CREDIT OPINION
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City of New Orleans, LA

Update to credit analysis following affirmation

Summary

The City of New Orleans, LA (A2 stable) benefits from a solid economic recovery following losses reported at the early onset of the pandemic. While the city continues to see gains in tourism with the return of several high profile events and benefits from the institutional presence of key higher education and health care providers, economic growth has not kept pace with national GDP growth and resident income remains below the national average at 72.6%. The city's financial reserves continue to lag peers and both fund balance and liquidity saw declines to 6.1% and 56.9% of operating revenue, respectively in fiscal 2023. Positively, the city holds additional reserves restricted for emergencies and impacts from natural disasters. The city will continue to rely on available federal pandemic aid to maintain balanced operations until expected depletion in fiscal 2025. While the city's leverage is manageable at 224% of fiscal 2023 revenue, ANPL remains elevated and constitutes the largest portion of the city's long-term liabilities. Obligations related to the public safety employees' pension are expected to remain elevated for the foreseeable future as the city continues efforts to increase public safety staffing in support of increased obligations. The city's exposure to environmental considerations remains elevated though significant infrastructure investments by multiple levels of government have improved the area's resilience to weather events.

On July 24, we affirmed the city's issuer, general obligation unlimited tax, and general obligation limited tax ratings.

Credit strengths

- Large, growing tax base supported by tourism economy, institutional presence, and regional importance

Credit challenges

- Below average resident income levels
- Significant portion of employment and revenue driven by tourist related sectors can cause volatility through economic cycles
- Near term reliance on federal aid to balance financial operations

Rating outlook

The stable outlook reflects the expectation that the city's economy will strengthen as tourism remains strong and continues to benefit the area. The stable outlook also reflects the expectations that the city will continue to adequately fund pension obligations. Management's ability to maintain balanced operations and adequate reserve levels after depletion of federal pandemic aid will be key to maintaining a stable credit profile.

Factors that could lead to an upgrade

- Strengthened economic growth indicators to levels more comparable to peers
- Sustained increase in available fund balance levels exceeding 15% of operating revenue
- Continued investments in environmental risk mitigation while maintaining manageable long-term liabilities and fixed costs

Factors that could lead to a downgrade

- Inability to maintain balanced operations when federal pandemic aid is depleted in fiscal 2025 resulting in further deterioration of reserves
- Materially adverse impacts from pending litigation

Key indicators

Exhibit 1
New Orleans (City of) LA

	2020	2021	2022	2023	A Medians
Economy					
Resident income ratio (%)	69.5%	70.0%	72.6%	N/A	85.3%
Full Value ($000)	$41,252,984	$40,860,721	$45,619,104	$53,146,170	$765,032
Population	391,249	383,974	380,408	N/A	10,363
Full value per capita ($)	$105,439	$106,415	$119,922	N/A	N/A
Annual Growth in Real GDP	-8.2%	3.2%	-1.6%	N/A	4.7%
Financial Performance					
Revenue ($000)	$1,079,210	$1,194,213	$1,361,744	$1,438,121	$22,589
Available fund balance ($000)	$18,178	$55,593	$286,975	$87,196	$9,301
Net unrestricted cash ($000)	$313,314	$1,043,513	$1,055,990	$818,906	$13,502
Available fund balance ratio (%)	1.7%	4.7%	21.1%	6.1%	40.7%
Liquidity ratio (%)	29.0%	87.4%	77.5%	56.9%	55.3%
Leverage					
Debt ($000)	$644,265	$1,111,273	$921,882	$806,946	$18,954
Adjusted net pension liabilities ($000)	$2,148,313	$1,940,681	$1,607,325	$1,575,748	$28,106
Adjusted net OPEB liabilities ($000)	$159,596	$149,676	$105,923	$107,010	$1,627
Other long-term liabilities ($000)	$478,060	$470,014	$472,814	$534,109	$749
Long-term liabilities ratio (%)	317.8%	307.5%	228.2%	210.3%	272.9%
Fixed costs					
Implied debt service ($000)	$51,224	$46,138	$77,944	$64,384	$1,360
Pension tread water contribution ($000)	$80,445	$78,847	$67,089	N/A	$864
OPEB contributions ($000)	$0	$9,662	$10,390	$9,603	$56
Implied cost of other long-term liabilities ($000)	$33,008	$34,235	$32,967	$33,021	$47
Fixed-costs ratio (%)	15.3%	14.1%	13.8%	12.1%	12.6%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The real GDP annual growth metric cited above is for the New Orleans-Metairie, LA Metropolitan Statistical Area Metropolitan Statistical Area.
Sources: US Census Bureau, New Orleans (City of) LA's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of New Orleans has an estimated population of about 364,000 (as of 2023) and is the largest populated city in Louisiana (Aa2 stable). The city is in the southeastern portion of the state and lies along the Mississippi River near the Gulf of Mexico. The city's economy is driven by tourism, trade, health care, and higher education.

