



Fitch Affirms New Orleans, LA's IDR and Various Tax Bonds at 'A+'; Outlook Stable

Fitch Ratings-Austin-26 October 2018: Fitch Ratings has affirmed the 'A+' rating on the following City of New Orleans, Louisiana (the city) obligations:

- \$554.9 million in general obligation (GO) and public improvement bonds of the city and the Board of Liquidation, City Debt;
- \$155.8 million limited tax refunding bonds, series 2012 (taxable);
- \$10.4 million Audubon Commission aquarium tax bonds, series 2011A-1;
- \$9.4 million drainage system refunding bonds, series 2014;
- the city's Issuer Default Rating (IDR).

The Rating Outlook is Stable.

SECURITY

The GO and public improvement bonds are payable from an unlimited ad valorem tax levied against all taxable property in the city. The limited tax and aquarium tax bonds are special obligations of the city, payable from limited ad valorem taxes that are subject to rate adjustment from time to time due to reassessment. The drainage system bonds are payable from a limited ad valorem tax (such rate subject to adjustment periodically due to reassessment) upon all taxable property in the city.

ANALYTICAL CONCLUSION

The 'A+' IDR and bond ratings incorporate sound revenue growth prospects and a moderate liability burden, as well as adequate expenditure flexibility and strong gap closing capacity. The city's economy continues to perform well, as evidenced by recent gains in economically sensitive revenues. While reserves are now at satisfactory levels, remaining public safety and pension challenges will be a source of operational pressure for the foreseeable future.

Economic Resource Base

New Orleans' status as a major tourism destination, along with its significant commercial presence, supports Fitch's projection of solid growth prospects as the current economic expansion continues. The local economy continues to diversify from a historical reliance on shipping and energy with gains in healthcare and technology. The population is estimated at about 393,000, slightly more than 85% of the total before Hurricane Katrina in 2005.

KEY RATING DRIVERS

Revenue Framework: 'aa'

New Orleans' 10-year revenue growth history through 2017 exceeded U.S. GDP, as the city's post-Katrina recovery gathered momentum. Fitch anticipates solid revenue performance going forward given the current level of economic activity. The city's ability to increase revenues through fees and charges is balanced against an inability to increase property or sales tax rates without voter approval.

Expenditure Framework: 'a'

Spending increases should generally track revenue growth. A 2016 settlement with firefighters over back pay establishes a certain repayment schedule, although other pressures continue. Carrying costs (for debt and retiree benefits) are moderately high, but Fitch considers overall expenditure flexibility adequate.

Long-Term Liability Burden: 'aa'

The combination of debt and unfunded pension liabilities is moderate at about 11% of total personal income. This level is not expected to shift materially, as the city's debt plans appear manageable over the near term. However, pension contributions likely will increase given current net pension liabilities.

Operating Performance: 'a'

New Orleans has rebuilt operating reserves. The combination of public safety and pension spending pressures restrict spending flexibility, although some pressures have been addressed. Limited revenue raising ability further constrains the overall financial resiliency assessment.

RATING SENSITIVITIES

Reversal of Recent Gains: A material deterioration in recently bolstered financial flexibility likely would pressure the current rating.

Improved Financial Resilience: Given the inherent volatility of much of the city's operating revenues and its midrange inherent budget flexibility, an increase in operating reserves would help mitigate this risk and bolster financial resilience, improving chances for positive rating action.

CREDIT PROFILE

While still a tourism-based economy, New Orleans has diversified since Hurricane Katrina in 2005, most notably in healthcare. The new University Medical Center/Veterans Administration Hospital is a combined \$1.9 billion complex. Tourism continues its post-Katrina rebound, with a 2017 visitor count of 17.7 million (up more than 5% from 2016; the New Orleans Convention & Visitors Bureau employed a new visitor research service beginning in 2017). Tourism spending in 2017 also set a new record at \$8.7 billion, up 6% from the prior year. Airport traffic and cruise bookings also were at record levels in 2017.

Revenue Framework

Sales and property taxes are the two largest components of the general fund revenue total, and combined were more than one-half of the \$675 million operating revenue total in 2017. The 10-year revenue history of 5.7% average annual gains through 2017 exceeded U.S. GDP over the same period, reflecting the healthy pace of recovery and expansion since Hurricane Katrina in 2005. The city's large tourism sector generates significant exposure to economic cycles.

The city's revenue prospects are solid. Management anticipates some moderation from recently strong growth rates, as a number of new large retail and hospitality projects are now included in annual totals.

