

Research Update:

# New Orleans GO Rating Lowered One Notch To 'BBB+' On Structurally Imbalanced Operations; Outlook Negative

April 7, 2026

## Overview

- S&P Global Ratings lowered its rating on the City of [New Orleans](#)' general obligation (GO) debt outstanding one notch to 'BBB+' from 'A-'.
- The outlook is negative.
- The downgrade and negative outlook reflect the city's structurally imbalanced operations, declining reserves and liquidity, and need to rely on multiple one-time measures to meet short-term cash needs, including additional borrowing for operating liquidity.

## Rationale

### Security

New Orleans' limited-tax bonds outstanding are special and limited obligations of the city and are secured by, and payable solely from, the city's portion of the revenue of a special ad valorem tax, which was set at 12.23 mills in 2024.

Revenue from an unlimited ad valorem tax secures the city's GO bonds outstanding.

### Credit highlights

The 'BBB+' rating and negative outlook reflect our view of New Orleans' reliance on one-time solutions to meet cash flow requirements that exceeded our prior expectations and are inconsistent with the financial management and performance of higher-rated entities. We expect the management team will continue utilizing these solutions over the next two years as the city works to restore operating balance and working cash, including long-term borrowing to fill immediate cash flow needs, transferring fund balances from outside agencies, reallocating fund balances originally designated for capital and American Rescue Plan Act (ARPA) funds, and maintenance of a hiring freeze and furloughs.

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However, our analysis also incorporates New Orleans' efforts to address its structural deficits, which include more aggressive actions on existing receivables owed to the city, addressing property tax and fee revenue collections, seeking additional revenue sources including increased sanitation fees and mobile phone user fees, the latter of which requires state legislative approval. The city implemented new internal controls to manage departmental expenditures, particularly around public safety overtime, a major source of negative budget variation in prior years. In fiscal 2025, the city estimates a \$160.1 million deficit, which is an indicator of the significant structural deficits the city needs to overcome. The fiscal 2026 budget has equal revenues and expenditures but relies on multiple one-time measures to close the budget gap. We will look forward to the 2027 budget to see evidence of structural changes in the city's operations, indicating progress toward balanced operations.

Despite these measures, we believe the city still faces substantial challenges in achieving those goals and has a history of management projections not meeting actual audited results. In our view, the city's flexibility to implement structural solutions to the budget gap is limited by, among other things, constraints on revenue-raising flexibility that require legislative support to change, and significant political and practical hurdles to meaningfully reducing recurring expenditures. We also believe that the credit vulnerability and significant capital needs of the separate water and sewerage board limits the city's flexibility to delay expenses or reallocate revenue shared with the utility under cooperative endeavor agreements.

We believe the city maintains credit characteristics consistent with an investment-grade rating, given a strong economic tax base, however, this is reliant on the city's ability to provide services to residents at a reasonable cost. The Board of Liquidation is a separate legal entity responsible for levying and collecting taxes for repaying the city's unlimited-tax GO debt. Currently the Board maintains a fully funded debt service reserve of \$70.0 million, or one year of maximum annual debt service. Officials state as of March 20, the city has \$34.4 million in unrestricted general fund cash; \$63.1 million of cash, gathered from a mix of one-time and recurring sources, sequestered in a separate account to meet immediate liquidity needs; and \$35.0 million in rainy day reserves.

Currently, the city estimates it needs \$209.5 million in cash for operations in the next three months, with an additional \$111.5 million required to repay the first short-term note in the next two months, for a total of \$321.0 million. To cover short-term liquidity needs, the city has estimated a total of \$282.2 million in revenue over the next three months but will need to take one-time measures to meet the remaining needs. To meet these needs, the city does not plan to use the existing \$35 million in rainy day reserves as that requires city council approval, but projects unrestricted cash to fall to \$29.3 million in May compared with 2026 budgeted general fund expenses of \$799 million. In July and August, the city estimates another \$70 million in short-term cash flow needs.

