

Sewerage and Water Board of New Orleans (LA)

Issuer: Sewerage and Water Board of New Orleans

Affirmed	Rating	Outlook
WIFIA Loan for Sewer and Water Line Rehabilitation, Repair and Replacement Program	A+	Stable

Methodology:

[U.S. Municipal Retail Utility Revenue Bond Rating Methodology](#)

[ESG Global Rating Methodology](#)

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Rating Summary: The rating affirmation for the Sewerage and Water Board of New Orleans' ("SWBNO" or the "Board") WIFIA¹ Loan for the Sewer and Water Line Rehabilitation, Repair, and Replacement Program (the "WIFIA Loan"), reflects SWBNO's autonomous rate-setting authority, solid sewer financial performance, and strong legal provisions supporting the sewer system debt. Offsetting these strengths is the large capital plan needed to comply with mandated environmental and aged-infrastructure improvements, and rate affordability concerns given the service area's high poverty level and population decline in recent years.

The Board closed on the above WIFIA Loan in November 2021 in an agreement with the U.S. Environmental Protection Agency (EPA) to borrow \$275 million to finance rehabilitation projects in SWBNO's sewer system for the purpose of satisfying a federal Consent Decree (the "Consent Decree") by 2025 to update aging infrastructure. SWBNO pledges the sewer system's net revenues to repay the WIFIA Loan, which is on parity with \$276.2 million in outstanding sewerage system revenue and/or refunding bonds (the "Bonds") at FYE2023.

SWBNO was created by the State of [Louisiana](#) (the "State") legislature as a special board and enterprise fund of the City of New Orleans (the "City"), to operate the water, sewerage, and drainage (i.e., stormwater) systems for the City. The utilities collectively serve 364 square miles of the City, with the sewerage system organized around two distinct wastewater treatment plants (WWTPs) located on the east and west banks of the Mississippi River. SWBNO is governed by an appointed 11-member Board of Directors. Proposed sewer rate changes are not subject to state or federal oversight, although rate adjustments must be approved by the City Council and the Board of Liquidation, which is the City's debt manager.

SWBNO maintains an ongoing ten-year, approximately \$1 billion capital improvement plan (CIP) for the sewerage system, designed to fulfill the Board's obligation pursuant to the Consent Decree and continue to update aged infrastructure. The primary purpose of the Consent Decree is to address sanitary and combined sewer overflows. SWBNO entered a Third Modified Consent Decree with the EPA and United States Department of Justice (DOJ) in July 2014, building off of the original Consent Decree entered into in 1998 and subsequently modified in 2010 and 2013. Management states that work to address the Third Modified Consent Decree by the October 2025 deadline is on track and within budget.

Due to its low elevation and rising sea levels, the City is vulnerable to extreme weather events and climate change hazards. Positively, the Board was able to respond more effectively and minimized service interruptions during the most recent and severe hurricane Ida in 2021. SWBNO had proactively secured backup generation to support the sewer system's operations during the hurricane, which led to fewer service disruptions for customers when the East Bank Wastewater Treatment Plant temporarily lost power, preventing sewer system overload.

New Orleans is the largest city in Louisiana and the crossroads for transportation and commerce near the mouth of the Mississippi River. While the City's economic base benefits from a concentration of higher education and healthcare institutions, as well as leisure, trade (shipping), and governmental entities, certain sociodemographic characteristics are weak. The poverty rate continues to be a challenge at 22.6% for 2023, as compared with 12.5% for the nation. The service area, which is coterminous with the City, benefits from a more favorable per capita income level than the State (124.3% of the State)², albeit slightly below that of the US level. The unemployment rate remains above the State and national figures. Since 2021, the City's population is estimated to be on the decline following the pandemic, although the SWBNO reports modest growth in the number of sewer customers served YoY for FY2023 (+0.8%).

¹ WIFIA – Water Infrastructure Finance and Innovation Act.

² The per capita income figures are as measured by the U.S. Census Bureau for 2023.

KBRA views the legal provisions supporting the WIFIA Loan to be strong, highlighted by a senior lien rate covenant of 1.25x and a debt service reserve fund (DSRF) of \$22 million funded at maximum annual debt service (MADS). WIFIA debt service is supported by a pledge of the net revenues solely of the sewer system, on parity with the sewer revenue bonds. Each of SWBNO's utility systems is separately financed and secured, such that the revenue of the water and drainage systems are not pledged as security for the payment of the sewer debt obligations.