Detailed credit considerations

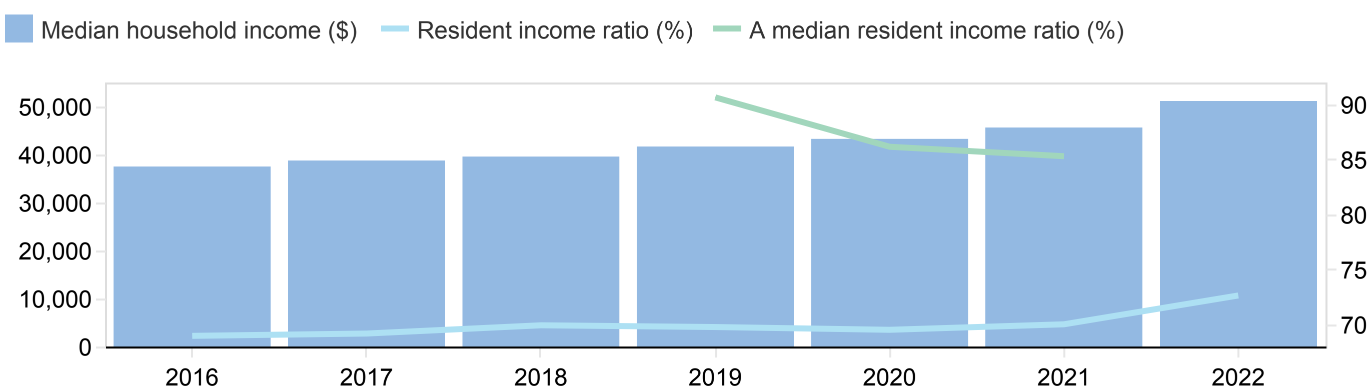
Economy

The greater New Orleans area has seen solid progress towards economic recovery which is expected to continue with tourism continuing to grow. The main industries of the city include tourism, transportation and trade, health care and higher education, all of which were affected to varying degrees by the pandemic. As of 2023, the city has seen the return of several major events that drive tourism including Mardi Gras, the New Orleans Jazz Fest, Essence Fest, and the New Orleans Film Festival. The city is also home to two professional sport franchises—the New Orleans Saints football team and the New Orleans Pelicans basketball team—and is slated to host the NFL Super Bowl in February 2025. Additionally, the city continues to see increases in hotel, conference, and cruise line activities.

While the economy has seen positive gains in recent years, the city still faces challenges on the way to full economic recovery. While GDP has improved since the height of the pandemic, it has not recovered to pre-pandemic levels and still lags the nation with an annual average decline of 1.1% over the past five years. The US GDP has increased an annual average of 2.2% in the same period. The city's resident income also lags similarly rated peers with a median household income of 73% of the US when adjusting for regional price parity. While the city's full value per capita has increased to almost $140,000, well above the median for the A rating category, this is due in large part to population declines in recent years coupled with increases in the city's tax base over the past two years.