To bridge these cash flow needs, the city has identified the following measures and contingencies.

- In the summer of 2026, the city plans to issue long-term debt using an existing general alimony millage that has no expiration. Officials stated they are using this approach to reduce near-term cash needs and avoid near-term cash pressures such as those stemming from the initial revenue anticipation note issued at the end of 2025. We note that the city is required to obtain state bond approval to issue this debt. Officials state that they are in consistent communication with the state and that the city is having conversations with the state legislators' office on recent financial actions described as positive. Given the state's support of the previous revenue anticipation note, and the legislative auditors current involvement with the city's finances, in our view we believe the city can obtain additional financing.

- The city continues to enforce a hiring freeze, pursue existing receivables currently owed to the city and utilize outside sources of reserves. Some of these outside sources include funds from the Sewerage & Water Board of New Orleans, the Wisner Trust, existing ARPA funds, transfers from outside agencies such as municipal court, and reallocating capital funds.
- The city has collected 87% of property taxes billed in December 2025 and February 2026 and estimates an additional \$2 million in receipts a month through the remainder of 2026, and it continues to collect on sales taxes estimated at \$23 million a month.
- Finally, the city has identified other revenue opportunities for contingency purposes such as negotiating payments with vendors, which officials consider a last resort.

In previous years, the city's projections have not met actual audited results. However, we consider current measures and details the city has provided on budgetary actions to be more transparent and substantial than in the past. Still, it remains to be seen if actual results will result in gradual improvements to the city's financial position. In the long term, the city plans to continue cutting department expenditures, exploring city revenue enhancements, working with the state on other revenue opportunities, increasing fees, and analyzing other agreements the city has with outside parties in search of financial efficiencies. Officials state they have made some progress toward these goals, for example, stating that overtime spending in January 2026 is 54% of overtime spending in January 2025.

We will continue to monitor budget-to-actual results and the fiscal 2026 audit for additional evidence of progress toward this goal, such as unaudited financial statements or budget-to-actual reports provided to city council. Ultimately, the city expects to have balanced operations in fiscal 2027. In our view, given the city's significant budget and operational challenges, achieving structural balance could take longer; however, we acknowledge the substantial measures the city has identified to address the decline in liquidity and create space for longer-term budget solutions.

Our rating also reflects the following for New Orleans:

- Per capita gross county product for Orleans Parish is 97.0% of the U.S. level, and per capita personal income is 97.4%. The local economy has seen continuous declines in population, which in our view reflects weaker long-term growth and employment prospects; however, for 2025, preliminary assessed values (AVs) show a modest improvement of 0.6%. AV growth is spurred by continued diversification of the local economy in areas such as health care and film production. Officials state that in the recent months, a new industrial development facility called Newlab and the announcement of a major aerospace project will contribute to the local economy's growth.
- Operating results have been sharply negative in the past two audited fiscal years (2023 and 2024) with drawdowns approaching \$200 million, or 58% of reserves as reported at the end of fiscal 2022 (\$344 million), and initial unaudited results suggest another substantial deficit in fiscal 2025.
- As of 2024, the city reported \$194 million in available reserves, or 23.9% of general fund revenues. In fiscal 2025, initial unaudited figures, which are subject to change as accounting entries are adjusted, reflect a \$160.1 million dollar deficit in the general fund, and we expect final audited 2025 figures to show another significant decline in reserves.
- The city has elevated liabilities, with short-term maturities that could further pressure cash and significant future debt plans, including \$500 million for various capital expenditures, which voters recently approved. Pension liabilities are substantial, particularly with the firefighter

plans, both of which are funded under 10%, with total liabilities of more than \$1 billion across all plans. We believe that the high fixed costs of pensions could contribute to reduced budgetary flexibility, especially given the city's thin reserve position. We believe that the firefighters' plan is a significant credit risk, and that the city will deal with financial pressures from these city-managed pension plans for the foreseeable future. New Orleans continues to evaluate options to reduce the liability, but we will consider this credit negative until management makes material progress in funding these large pension liabilities.