SWBNO pursued an eight-year program of 10% annual rate increases from 2013 through 2020 and has held rates flat since. Current sewer rates for a typical residential customer are mid-range when compared to other selected wastewater providers. KBRA notes that while the sewer rates are currently affordable, SWBNO's rate flexibility is a concern going forward given the poverty level in the City and comparatively slower employment recovery since the pandemic. The average annual residential bill represents 1.6% of the 2022 median City household income, which is approaching the EIA suggested 2% threshold which is considered high relative to income.

Financial operations remain sound since FY2019, with operating revenue growth (CAGR 5.6%) exceeding operating expense growth (CAGR 1.8%). For fiscal 2023, liquidity remained solid at 259 days cash on hand (DCOH), which exceeded the prior year level (209 days) and the 90-day Operating Reserve Requirement stipulated in the revenue Bond documents. Debt service coverage (DSC) on the sewer system's senior debt has exceeded 2.59x for the past five years (FY2019-FY2023). DSC is projected to decline prospectively but remain at or above 1.9x through fiscal 2028. Leverage, as measured by total long-term debt to net fixed assets, equated to a manageable 25.3% at FYE2023. KBRA expects leverage to increase moderately due to future borrowing requirements associated with the ten-year CIP, including draws on the vast majority of the \$275 million WIFIA Loan.

The Stable Outlook reflects KBRA's expectation that the sewerage system will continue to achieve sound financial performance, with adequate rate adjustments as needed to support strong DSC while executing its large capex plan.

Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives

- Providing an essential utility service with local rate-setting authority.
- Sewer system's historically solid financial performance.
- Strong legal provisions for the WIFIA Loan, including a rate covenant of 1.25x and fully funded DSRF.

Credit Challenges

- Major capital plan to fund mandated and aging infrastructure updates.
- Moderated rate flexibility given the service area's somewhat weaker demographic profile.

Rating Sensitivities

- Successful implementation of capital projects on-time and within budget, supported by timely rate increases, resulting in stronger than projected DSC. +
- Service area affordability challenges that compromise the Board's ability to raise rates.
- Material delay or inadequate replacement of needed sewer system improvements which increase future capex and debt requirements, and pressures financial coverage below the projected level. -

Key Ratios					
(\$ in Thousands)					
FYE December 31	2019	2020	2021	2022	2023
Income Statement					
Total Revenues	\$ 155,360	\$ 147,918	\$ 153,227	\$ 159,909	\$ 160,540
Operating Expenses Net of Noncash Exps	78,709	87,958	98,753	100,304	107,620
Net Revenues Available for Debt Service	76,651	59,960	54,474	59,604	52,921
Key Ratios					
Senior Debt Service Requirements	\$ 21,714	\$ 21,805	\$ 8,205	\$ 22,846	\$ 20,335
Senior Debt Service Coverage ¹	3.53x	2.75x	6.64x	2.61x	2.60x
Cash and Cash Equivalents	\$ 32,677	\$ 45,806	\$ 51,146	\$ 60,471	\$ 79,615
Days Cash On Hand	125	177	178	209	259
Total Debt ²	\$ 267,664	\$ 340,475	\$ 345,098	\$ 331,090	\$ 321,272
Debt/Total Assets	22.0%	25.2%	25.0%	23.6%	22.2%
Debt/Total Capitalization	23.5%	27.3%	26.9%	25.1%	24.7%
Debt/Net Plant	24.4%	30.3%	30.0%	27.8%	25.3%

¹ Reflects senior lien sewer revenue bond Indenture-based coverage, which includes parity sewer revenue bonds and WIFIA loan debt service.

² Reflects wastewater revenue bonds, WIFIA loan, state revolving fund loans, and GO Zone loans.

Source: SWBNO



Rating Determinants (RD)	
1. Management, Governance, Regulatory Framework	A+
2. Legal Mechanics and Security Provisions	AA+
3. Service Area and Demand	A+
4. Operations and Capital	A-
5. Financial Profile and Debt	AA-

For a detailed review of RD#2 and the Bankruptcy Assessment, please refer to KBRA's SWBNA [report](#) dated October 26, 2023.

RD 1 Update: Management, Governance, Regulatory Framework

Governance Structure

The Sewerage and Water Board of New Orleans was created in 1899 by Act 6 of the Legislature of the State of New Orleans. The SWBNO is a special board and enterprise fund that operates independent of the government of the City of New Orleans. Its mandate is to construct, maintain and operate the City's sewer, water, and drainage systems.

