

# RatingsDirect®

---

## Summary:

# New Orleans, Louisiana; Miscellaneous Tax

### Primary Credit Analyst:

Sarah L Smaardyk, Dallas (1) 214-871-1428; sarah.smaardyk@standardandpoors.com

### Secondary Contact:

Omar M Tabani, Dallas (1) 214-871-1472; omar.tabani@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# New Orleans, Louisiana; Miscellaneous Tax

### 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.

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

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).