Despite these challenges, the city continues to be a destination of regional importance. Continued resurgence in tourism and related economic activity will be key to supporting the city's economic trajectory over the next three to five years.

Exhibit 2
Resident Income



Source: Moody's Ratings

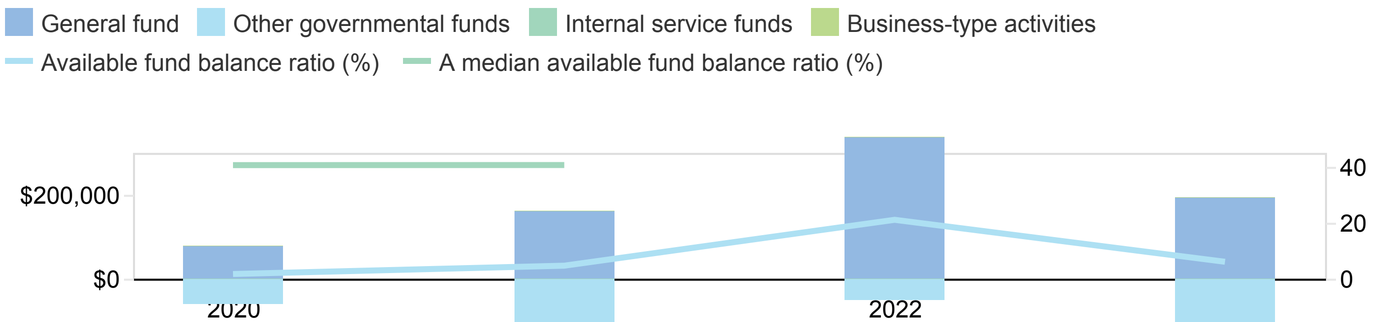
Financial operations

The city's financial reserves remain notably low for the sector but are expected to remain stable in the near term supported by unspent federal aid available to cover lost revenue as a result of the pandemic. While the city has strategically used the influx of one-time funds – both American Rescue Plan Act (ARPA) and fund balance – to bolster the city's operations, it is not expected that the budget will be balanced without the aid of ARPA funding until fiscal 2025. The city adopted a balanced budget for fiscal 2024 and city officials expect to end the year in line with budget expectations.

The city closed fiscal 2023 (Dec. 31 year-end) with an available fund balance of $87 million, or 6% of revenue. This is a significant decrease from the prior year, though still higher than the immediate post-pandemic fiscal years, and is due in part to the early pay off of taxable debt. Available fund balance is expected to remain well below peers over the long-term. Positively, the city currently holds $133 million in restricted fund balance which is double the amount held in restricted funds in fiscal 2022. The city plans to retain $100 million as a static amount going forward specifically to be used for emergencies. The additional amount of $33 million may fluctuate year-to-year as it is based on a percentage of general fund expenditures. Per a charter amendment approved by voters in November 2017, the city must maintain a rainy day savings fund equal to 5% of the average past five years of general fund expenditures which is reported as restricted fund balance. This reserve cannot be utilized unless two-thirds of the council votes to use it, though that may only occur in the case of an emergency, economic recession, or federal mandate. Additionally, the city has a goal of maintaining a 2% unreserved fund balance and 8% emergency fund balance within the committed general fund balance.

The city's largest revenue sources are property and sales taxes, which together accounted for approximately 42% of revenue in fiscal 2023. Intergovernmental revenue and charges for services were also main revenue sources at 34% and 14%, respectively. The city has seen sales tax and hotel/motel taxes return to pre-pandemic levels. This trend is expected to continue given increasing tourism and large events such as the Super Bowl slated for fiscal 2025.