The Board is comprised of eleven appointed members and includes: the City Mayor; the chair of the City's Public Works, Sanitation and Environmental Committee; two representatives of the Board of Liquidation (see below); and seven citizens, five of which are council district representatives and two are consumer advocates. Citizen members are appointed by the Mayor, with the consent of the City Council, for staggered four-year terms. Daily management of SWBNO is led by the Executive Director and General Superintendent, each appointed by City Council. The Executive Director (G. Korban) has been with SWBNO since 2018 and has 30 years of industry experience.

The SWBNO was created by State Legislative action, and it has been subject to close scrutiny by the State at times. In recent years, while the sewer system's overflow issues have abated via the ongoing infrastructure improvements, SWBNO'S water and drainage system issues continue to persist. In February 2024, the State's Governor issued an Executive Order to set up a 14-member Task Force (exclusive of Board and City Council members) to evaluate the operations of the SWBNO. In particular, assessing the continued frequent flooding of storm drains, water line breaks, and excessive water leaks that result in highly inaccurate customer bills. The Task Force prepared a report summarizing their findings to the Governor, with varied recommendations to improve the operations at SWBNO's water and drainage systems.

SWBNO has implemented several of the recommended changes to date including engaging a third party to manage the backlog of customer billing disputes; installing smart meters for all water customers by the end of 2025 to eliminate the inaccurate billings associated with the analog meters; eliminated the estimated billing practice; and will consolidate the stormwater operations solely under SWBNO (currently partially managed by the City's Department of Public Works) beginning in 2025. SWBNO continues to address the State's concerns while maintaining sound financial performance and its autonomous rate setting authority. While not anticipated, State legislative action that hampered these key credit strengths, in particular affecting the sewer system's operations or financial performance, would be a credit concern.

Board of Liquidation

The Board of Liquidation, City Debt (BOL) was created by the Louisiana Legislature in 1880, and made a "body corporate", separate and distinct from the City of New Orleans in 1890. The BOL has exclusive control and direction of all matters related to issuance and repayment of the City's general obligation bonds and acts as custodian to several agencies in the City including SWBNO.

Each month, the SWBNO is required to pay the BOL an amount equal to 1/12th of annual principal and monthly interest on the sewerage service and water system revenue bonds secured by the net revenues of the sewer and water systems, respectively. In addition, the BOL has legal authority to require SWBNO to fix rates and charges that produce net revenues sufficient to pay debt service and meet reserve requirements, as applicable. The BOL has never been required to take such rate action on behalf of the SWBNO.

Rate Setting Authority

Sewer (and water) rates are independently set by SWBNO, albeit with the approval of the BOL and the City Council. The rates are designed to recover the operation, maintenance and capital costs from each customer class based upon cost of service. KBRA notes that the SWBNO, with the support of the City Council has demonstrated a willingness to increase rates when needed, as exemplified by the annual 10% increases to the sewer system rates for eight years between January 1, 2013, to January 1, 2020.

Capital Plan Management

The SWBNO maintains a ten-year CIP, which is updated annually, for the water, sewer, and drainage systems. Each utility system is separately financed, secured, and accounted for, and capex for each system is funded from various sources, including bond proceeds, state/federal grants, net revenues per each utility system, and certain revenues received by the City and paid to the Board. CIP projects for the sewer system are designed to ensure compliance with the federal Consent Decree (described below), to upgrade aging sewer infrastructure, and make other improvements as prioritized by the SWBNO.

EPA Consent Decree

Not unlike many urban utility systems, the SWBNO is a party to an EPA mandated Consent Decree to reduce the City's sanitary sewer overflows (SSO). The Board's original Consent Decree, which dates back to 1998, was most recently amended in 2014, with an extended timeline for completion by October 2025, of which the Board in on-schedule to meet. The goal of the Consent Decree remains correcting the SSOs by increasing capacity via rehabilitation, reducing cross-connectivity, improving response times to remedy overflows, and other items as required by the Clean Water and Clean Air Acts.

For FY2024, the combined utility CIP budget is \$504.9 million, 2.5% below the prior year's capital budget (\$517.7 million), with the sewer system accounting for more than half of the total CIP (66.9%). The funding sources for FY2024 CIP include mostly proceeds under the WIFIA loan and sewer revenue bonds, state revolving funds, and federal sources (i.e., FEMA), plus a minor portion via internally generated funds. The WIFIA loan cannot account for more than 49% of the total project funding, and it favorably provides below-market financing (1.85% interest rate) and a long-dated final maturity (2057).

RD 3 Update: Service Area and Demand

New Orleans is the largest city in Louisiana and the second-largest city on the US Gulf Coast (following Houston). It is a crossroads for transportation and commerce near the mouth of the Mississippi River. The City's major economic sectors include energy, healthcare, tourism, international trade and shipping, and education.

