but the city has amassed a large reserve cushion and adopted conservative budgetary assumptions that provide breathing room to respond to adverse developments. The stable outlook also reflects constraints to further upward movement given the weight of a high overall debt burden and significant outstanding capital needs on the tax base including those of Detroit Public Schools (B2 stable), an entity legally separate from the city.

#### FACTORS THAT COULD LEAD TO AN UPGRADE

- Further growth in reserves that provides additional buffer against an economic downturn and revenue volatility
- Clearly demonstrated change in demographic patterns that propels income growth, reduced poverty and employment diversification
- Steady tax base growth that generates greater capacity to fund capital investments of either the city or school district

#### FACTORS THAT COULD LEAD TO A DOWNGRADE

- A slowed or stalled economic recovery that leads to significant revenue contraction
- Spending of financial reserves that leaves fund balance inadequate for challenges ahead
- Growth in the city's debt or pension burden, fixed costs, or capital needs

#### LEGAL SECURITY

The issuer rating is based on Detroit's full faith and credit general obligation tax pledge.

#### PROFILE

Detroit's current estimated population (American Community Survey) of 683,443 makes it the 23rd largest city in the US and by far the largest city in the State of Michigan (Aa1 stable). The city emerged from bankruptcy in 2014.

#### 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's.com](http://www.moody's.com) for a copy of this methodology.

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