

RatingsDirect®

Summary:

New Orleans, Louisiana; General Obligation

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Credit Profile

US\$65.0 mil GO rfdg bnds ser 2016 due 12/01/2036

<i>Long Term Rating</i>	AA-/Stable	New
New Orleans GO		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
New Orleans GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
New Orleans GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
New Orleans GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating and underlying ratings (SPUR) to 'AA-' from 'A+' on the City of New Orleans' general obligation (GO) debt outstanding. The outlook is stable.

At the same time, S&P Global Ratings assigned its 'AA-' long-term rating and stable outlook to the city's series 2016 GO refunding bonds.

We base the upgrade on our view of New Orleans' improvement in current and projected economic wealth and income levels and total available reserves as a percent of expenditures.

The city's full faith, credit, and resources, as well as an agreement to levy ad valorem property taxes without limitation as to rate or amount, secure these bonds. This tax revenue is immediately segregated and paid to the Board of Liquidation, which is responsible for depositing, investing, and reinvesting such receipts and for paying debt service on the city's GO debt. In the event that tax revenue dedicated to the payment of debt service is insufficient, the Board of Liquidation may use funds on hand that are not dedicated to other purposes, and is empowered to levy an additional tax to cover such deficiency. The statutory provisions authorizing the bonds provide that the Board of Liquidation shall continue while any of the city's GO bonds are outstanding and unpaid and that its powers with respect to payment of the GO bonds shall not be diminished.

Officials will use the series 2016 GO bond proceeds to refund a portion of the city's existing debt for savings.

The rating reflects our view of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment

(FMA) methodology;

- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2015, which closed with balanced operating results in the general fund and an operating surplus at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 12.3% of operating expenditures;
- Very strong liquidity, with total government available cash at 16.3% of total governmental fund expenditures and 124.9% of governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 13.1% of expenditures and net direct debt that is 95.7% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Very strong institutional framework score.

Strong economy

We consider New Orleans' economy strong. The city, with an estimated population of 392,906, is located in Orleans Parish in the New Orleans-Metairie, La. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 95.1% of the national level and per capita market value of \$81,800. Overall, the city's market value grew by 6.1% over the past year to \$32.1 billion in 2016. The parish unemployment rate was 6.5% in 2015.

The city was not significantly affected by the major flooding that occurred in other areas of the state in August 2016 and therefore no material negative impact to the economic base is projected.

New Orleans remains a vibrant economic engine for the state with residents employed in various sectors such as tourism, education, health care, manufacturing, and energy. The city is experiencing growth in the digital media industry with expansion in Select Laboratory Software to add 25 new jobs and two new start-up companies TopXight Labs, a technology startup business, and CERS 504, a new business incubator for branded foods and food technology.

In July 2016, Chiquita announced it is moving its operations out of the Port of New Orleans. However, officials indicate that the port, the sixth-largest cruise port in the nation, experienced strong cruise industry growth with record passenger levels in 2015 and strong shipping container activity in 2016 compared with the previous year. The port recently announced direct service to South America, which is projected to strengthen New Orleans' trading activity in the near term. In addition, early in 2016, the city broke ground on a new north terminal complex at Louis Armstrong New Orleans International Airport, which will result in 30 new gates, a 2,000-car parking garage, a central utility plant, and a ground transportation staging area. Included in the north terminal project is a highway addition to improve access to the airport, a potential on-site hotel, and a power plant project. The new terminal is scheduled to open in 2018.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Officials use historical trends, local economic reports from local universities, and routine contact with the assessor's office when developing budgetary revenue and expenditures. Officials also use an informal five-year operational

financial plan that is reviewed and updated annually. Strengths include strong oversight in terms of monitoring progress against the budget during the year through monthly review of budget-to-actual results, a formal five-year capital plan that is reviewed annually, and strong investment management policies, with holdings and earnings reviewed monthly. Although officials have a formal debt policy to govern the issuance of GO debt, the city lacks a formal policy that governs other security types beyond the constraints of current state laws.