Figure 1

Population						
	New Orleans	Δ YoY	State of Louisiana	Δ YoY	United States	Δ YoY
2005	494,294	0.1%	4,576,628	0.5%	295,516,599	0.9%
2006	230,172	-53.4%	4,302,665	-6.0%	298,379,912	1.0%
2007	268,751	16.8%	4,375,581	1.7%	301,231,207	1.0%
2008	301,842	12.3%	4,435,586	1.4%	304,093,966	1.0%
2009	327,803	8.6%	4,491,648	1.3%	306,771,529	0.9%
2010	343,829	4.9%	4,544,800	1.2%	309,378,433	0.8%
2011	360,822	4.9%	4,577,075	0.7%	311,841,632	0.8%
2012	369,947	2.5%	4,603,574	0.6%	314,344,331	0.8%
2013	378,863	2.4%	4,628,228	0.5%	316,735,375	0.8%
2014	384,228	1.4%	4,648,811	0.4%	319,270,047	0.8%
2015	390,094	1.5%	4,670,563	0.5%	321,829,327	0.8%
2016	392,265	0.6%	4,685,605	0.3%	324,367,742	0.8%
2017	391,819	-0.1%	4,678,606	-0.1%	326,623,063	0.7%
2018	391,506	-0.1%	4,670,052	-0.2%	328,542,157	0.6%
2019	391,172	-0.1%	4,664,558	-0.1%	330,233,102	0.5%
2020	383,997	-1.8%	4,651,664	-0.3%	331,511,512	0.4%
2021	377,063	-1.8%	4,627,098	-0.5%	332,031,554	0.2%
2022	369,749	-1.9%	4,590,241	-0.8%	333,287,557	0.4%
2023	364,136	-1.5%	4,573,749	-0.4%	334,914,896	0.5%
10-Yr Δ	-3.9%		-1.2%		5.7%	
10-Yr CAGR	-0.40%		-0.12%		0.56%	

Source: U.S. Census Bureau, ACS 1-year estimates.

Population Trend

The City's population declined by approximately half in the year following 2005's Hurricane Katrina. The population had recovered to a level 21% below the pre-Katrina level by 2016 but has experienced measured decline in subsequent years, declining another 7.2% between 2016 and 2023. This estimated population decline is likely a contributing factor in the sewerage system's lower number of customer accounts since the pandemic. Projections developed for the Board's ongoing Consent Decree program indicate that the City's population could decrease by 13% between 2019 and 2038.

Customer Profile and Demand

Customer concentration is low with the ten largest customers comprising 5.7% of sewerage system revenues in FY2023 (Figure 2). The top ten customers are diversified in terms of business sector and include: higher education, healthcare, leisure, and tourism. In 2023, SWBNO's sewer system served approximately 391,000 city residents. Sewer customer

accounts, which totaled 131,822 for FY2023, have declined 2.5% from the peak of 135,245 in FY 2021 as the population has contracted in recent years.

Socioeconomic Characteristics

The City is characterized by strong educational attainment given the various colleges and universities in and around New Orleans, with 44.7% of the eligible population with a Bachelor's degree or higher. Per capita income for the City (\$42,396) is 124.3% of the State level, and slightly below that of the nation (97.9%) for 2023.

The poverty level remains stubbornly high, at 22.6% for the City in 2023, as compared to 18.9% for the State and 12.5% for the U.S. KBRA views the high poverty rate in the City coupled with the declining population as potentially limiting factors on SWBNO's prospective rate flexibility.

Employment and Unemployment

City employment levels continue to gradually recover from the pandemic but are not likely to fully recover to the 2019 employment level until 2025 or later. According to U.S. Bureau of Labor Statistics data, the total number of jobs is 1.7% below 2019 average level as of August 2023. Employment growth exceeded that of the State and nation through the last economic cycle, increasing 27.2% between the 2009 Global Financial Crisis low and 2019, compared to growth of 4.2% for the State and 13.3% for than nation, but this primarily reflects several years of very pronounced recovery in the years following Hurricane Katrina.

The City unemployment rate at 4.5% in 2023 was below the 2019 pre-pandemic level. The unemployment rate was 4.9% as of August 2024 compared to 4.3% for the State and 4.4% for the nation.

Collection and Enforcement History

The Board's automated collection enforcement system is activated when an account is delinquent for at least 60 days. The initial delinquency action includes a 10-day notice of termination for the customer. Subsequent enforcement actions include sewer late fees, payment plan option, and ultimately service shut-off for non-payment. The Board continued to experience billing inaccuracies in 2023, largely related to outstanding water leaks and/or incorrect meter readings. For fiscal 2023, the sewer (and water) system revenue collection rate remained sound at 96%. It is the Board's policy to write-off unpaid delinquent accounts after three years. Billing inaccuracies are anticipated to be mostly eliminated with the installation of smart meters expected to be completed in 2025.