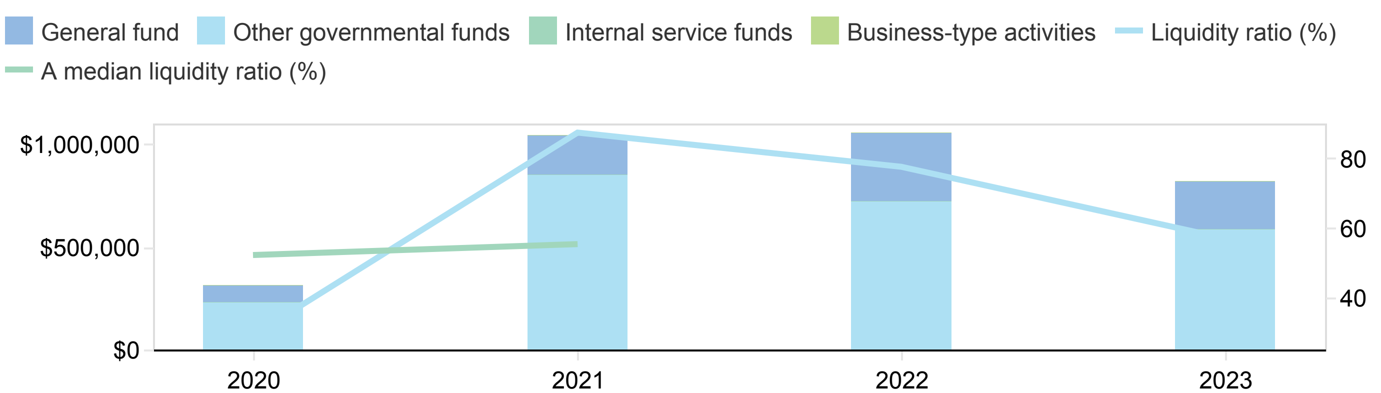
Exhibit 3
Fund Balance



Source: Moody's Ratings

Liquidity
At fiscal year-end 2023, available liquidity across all governmental funds was $818 million or 57% of fiscal revenue which represents a 22% decline from fiscal 2022. This is due in large part to the spend down of pandemic aid. Liquidity is likely to continue to fluctuate given the ongoing receipt and use of various federal aid and grant monies.

Exhibit 4
Cash

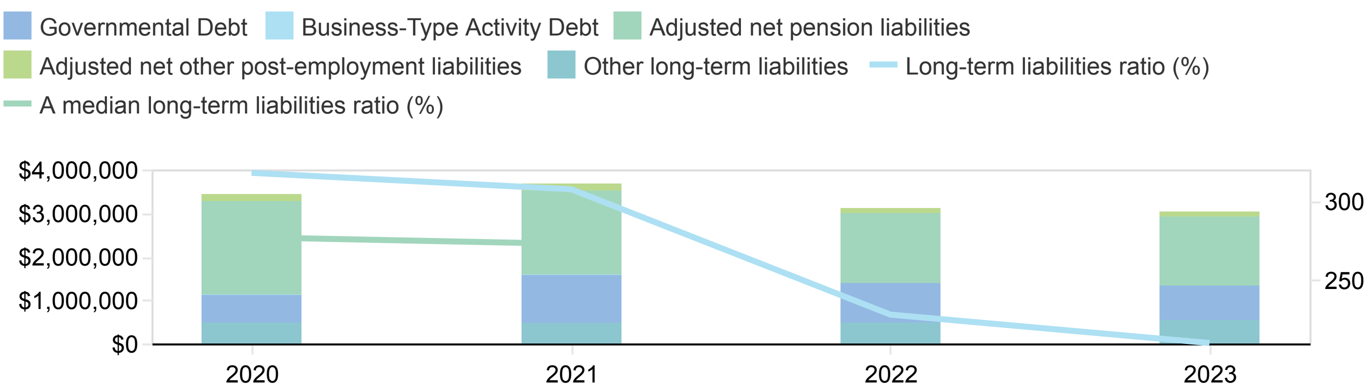


Source: Moody's Ratings

Leverage
The city's leverage remains in line with similarly rated peers and will remain manageable with no immediate plans to return to voters for additional authorization. The Moody's adjusted net pension liability (ANPL) remains elevated and constitutes the largest portion of the city's long-term liabilities ratio at 52%. The city's ability to fully fund pension obligations will play a role in the city's credit profile going forward; specifically, costs associated with the old firefighters plan that is funded on a pay-as-you-go basis and the obligations