The city has a formal reserve target to improve the assigned fund balance to 10% of recurring revenues to cover insurance deductibles in case of a major hurricane. New Orleans is currently not meeting this goal but had 4.5% of recurring revenues as per the 2015 audit and will have 4.3% per the 2016 projections. Its long-term financial plan indicates that the city will meet this goal by 2020.

Adequate budgetary performance

New Orleans' budgetary performance is adequate in our opinion. The city had balanced operating results in the general fund of negative 0.4% of expenditures, and surplus results across all governmental funds of 8.1% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

During fiscal 2015, the city received \$36 million from a one-time BP settlement, which we adjusted out of general fund revenue and governmental fund revenues due to its nonrecurring nature to observe the unskewed net performance in the operating fund. In addition an adjustment to the governmental funds expenditures were made to account for \$107 million in capital projects expenses in the capital projects fund that are funded with bond proceeds. The primary government revenue sources are property taxes (37%), sales taxes (36%), and franchise fees (6%). Sales tax revenues grew by nearly 5% during 2015 and are projected to increase 2%-3% per year as the major retail developments that have been constructed during the past few years are fully realized in the annual revenues. According to officials, sales tax revenues are trending 4% higher through July 2016 compared with the same time frame in the previous year, and the thriving tourism component of the economic base continues to drive growth in hotel and motel taxes, which are up 2% through July 2016 compared with the same period in the previous year.

During fiscal 2016, the city budgeted to pay \$15 million of the \$75 million pension settlement reached with city firefighters. After adjusting out the one-time pension settlement costs and bond funded capital projects, the budgetary performance for the general fund and governmental funds is expected to remain at least strong.

The city planned to pay the remainder from an electorate approved 2.5 mill levy; however, the April 2016 voter referendum did not pass. A second vote is scheduled for December 2016 and if approved the referendum will result in a payout of \$5 million per year towards the total settlement cost. If the voter referendum does not pass, the pension longevity settlement will be paid out per a longer schedule of up to \$2 million per year until 2031 and then \$17 million per year (which is comparable to the pension obligation bond debt service that is scheduled to retire in 2031) until the settlement is paid off.

The 2017 budget will be adopted on or before Dec. 1, 2016. The city indicates that rising public safety cost pressures compared to the rate that revenue streams are increasing continue to be a major focus of discussion. A federal judge decided that the sheriff would not have budgetary control of the jail but that the budgetary decisions would be decided by a joint process led by the new jail independent compliance director. Revenues for fiscal 2017 are forecasted to

increase 2.5% overall compared with 2016 and includes an assumption of 3% growth in property taxes, 2% in sales taxes, and growth in rideshare fees due to legalization of Uber within the city. We expect the budgetary performance will remain at least adequate for fiscal 2017, as New Orleans is required by city charter to adopt a balanced budget.

Strong budgetary flexibility

New Orleans' budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 12.3% of operating expenditures, or \$75.3 million.

Significant increases in tax revenue tied to stronger consumer spending and commercial development helped boost the general fund by more than \$32 million at fiscal year-end 2015. Officials are projecting to end fiscal 2016 with an available general fund balance of about \$54 million following a one-time expenditure of \$16.5 million for a payment to the fire fighter pension settlement (\$15 million) and one-time grant related expenses (\$1.5 million).

New Orleans plans to maintain around \$50 million for the next two years as they work to build the general fund balance up to 10% of recurring revenue in 2020. The city maintains the remainder of the BP settlement funds in a separate fund from the main operating fund but is included in the general fund balance when audited. The city has no near-term plans to spend the remainder of those funds and it will require approval of the governing body to do so in the future, should they need to.

Very strong liquidity

In our opinion, New Orleans' liquidity is very strong, with total government available cash at 16.3% of total governmental fund expenditures and 124.9% of governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary.

New Orleans has demonstrated an exceptional ability to access the capital markets through the issuance of GO debt, utility revenue debt, and sales-tax-supported debt during the past 15 years. The city has no variable-rate debt or swaps in its portfolio. We consider the city's governmental investments liquid and nonaggressive, as they are held primarily in U.S. Treasuries and a state pool.