Following the suspension of service shut-offs between March 2020 and July 2021 due to the pandemic, sewer account receivables grew from \$53.2 million in FY2019 to a high of \$81.5 million in FY2021. Account receivables have since improved to \$69.9 million (FY2023) but remain above the pre-pandemic level. Net account receivables, after including the Allowance for Doubtful Accounts, improved from 16.8% of sewer service charges in FY2021 to 7.1% in FY2023, however, it is driven more by the increase in the Allowance for Doubtful Accounts than a reduction in customer receivables.

Figure 2

Sewerage and Water Board of New Orleans			
FY2023 Sewerage System Largest Customers			
Customer	Gallons Used (000s)	Sewerage Revenue	% Total Operating Rev
Tulane University	187,389	\$ 2,040,667	1.34%
University of New Orleans	103,463	1,037,902	0.68%
Veteran's Hospital	96,131	857,287	0.56%
Hilton Hotel New Orleans	90,907	858,454	0.57%
Touro Infirmary	67,879	679,999	0.45%
Ritz Carlton	66,543	583,156	0.38%
Children's Hospital	64,461	681,391	0.45%
Loyola University	61,597	642,872	0.42%
GMF Parc Fontaine LLC	61,071	541,482	0.36%
Xavier University	59,372	747,181	0.49%
Top Ten Customers	858,813	\$ 8,670,391	5.71%
Sewer System 2023 Operating Revenues		\$ 151,838,539	

Source: SWBNO Continuing Disclosure FY2023.

Figure 3

Total Employment (Not Seasonally Adjusted) (In Thousands)								
	City of New Orleans, LA	% Δ	New Orleans-Metairie, LA	% Δ	Louisiana	% Δ	United States	% Δ
2008	125	22.3%	514	2.6%	1,969	1.3%	145,362	-0.5%
2009	135	7.7%	509	-1.0%	1,927	-2.1%	139,877	-3.8%
2010	149	10.8%	529	3.9%	1,928	0.0%	139,064	-0.6%
2011	153	2.4%	530	0.2%	1,926	-0.1%	139,869	0.6%
2012	157	2.7%	536	1.2%	1,949	1.2%	142,469	1.9%
2013	161	2.9%	545	1.5%	1,967	0.9%	143,929	1.0%
2014	166	3.0%	558	2.4%	2,008	2.1%	146,305	1.7%
2015	170	2.1%	566	1.5%	2,015	0.4%	148,834	1.7%
2016	170	0.0%	566	0.0%	1,995	-1.0%	151,436	1.7%
2017	170	0.1%	567	0.1%	2,000	0.3%	153,337	1.3%
2018	170	0.1%	568	0.2%	2,008	0.4%	155,761	1.6%
2019	171	0.5%	572	0.7%	2,004	-0.2%	157,538	1.1%
2020	157	-8.3%	527	-8.0%	1,875	-6.4%	147,795	-6.2%
2021	162	3.5%	545	3.5%	1,941	3.5%	152,581	3.2%
2022	167	3.3%	563	3.3%	1,993	2.7%	158,291	3.7%
2023	168	0.2%	564	0.2%	2,000	0.3%	161,037	1.7%
Δ 2013 to 2023		4.1%		3.6%		1.7%		11.9%
Δ Since Trough		34.3%		10.9%		3.8%		15.8%
August-2024	166	-0.9%	559	-0.9%	1,990	-0.5%	161,348	0.2%
10 Year CAGR (2023)		0.4%		0.4%		0.2%		1.1%

Source: U.S Bureau of Labor Statistics

Bold = trough during the Great Recession (2008-2012)

**Figure 4**

Sewerage System Customer Receivables						
FYE December 31 (dollars in thousands)						
	Sewer Account Receivables	Allowance for Doubtful Accounts	Net Sewer Account Receivables	Sewerage Service Charges	Net Account Receivables %	Sewer Service Charges
2018	\$ 40,848	\$ 20,384	\$ 20,464	\$ 114,614	17.9%	
2019	53,183	35,769	17,413	143,686	12.1%	
2020	68,463	45,971	22,492	146,262	15.4%	
2021	81,487	56,203	25,285	150,364	16.8%	
2022	69,968	59,495	10,473	150,932	6.9%	
2023	69,905	59,233	10,672	149,695	7.1%	

Source: SWBNO audited financials.