related to the Municipal Police Employee Retirement System (MPERS). The continued loss of officers has reduced the amount the city is paying into the pension fund which triggered fines. The city remains in communication with MPERS to identify a solution to alleviate the fines related to the decreased contributions as a result of the loss of officers. The city is also in the midst of a leave conversion lawsuit with MPERS to determine if the city has sufficiently paid into the fund when considering retiring officer's unused sick leave. An adverse ruling against the city resulting in additional liabilities could negatively impact the credit profile. The city's five year capital improvement plan (fiscal 2024 - 2028) calls for $786.3 million in projects with approximately 36% ($285 million) funded by Federal Emergency Management Agency (FEMA) reimbursements. The city's total long term liabilities ratio post issuance of the Series 2024 bonds will be 224% of fiscal 2023 revenue, which compares favorably to similarly rated peers. All leverage is in the city's governmental activities with debt accounting for approximately 31% of the city's total leverage ratio.

Exhibit 5
Total Primary Government - Long Term Liabilities



Source: Moody's Ratings

Legal security
The general obligation unlimited tax bonds carry the city's full faith and credit pledge and are payable from a dedicated, unlimited property tax levied on all real taxable property in the city, which is secured by state statute. Property taxes levied for payment of the city's general obligation unlimited bonds are collected by the city and transferred to the Board of Liquidation for debt service payment.

The general obligation limited tax bonds are payable from a static general purpose 12.23 mills set in the state's constitution. Proceeds from the levy may be used for debt service, general operations and capital projects, but creditors have a first priority lien on the limited levy. Per state law, upon reassessment, millages must be set to be at least revenue neutral, providing some stability to the pledged revenue stream. Additionally, the city requires pledged revenues to provide at least 1.35 times maximum annual debt service, and constitutional provisions require that the levy be at least revenue neutral as a result of a reassessment.

Debt structure
All of the city's debt is fixed rate and amortizes over the long term with final maturity in 2053.

Debt-related derivatives
The city is not party to any swap or derivative agreements.

Pensions and OPEB
The city has three single-employer pension plans, the Employees' Retirement System and two plans for Firefighters (new system and closed old system). The City also participates in the Municipal Police Employees' Retirement System, which is a statewide cost-sharing plan, and includes assets from the city's single employer police plan that was merged in 1983.

The city's contributions to the Municipal Police plan are set by the state legislature and benefits are set by state statute. Contributions to the employees' plan and new firefighters plan are actuarially determined while the old firefighters plan is funded on a pay-as-you-go basis. The old plan covers firefighters employed before 1968.

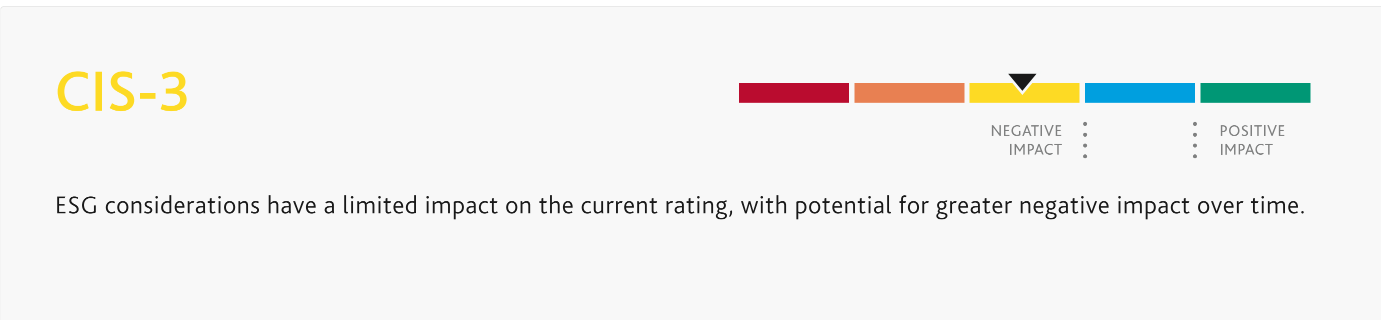
The city made several benefit changes to the employee's plan for new hires as of January 1, 2018, including a lower benefit multiplier, increased retirement age, lower base earnings for benefit calculations, and shorter DROP period. Cost-of-living adjustments (COLAs) are not granted, even for current retirees, unless the plan is at least 95% funded.