The city's legal ability to independently increase revenues is constrained, as any increase in property tax millage or sales tax rate must be approved by voters. However, Fitch believes that the other locally controlled operating revenues (e.g. fees, charges) that are the only avenues to independently raise revenues provide satisfactory flexibility in this area.

Expenditure Framework

As with most U.S. cities, public safety is the largest general fund expenditure category (42% of 2017

outlays), and ongoing spending associated with a police consent decree and parish prison operations will keep overall spending pressures elevated. Parish prison operating expenses were budgeted for \$53 million in 2018, roughly 8% of general fund budgeted spending and up from \$35 million budgeted in 2015.

Spending levels over the near to intermediate term generally should track an expected solid pace of revenue growth.

The city retains adequate flexibility regarding main expenditure items, although civil service commission rules govern certain workforce-related adjustments (e.g. layoff procedures). Carrying costs (combined debt and retiree benefit outlays) in 2017 were moderately high at 23% of governmental spending, and expected increases to pension contributions likely will move carrying costs higher in coming years.

Long-Term Liability Burden

The city issues both unlimited tax debt (through both the city and the Board of Liquidation) and limited tax debt, for general infrastructure purposes. The city issued the series 2014 drainage system refunding bonds on behalf of the New Orleans Sewerage and Water Board, which maintains the city's drainage system. The amortization pace of the city's tax-supported debt is fairly rapid at roughly 62% in 10 years.

The city provides pension benefits through three major pension plans, one of which it administers as a single-employer program. The other two are a state police pension plan and a state firefighter pension plan, the benefits and contributions for which are set by the state legislature. The combined overall debt and net pension liability for the city represents a moderate 11% of total personal income; combined pension assets to liabilities (adjusted for a more conservative 6% investment return assumption) are relatively low at 42.5%, suggesting future contribution increases are likely, but Fitch expects the overall liability burden to remain in the moderate range. Other post-employment benefit liabilities total \$101 million or 0.6% of personal income.

Operating Performance

The city's improved reserves, along with a satisfactory revenue-raising ability and a somewhat constrained expenditure flexibility profile, provide strong gap-closing ability in the event of a moderate economic decline. Continued spending pressures, along with a comparatively volatile revenue stream, likely would result in a modest erosion of reserve levels during a downturn.

The city's record during the current economic recovery of boosting reserves and increasing pension contributions indicates a commitment to bolster the city's financial profile during periods of expansion when economically sensitive revenues are increasing. Fitch's expectation is that any deferral of required spending in the future would be minimal during growth periods. The city also resolved a long-simmering dispute regarding firefighter back pay in 2016 with voter approval of a 2.5 mill property tax that over 12 years will fund the \$75 million settlement.

General fund results in 2017 included a modest surplus after transfers of \$1.7 million, increasing the unrestricted fund balance to \$75.3 million or 11% of spending and transfers out. Healthy revenue gains kept pace with increased spending amounts, and the final results were aided by the inclusion of \$10 million in one-time bond proceeds. Management projects general sales tax revenues in 2018 to come in 3% ahead of 2017 totals, bettering the original 1% budgeted increase. General fund revenues are projected to total \$702.5 million (compared to \$691.2 budgeted), and the current projection anticipates an addition to general fund reserves of roughly \$1 million at year-end, reversing the \$17.6 million use of reserves that was originally budgeted.

The Sewerage and Water Board operates and maintains the city's drainage system. Operations are

supported by three millages that combined total 16.23 mills; the rates can be adjusted periodically based on reassessment. The series 2014 drainage system bonds have first claim on a tax levy originally authorized at 9 mills (expiration in 2031), with residual collections available for other drainage purposes. Of the two other levies the 3 mill tax expires in 2046 (renewed in 2016 for 30 years), and the 6 mill tax expires in 2027.

The system features 24 pumping stations, and the overall pumping capacity is roughly 30 billion gallons per day. The drainage network includes approximately 90 miles of open canals and 90 miles of subsurface canals.

Contact:

Primary Analyst
Steve Murray
Senior Director
+1-512-215-3729
Fitch Ratings, Inc.
111 Congress Avenue
Austin, TX 78701

Secondary Analyst
Emmanuelle Lawrence
Director
+1-512-215-3740

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
(<https://www.fitchratings.com/site/re/10024656>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/10048306>)
Solicitation Status (<https://www.fitchratings.com/site/pr/10048306#solicitation>)
Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S

PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://WWW.FITCHRATINGS.COM/SITE/REGULATORY). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide

investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more (<https://www.thefitchgroup.com/site/policies>).

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.