

Rating Action: Moody's Upgrades Detroit, MI's Issuer Rating to B1; Outlook Positive

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New York, October 13, 2017 -- Summary Rating Rationale

Moody's Investors Service has upgraded the City of Detroit, MI's issuer rating to B1 from B2. The issuer rating is based on a general obligation unlimited tax (GOULT) pledge, but does not apply to any of Detroit's \$1.7 billion of outstanding bonds. Moody's has also assigned a positive outlook to reflect the possibility of further upward movement if current economic and financial trends persist and enhance the city's capacity to fund long-term liabilities.

The upgrade to B1 reflects improved fund balance and liquidity coupled with adoption of a pension funding strategy that will lessen the budgetary impact of a future spike in required contributions. The rating also considers the very conservative fiscal approach of Detroit's current administration as well as the city's current economic performance, which is strong considering its historic contraction. The rating still weighs these credit strengths against long-term risks arising from high unfunded pensions and economic vulnerabilities tied to a weak socioeconomic profile and low industrial diversity. The rating further acknowledges that maintenance of healthy reserves and budgetary capacity to fund rising fixed cost demands is highly dependent on continued revenue growth.

Rating Outlook

The positive outlook reflects the possibility of further upward movement in Detroit's rating in the event current economic and financial trends persist. Sustained growth in revenue that enhances the city's capacity to fund its long-term obligations will positively impact the city's credit profile.

Factors that Could Lead to an Upgrade

Sustained revenue growth that enhances budgetary capacity to address rising fixed costs

Clearly demonstrated change in demographic patterns that more rapidly propels economic recovery, employment diversification and income growth

Factors that Could Lead to a Downgrade

A slowed or stalled economic recovery that leads to revenue contraction

Spending of financial reserves that leaves fund balance and liquidity inadequate to offset significant credit challenges

Growth in the city's debt or pension burdens that raises fixed costs and shrinks financial flexibility

Legal Security

The issuer rating is based on Detroit's general obligation unlimited tax pledge.

Use of Proceeds

Not applicable.

Obligor Profile

Detroit's current estimated population of 673,000 makes it the 23rd largest city in the US. It is by far the largest city in the State of Michigan (Aa1 stable).

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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