The result across all pension plans is an adjusted net pension liability (ANPL) of $1.6 billion for fiscal 2023, compared to a reported unfunded liability of $1 billion. For fiscal 2023, the city's pension contribution was $105.4 million. The city's other post-employment benefits (OPEB) contribution was $9.6 million in fiscal 2023.

ESG considerations

New Orleans (City of) LA's ESG credit impact score is CIS-3

Exhibit 6
ESG credit impact score



Source: Moody's Ratings

New Orleans' Credit Impact Score of **CIS-3** reflects exposure to environmental risks that are mitigated in part by the area's extensive infrastructure development and planning, low exposure to social risks, and good governance. The city also benefits from external financial and capital investment from other levels of government and other organizations to combat environmental challenges. These initiatives support the city's resilience and capacity to respond to external shocks.

Exhibit 7
ESG issuer profile scores

Source: Moody's Ratings

Environmental

New Orleans' environmental issuer profile score is **E-4**. The city has significant exposure to physical climate risks, particularly hurricanes, heat stress and water stress. Risks related to water management, waste and pollution and natural capital is low. The city benefits from a regional approach through the Southeast Louisiana Flood Protection Authority-East and Southeast Louisiana Flood Protection Authority-West and capital planning that guides ongoing infrastructure development. Additionally, the city has implemented policies that govern building codes and development, all targeted at increasing its resiliency. Absent these mitigating initiatives or if the city fails to continue pursuing similar initiatives, the environmental score will weaken. Exposure to carbon transition risks is inherent in the city's role as an energy employment center. Sustained demand for green alternatives will weigh on the city but its effects will play out over a much longer period.

Social

The city's social issuer profile score is **S-2** reflecting declining demographic trends due to negative net migration and low birth rates. The score also reflects exposure to health and safety risks as a result of having one of the highest violent crime rates in the nation. The city has relatively low exposure to other social risks including labor and income, education, housing, and access to basic services.

Governance

New Orleans' governance issuer profile score is **G-2** reflecting solid institutional structure and the city's strong commitment to policy credibility and effectiveness as evidenced by a rainy day savings reserve, fund balance policies and oversight for debt issuance by the Board of Liquidation. The city's solid transparency and disclosure is reflected in quarterly financial reporting and other disclosures which have been delayed in being posted at times. The city also utilizes quarterly financial forecasts and capital planning that encompass economic projections to guide a forward planning view for its resources and has a tenured management team well equipped to adapt to changing economic operating environments.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8
New Orleans (City of) LA

	Measure	Weight	Score
Economy			
Resident income ratio	72.6%	10.0%	Baa
Full value per capita	139,708	10.0%	Aa
Economic growth metric	-3.3%	10.0%	Baa
Financial Performance			
Available fund balance ratio	6.1%	20.0%	Baa
Liquidity ratio	56.9%	10.0%	Aaa
Institutional Framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio	210.3%	20.0%	A
Fixed-costs ratio	12.1%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			A2
Assigned Rating			**A2**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for New Orleans-Metairie, LA Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, New Orleans (City of) LA's financial statements and Moody's Ratings

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US Cities and Counties Methodology .

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
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