STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

New Orleans, Louisiana; Miscellaneous Tax

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Credit Profile		
New Orleans GO		
Unenhanced Rating	A-(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) to 'A-' from 'BBB-' on New Orleans, La.'s series 2005 limited tax bonds. The rating was raised due to the city's pledge to levy a special tax to secure the bonds. The outlook is stable.

The rating reflects our opinion of the city's:

- Growing property tax base, which has demonstrated resilience as New Orleans continues to recover and rebuild from Hurricane Katrina;
- Pledged revenue, providing 1.67x maximum annual debt service (MADS) coverage, although the city does have the ability to raise the mill levy to 2.5 mills if assessed value (AV) were to decline; and
- Lack of plans to issue additional parity debt.

We believe the rating is somewhat constrained by the city's:

- Weak legal bond provisions, including the lack of a debt service reserve and an additional bonds test that is 1.33x MADS;
- Adequate, but below-average, wealth and income levels; and
- Exposure to hurricanes, which could result in a decrease or potential disruption to pledged revenue collections.

The series 2005 bonds are secured from a special ad valorem tax for capital projects related to the city. This tax was approved at an election in July 1995 for a 26-year term, beginning in 1996. Voters approved the dedication of 2.5 mills for capital improvements and infrastructure trust as well as a housing and economic development trust fund. The city may levy at a maximum rate of 2.5 mills; the tax is currently 1.82 mills due to reassessments.

Bond provisions feature an additional bonds test that prohibits the issuance of additional parity debt unless budgeted pledged revenue from the year in which the additional bonds are issued provides at least 1.33x MADS coverage on existing and proposed bonds. Officials, however, do not plan to issue additional debt during the next 12 months to 18 months. Officials can use excess pledged revenue not used for debt service for capital expenditures. There is no debt service reserve fund.

If New Orleans were to experience a reduction of taxable AV due to a reappraisal, it has the ability to increase the 2.5-mill levy so the tax generates the same revenue as the previous year. If the city raised the levy to 2.5 mills, it would generate roughly $6.7 million and provide coverage of 2.25x MADS for fiscal 2013.

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City officials rolled the millage rate back by roughly 1 mill in fiscal 2008, which brought it to the current 1.82 mills; this increased pledged revenues by 7.5% due to reappraisals compared with previous-year levels. Fiscal 2012 pledged revenues of $4.8 million provided 1.6x MADS coverage on the bonds; MADS is scheduled to occur in 2021. Unaudited pledged revenues for fiscal 2013 reflect an increase of 2.4% from fiscal 2012 to $4.9 million, which provided 1.64x MADS coverage. City officials are projecting that pledged revenue for fiscal 2014 will increase by roughly 2% or $5 million in fiscal 2013, providing 1.67x MADS coverage. MADS coverage has remained good, with coverage of more than 1.25x. Tax collections remain what we consider strong, with New Orleans historically collecting more than 95% of the levy. According to officials, property tax collections did not experience any material decreases after Katrina.

New Orleans is in southern Louisiana, along the Gulf Coast. New Orleans is the state's largest city and economic center. New Orleans' estimated pre-storm population was about 455,000, many of whom were life-long residents who did not follow the steady exodus to the suburbs and elsewhere since the U.S. Census peak of 627,000 in 1960. On Aug. 29, 2005, Hurricane Katrina made landfall on the Gulf Coast, leading to the city's widespread destruction, an outflow of residents, and massive rebuilding costs. Since fall 2005, however, New Orleans has experienced a strong recovery, with current taxable AV exceeding pre-Katrina levels, as well as the rebounding of what we consider a strong tourism industry and strong sales tax growth. In addition, the population has returned to 81% of pre-Katrina levels; the 2014 estimated population is 369,250.

From fiscal years 2005 to 2006, taxable AV decreased by 22% to $1.67 billion, which reflected the effect of Hurricane Katrina on New Orleans. Since the hurricane, the property tax base has recovered. Taxable AV has increased by 77% to $3.1 billion or an estimated true market value of $28.5 billion in fiscal 2014. The tax base is very diverse in our view, with the 10 leading taxpayers accounting for 11.3% of AV.

Per capita effective buying income is, in our opinion, good at 93.2% of the national level. Per capita retail sales are what we consider adequate at 69.3% of the national average. Market value, a wealth indicator, is, in our view, a strong $77,064 per capita. As of April 2014, the city's unemployment rate was 4.7 %, slightly above the state's rate (4.5%) and lower than the national rate (6.3%).

Outlook

The stable outlook reflects Standard & Poor's opinion of the recovery of New Orleans' property tax base after Katrina as well as its growing economy, which should allow pledged revenue to continue to demonstrate similar debt service coverage. The stable outlook also reflects our view that officials have no plans to issue additional parity debt, which should not dilute coverage of the existing bonds. Finally, the stable outlook reflects our expectation that any budgetary challenges faced by the city will not impair its ability to meet its debt service obligations on the series 2005 bonds, since the bonds' legal provisions state that the city must first use pledged revenue for debt service. For these reasons, we do not expect to change the rating within the outlook's two-year period unless pledged revenues experience a material deterioration.

Related Criteria And Research

Related Criteria

USPF Criteria: Special Tax Bonds, June 13, 2007

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