

RatingsDirect®

Summary:

New Orleans, Louisiana; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

New Orleans, Louisiana; General Obligation

Credit Profile

New Orleans drainage sys bnds ser 1998 dtd 12/01/1998 due 12/01/1999-2016 2018

Unenhanced Rating A(SPUR)/Stable Upgraded

New Orleans drainage sys bnds ser 2002 dtd 10/01/2002 due 12/01/2003-2022

Unenhanced Rating A(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has corrected its rating to 'A' from 'BBB-' on New Orleans, La.'s series 2002 drainage system bonds. The outlook is stable.

The rating reflects our opinion of the city's:

- Growing property tax base, which has demonstrated resilience it continues to recover and rebuild from Hurricane Katrina;
- Pledged tax revenue, providing 7.67x maximum annual debt service (MADS) coverage; and
- Lack of plans to issue additional parity debt.

The rating is somewhat constrained by our view of the city's:

- 1.33x MADS additional bonds test that allows for historical revenue;
- Adequate, but below-average, wealth and income; and
- Exposure to hurricanes, which could result in a decrease or potential disruption to pledged revenue collections.

The drainage bonds are secured by a special ad valorem tax for the operation and maintenance of the drainage system. This tax was approved at an election in May 1981, to be levied for a period of 50 years, beginning with the year 1982, at a rate of 9 mills, which tax is now levied and collected at the current rate of 7.06 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 to 18 months. Officials can use excess pledged revenue not used for debt service for operating or capital expenditures.

If New Orleans were to experience a reduction of taxable AV due to a reappraisal, it has the ability to increase the 9-mill levy so the tax generates the same revenue as the previous year. City officials rolled the millage rate back by 2.65 mills in fiscal 2011, which brought it to the current 7.06 mills; this increased pledged revenues by 7.5% due to reappraisals compared with previous-year levels. Fiscal 2011 pledged revenue of \$16.9 million provided 7.67x MADS

coverage on the bonds; MADS is currently projected to occur in 2022. City officials are projecting pledged revenue for fiscal 2012 to remain at fiscal 2011 levels. MADS coverage has remained historically strong, with coverage of more than 7.0x. 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. On Aug. 29, 2005, 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 assessed value (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 79% of pre-Katrina levels; the 2012 population estimate is 360,740.

From fiscal years 2005-2006, 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 \$2.95 billion, or an estimated true market value of \$27 billion, in fiscal 2012. The tax base is very diverse, with the 10 leading taxpayers accounting for 11.3% of AV. Officials currently believe fiscal 2013 AV could increase by as much as 8% to 9% compared with previous-year levels.

Median household effective buying income is, in our opinion, an adequate, but below-average 70% of the national level. Market value, a wealth indicator, is \$74,326 per capita, which we consider strong. Parish unemployment of 7.9%, as of October 2012, exceeded the state's 6.6% rate and remained on par with the national (7.9%) rate.

Outlook

The stable outlook reflects our opinion of the recovery of New Orleans' property tax base after Katrina and its growing economy, which should allow pledged revenue to continue to demonstrate similar debt service coverage. The stable outlook also reflects that officials have no 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 2002 bonds since the bonds' legal provisions state the city must first use pledged revenues for debt service. For these reasons, we do not expect to change the rating within the outlook's two-year period unless pledged revenue experiences a material deterioration.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

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