Rate Affordability

The Board implemented an eight-year program of 10% annual rate increase between 2013 and 2020 which moderated rate affordability, but has since held sewer rates flat for the past four years. A monthly sewer bill based on 5,000 gallons of water usage is approximately \$68 which equates to roughly 1.6% of the City’s 2022 median household income (\$51,116) which is elevated but within the EPA’s 2.0% of median household income affordability threshold. Prospective rate increases are anticipated to be considered for the fiscal 2025 through 2028 time-frame, at a minimum to keep pace with inflationary cost pressures.

RD 4 Update: Operations and Capital

The sewerage system is coterminous with the City’s limits and extends over nearly 86 square miles. The collection system is comprised of 1,334 miles of gravity lines and 124 miles of force mains to convey the wastewater through the system. Once treated, the effluent is chlorinated and discharged into the Mississippi River pursuant to an EPA permit.

The sewerage system entails unique challenges given the topography of New Orleans. The sewerage system consists of two distinct infrastructure systems and two wastewater treatment plants, one each on the east and west banks of the Mississippi River. Additionally, the City is located below-sea level, and as such the sewer system is more reliant on electric power to move the wastewater than other U.S. sewer systems.

Wastewater System Condition and Treatment Capacity

The water system infrastructure, similar to many other cities, is aged and in need of repair. The City estimates roughly half of the water distribution system infrastructure is more than 75 years old. Additionally, SWBNO is unique as it produces its own power to run the water and drainage pumps throughout the city. However, SWBNO’s power resources utilize an older technology that produces electricity at 25 Hz power, which is atypical and outdated relative to today’s standard of 60Hz power. Positively, in recent years, SBWNO has installed backup generators at the power station to provide added electrical support for the sewer system. Wastewater treatment capacity (272 MGD) is more than adequate relative to an average sewer usage of 147 MGD during dry weather.

Capital Plan

The Board maintains a 10-year consolidated capital plan estimated at \$3.2 billion through 2034, and it includes asset and infrastructure investments across all three utility systems. Of this amount, the sewer system’s share of the CIP is approximately 33%, or \$1 billion. The CIP is designed to modernize and harden the sewer, water, and drainage utilities particularly in light of the more frequent and severe weather events anticipated prospectively due to climate change.

The sewerage system is currently in its final phase of compliance with the federally mandated Consent Decree, designed to improve efficiency and safety in the collection and treatment of wastewater, especially the SSOs during wet weather. The completion of the projects under the Consent Decree has been funded primarily via the proceeds of the sewer revenue bonds and the WIFIA Loan proceeds, along with some SRF loans and federal grants. Proceeds from the WIFIA loan are anticipated to fund over 160 projects to upgrade the aged and storm-damaged sewer pipelines throughout the City. To date, the Board expects to meet the 2025 completion timeline for the sewer projects in compliance with the Consent Decree.

Additionally, in 2022, SWBNO and Entergy New Orleans broke ground on a new power complex for SWBNO, with a dedicated substation. The new substation and turbine generators (the “Power Complex”) will replace existing and antiquated power generation with modernized equipment to move water and wastewater more reliably and cost-effectively through the system. The Power Complex is anticipated to be completed in 2025.

KBRA notes that SWBNO’s focus on infrastructure improvements since Hurricane Katrina (2005) did improve the City’s response to Hurricane Ida (2021), the 2nd worst storm to make landfall in Louisiana since Hurricane Katrina. Prior to the storm, SWBNO added backup generators to support drainage pumps all around the City, which allowed continuous

drainage of the stormwater during and after the hurricane. The backup generators further supported continuous delivery of potable drinking water to its residents when most surrounding communities were not able to do so.

While the remaining projects under the sewer Consent Decree are fully funded, SWBNO's funding of capital expenditures through the 10-year CIP will be challenging, as current sewer rates are generating limited surplus funds for capex. SWBNO continues to pursue alternative funding sources, including federal grants, commitments from the City, State revolving funds, and borrowings from the capital markets. In addition, SWBNO's Board is also reviewing the potential for sewer rate adjustments. KBRA will be monitoring SWBNO's ability to complete the Consent Decree projects on-time as well as adequately fund and maintain the sewer system through the ten-year CIP.

RD 5 Update: Financial Profile and Debt

Operating Performance and Debt Service Coverage

The sewerage and water systems' ongoing operations are funded through their respective service rates, while the drainage system is funded through dedicated ad valorem taxes. Each of the systems is financed and accounted for separately.