The city has notified us that it might enter into a private placement for \$10 million secured by a special ad valorem tax of 13.91 mills and has provided us with the draft agreement for our review. The draft agreement does not include permissive provisions, in our view, and does not pose as a contingent liquidity risk per the draft provisions.

Very weak debt and contingent liability profile

In our view, New Orleans' debt and contingent liability profile is very weak. Total governmental fund debt service is 13.1% of total governmental fund expenditures, and net direct debt is 95.7% of total governmental fund revenue.

The city had a successful bond election and obtained \$120 million bond authorization in 2016. Officials plan to issue \$70 million in 2016 and the remaining \$50 million in 2018. The city has no variable-rate debt or swaps in its debt portfolio.

In our opinion, a credit weakness is New Orleans' large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. The city's pension contributions totaled 10.3% of total governmental fund expenditures in 2015. New Orleans made 81% of its annual required pension contribution in 2015. The funded ratio of

the largest pension plan is 60.2%.

In our opinion, a credit weakness is New Orleans' large pension and OPEB liability, given the lack of a firm plan that we think will sufficiently address the obligation by shoring up annual required contribution (ARC) payments across all plans in the near term. The city sponsors and participates in four separate pension systems: Fire Fighter's Pension and Relief Fund (Old Fire System); Fire Fighter's Pension and Relief Fund (New System FPRF); Municipal Police Employment Retirement System (MPERS); and the Employees' Retirement System of the City of New Orleans (NOMERS). In addition, a Police Pension Fund (Old Police System) is cited in the 2015 audit; however, the city does not have current or former city employees that are participating in that plan.

New Orleans' pension contributions totaled 10% of total governmental fund expenditures in 2015. The city made 81% of its pension ARC in 2015, which includes all of its plans. Officials contributed 100% of the city's NOMERS actuarially determined contribution for fiscal 2015. The NOMERS plan fiduciary net position as a percent of total pension liability is 60%; the New System FPRF is 12%; and the Old Fire System was nearly 9% as reported in the city's 2015 audit. MPERS, which is a state plan, was funded at 69.9% per the June 30, 2015 actuarial valuation report. City officials indicate that the city made the full actuarially determined contribution to the MPERS, New System FPRF, and the NOMERS plan in 2016. The city budgeted for pay-as-you-go payments to the Fire Old Fund with the agreed upon use of \$5 million from the retirement system reserves.

Officials announced a \$75 million settlement with city firefighters related to the firefighters' pension obligation in 2015. The settlement requires the city to make an upfront payment of \$15 million for back pay and pay the balance over the next 13 years if the voter referendum is successful and potentially 16 years if unsuccessful. This allows the city to satisfy a potential liability of more than \$200 million under the terms of the settlement without impairing its ability to deliver essential services to residents. In December 2016, New Orleans will go to voters for a 2.5-mill increase to pay these obligations at a quicker rate. If successful, officials will be able to reduce a significant budgetary expense to the benefit of both the city's budgetary performance and flexibility.

New Orleans provides OPEB but did not make a contribution during fiscal 2015. The plan has an unfunded liability of \$191.7 million per the 2015 audit.

Very strong institutional framework

The institutional framework score for Louisiana municipalities with annual revenues greater than \$500,000 is very strong.

Outlook

The stable outlook reflects our expectation that we will not change the rating during the two-year outlook horizon. We believe New Orleans will maintain at least strong budgetary flexibility with at least adequate budgetary performance, based on recent increases in assessed value and commercial retail expansion, which should allow for growth in general fund revenue collections.

Upside scenario

A higher rating is possible if the city were to increase available reserves and maintain them at levels we consider very strong as a percent of expenditures while sustainably increasing wealth. In addition, if New Orleans were able to improve the funding of its pension obligations to 100% of the ARC along with the funding levels of administered plans to an adequate level, we could further raise the rating.

Downside scenario

A lower rating is possible if available general fund levels fall materially and short of officials' goal of 10% of operations by 2020.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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