For the past five years, the sewerage system has maintained solid operating performance, bolstered by the annual rate increases through FY2020, which contributed to stronger net revenues over the prior 5-year period (CAGR of 5.6%) as compared to operating expense growth (1.8% CAGR). For FY2023, sewer operating revenues declined slightly, -0.3% YoY as average daily customer usage (effluent flow) was modestly lower. KBRA notes that while operating revenues have been relatively flat for the past three fiscal years, the nonoperating revenues have been driving total revenues higher, primarily via city, state and/or federal grants.

As shown in the chart below, net revenues available for debt service for senior lien debt service coverage, which includes coverage of sewer system revenue bonds and the WIFIA loan debt service, has been strong at 2.60x to 6.64x for the past five years. Senior lien debt service requirement has been relatively stable at \$20- \$22 million per annum (with the exception of fiscal 2021 due to a refunding).

Going forward, assuming the WIFIA loan is fully drawn over the near-term, senior lien debt service is projected to slowly rise to nearly \$27 million in FY2028 and then up to \$35 million by FY2031, when the WIFIA principal payments commence. Conservatively assuming no sewer rate increases, the Board projects DSC will trend moderately lower to 1.90x by fiscal 2028 – albeit minimally sufficient for the rating level. While not anticipated, should DSC fall below projected levels it could pressure the rating.

Figure 5

Sewerage and Water Board of New Orleans, LA					
Sewerage System - Historical Revenues, Expenses and Debt Service Coverage					
FYE December 31 (in thousands)	2019	2020	2021	2022	2023
Sewerage service charges	143,686	146,262	150,364	150,932	149,695
Plumbing inspection and license fees	288	227	231	243	773
Other revenue	1,052	880	1,270	1,116	1,371
Operating Revenues	145,026	147,369	151,865	152,292	151,839
Interest Income	654	192	1,191	2,236	4,123
Contributions from other governments	9,301	-	-	5,052	4,263
Other Non-Operating Revenue	379	358	171	329	316
Total Revenues	155,360	147,918	153,227	159,909	160,540
Total Operating Expenses	121,739	115,055	133,316	134,646	133,818
Operating Expenses Less Depreciation	95,220	94,649	104,688	105,634	112,340
Less: Other Noncash Expenses (Pension/OPEB)	16,511	6,691	5,935	5,329	4,721
Adjusted Operating Expenses	78,709	87,958	98,753	100,304	107,620
NET REVENUES AVAILABLE FOR DEBT SERVICE¹	76,651	59,960	54,474	59,604	52,921
Debt Service Requirement - Senior Lien	21,714	21,805	8,205	22,846	20,335
Debt Service Requirement - Other	7,283	3,994	3,641	3,641	3,641
Senior Debt Service Coverage²	3.53x	2.75x	6.64x	2.61x	2.60x
Total Debt Service Coverage³	2.64x	2.32x	4.60x	2.25x	2.21x

¹ Reflects Total Revenues less Adjusted Operating Expenses.

² Reflects senior lien sewer system resolution-based debt service coverage; includes parity senior lien sewer revenue bond and WIFIA loan debt service.

³ Includes debt service for senior lien and subordinate sewer debt obligations (i.e., the State's Gulf Opportunity Zone loans).

Source: SWBNO ACFRs.

Debt Profile and Liquidity

SWBNO's outstanding debt for FY2023 totaled \$321.2 million, a decline of -2.97% YoY, and it includes largely wastewater revenue bonds (\$275 million) WIFIA loan (\$1.1 million) and state revolving fund and GO Zone loans. It is conservatively all fixed rate debt, with a final maturity of 2057. In FY23, the Board added a \$31.5 million loan from the Louisiana Department of Environmental Quality (LDEQ, or state revolving fund loan) to fund certain sewer main replacements,

service connections, and other rehabilitation. The 20-year loan will be advanced incrementally as project costs are incurred, with principal payments beginning in FY2025.

Leverage, as measured by Debt-to-Net Fixed Assets has improved in recent years, from 30.3% in FY2020 to 25.3% in FY2023, as the pandemic slowed capital activity due to supply and worker shortages, and business operating restrictions. SBWNO’s capex has more than doubled from \$43.3 million (FY2020) to \$92.7 million (FY2023). Pursuant to the FY24 adopted budget, sewer capex was projected at \$337.9 million for fiscal 2024. This represents an aggressive capital target given historical capex has not exceeded \$100 million annually in the past ten years. KBRA expects leverage to moderately increase over the long-term due to borrowing requirements associated with the CIP. While SWBNO has a history of maintaining sewer rates sufficient to cover operating costs and annual debt service, remaining cash flow for capex has been limited. As such, funding ongoing system improvements through the 10-year CIP will remain a challenge and may pressure debt requirements prospectively, depending upon the level of future rate adjustments.

Liquidity improved for FY23, to \$79.6 million in cash and investments, equivalent to 259 days cash on hand (DCOH), from 209 days in the prior year. The unrestricted cash balance continues to exceed the Operating Reserve Requirement of 90 DCOH as per the sewer revenue bond resolution. Projections provided by management through fiscal 2028 reflect continued maintenance of DCOH in excess of 200 days.

Figure 6

Sewerage and Water Board of New Orleans, LA					
Sewerage System - Historical Leverage and Liquidity					
<i>FYE December 31 (in thousands)</i>	2019	2020	2021	2022	2023
Cash and investments	32,677	45,806	51,146	60,471	79,615
Operating Exp (net of D&A)	95,220	94,649	104,688	105,634	112,340
Days Cash on Hand	125	177	178	209	259
Debt Ratios					
Total Debt ¹	267,664	340,475	345,098	331,090	321,272
Net Fixed Assets	1,097,820	1,122,515	1,151,507	1,192,613	1,268,519
Total Assets	1,215,634	1,349,008	1,382,282	1,400,418	1,448,870
Total Capitalization	1,141,388	1,247,349	1,284,920	1,319,921	1,302,250
Debt/Total Assets	22.0%	25.2%	25.0%	23.6%	22.2%
Debt/Total Capitalization	23.5%	27.3%	26.9%	25.1%	24.7%
Debt/Net Fixed Assets	24.4%	30.3%	30.0%	27.8%	25.3%

¹ Reflects wastewater revenue bonds, WIFIA loan, state revolving fund loans, and GO Zone loans.

Source: SWBNO ACFRs; KBRA calculations.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA’s approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer’s product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors

The Board’s long-term capital and operating plans consider the effects of climate change on the operation of its three utility systems. The 2022-2027 SWBNO Strategic Plan establishes business processes and goals to address the increased frequency of severe weather events.

Physical Climate Risk: To better manage the severe tropical events, the Board has partnered with stakeholders at the City, state, and federal level on various infrastructure initiatives. Such initiatives include supporting the State’s 50-year coastal master plan; advocating for the nonprofit community’s urban water plan; and closely working with the Army Corp of Engineers on drainage improvements throughout the City.

Recognizing the utility systems’ reliance on electricity to power operations, SWBNO has secured its own turbines to provide added electrical reliability to manage severe storms/hurricanes. These turbines were activated during Hurricane Ida’s (2023) and Hurricane Francine’s (2024) heavy rain and/or storm surge, moderating service disruptions. SWBNO continues to work on

its Power Complex project to upgrade SWBNO's remaining vulnerable electric infrastructure, without which the water and drainage system fail to operate.

Saltwater Intrusion: SWBNO sources its potable water from the Mississippi River which is at times subject to the risk of saltwater intrusion, wherein saltwater works its way upriver along the river floor and can increase salinity at SWBNO's freshwater intake to unacceptable levels for drinking water. The saltwater intrusion was exacerbated in the late 2023 due to very low Mississippi river flow. While the low river level has since abated, the saltwater intrusion issue remains an ongoing risk. SWBNO has constructed an elevated "sill" along the river bottom to block the saltwater intrusion into the intakes under most water conditions. KBRA notes the saltwater intrusion has not impacted the sewer system infrastructure or operations.



Social Factors

SWBNO's customers, along with the City, continue to support Board capital investments that upgrade and expand the capacity of the utility systems and improve service. In particular, SWBNO is addressing ongoing lead concerns in its aging water system pipes. With approved federal funding, the SWBNO is committed to replace all lead-infused water lines within the City within 10 years, in compliance with federal environmental requirements and with no rate impact to water customers.

SWBNO has invested in outreach efforts as part of its planning process for potential rate adjustments. Toward this end, the Board has noted that the City's business community has been engaged in the planning for future rate increases, including analyzing the impact of a potential stormwater fee in future years. SWBNO's Customer Advisory Committee has been a similar ally in sourcing community perspective and feedback on rates.



Governance Factors

KBRA views the sewerage and water systems' rate setting autonomy favorably, with no state or federal level oversight or jurisdiction. However, the utility rates require approval of both the SWBNO Board of Directors and the elected local City Council. Additionally, any new debt requirements require the approval of the state-level, Board of Liquidation.

Bankruptcy Assessment

For the most recent Bankruptcy Assessment, please refer to the prior KBRA rating report for SWBNO dated [October 24, 2023](#).

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