- In our view, New Orleans' financial management practices are weaker than those of other similar sized cities, despite stated budgetary practices that include regular monitoring of the budget; long-term capital planning; and investments, debt management, and reserve policies. Disclosure and transparency has improved since our last review, with officials providing more detail on the financial adjustments the city is planning. Officials have instituted a variety of internal cost control policies in response to the budget gap. Currently it has Louisiana state officials on site providing oversight on expenditures, which we consider credit positive. We note that the city has a new chief administration officer who started their role when the new mayor began her administration.
- For more information on our institutional framework assessment for Louisiana municipalities, see "[Institutional Framework Assessment: Louisiana Local Governments](#)," Sept. 9, 2024.

## **Environmental, social, and governance**

We believe the city's risk management, culture, and oversight, and governance structure--given the sizable, unexpected cash shortfall--are weaknesses in our analysis. The city council has approved a 2026 budget, developed with significant input from the new mayor, that contains significant expenditure reductions and revenue enhancements. Management has identified several options to meet short-term cash flow needs.

In addition, New Orleans' exposure to climate hazards represents a long-term, and more outsized, risk to credit quality. According to our Sustainable<sup>1</sup> data, the city has high exposure to physical risks from coastal flooding and hurricanes, with coastal flooding a particular outlier when compared with the U.S. and Louisiana. As a result of soil issues and the global incidence of sea-level rise, the U.S. Army Corps of Engineers analysis indicates that the Greater New Orleans Hurricane and Storm Damage Risk Reduction System might not provide the intended mitigation.

New Orleans' unique location and geography, with extensive low-lying areas, exposes it to storm-damage risks, as evidenced by the city's history of named hurricanes and tropical storms. To mitigate these concerns, the city focused on maintaining its network of drainage pumps, worked with insurance providers to improve coverage levels, and improved building codes to require certifications such as LEED.

## **Outlook**

The negative outlook reflects there is at least a one-in-three chance of a lower rating within our two-year outlook horizon, as we evaluate how the city navigates through its cash needs in the next four to five months and its fiscal 2026 results. We also are monitoring New Orleans' leadership's efficacy in stabilizing budgetary operations in 2027, and how these actions translate to audited results.

## **Downside scenario**

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We could lower the rating if cash flow deteriorates faster than projections provided by the city, or if the city is still utilizing substantial one-time solutions to address its structural deficit within the next two years, or if the upcoming issuance to meet short-term cash needs is significantly larger than previous borrowings, indicating a greater need for immediate cash.

### Upside scenario

We could revise the outlook to stable if the city demonstrates continuous improvement to reduce one-time fixes to balance the general fund, indicating improvements to structural operations, as evidenced by audited financial reporting in 2026 or 2027.

### New Orleans--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	4.48
Economy	2.0
Financial performance	6
Reserves and liquidity	5
Management	4.65
Debt and liabilities	4.75

### New Orleans--key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.	97	97	97	98
County PCPI % of U.S.	97	97	96	95
Market value (\$000s)	51,319,836	50,910,736	43,127,109	38,681,745
Market value per capita (\$)	138,807	137,701	113,205	98,631
Top 10 taxpayers % of taxable value	8.1	7.4	8.4	7.7
County unemployment rate (%)	4.4	4.9	4.4	4.5
Local median household EBI % of U.S.	69	69	71	71
Local per capita EBI % of U.S.	92	92	94	93
Local population	369,720	369,720	380,966	392,186
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	816,365	828,418	791,258
Operating fund expenditures (\$000s)	--	920,038	904,931	632,668
Net transfers and other adjustments (\$000s)	--	(17,444)	--	9,166
Operating result (\$000s)	--	(121,117)	(76,513)	167,756
Operating result % of revenues	--	(14.8)	(9.2)	21.2
Operating result three-year average %	--	(1.0)	8.7	13.8
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	23.9	38.6	43.5
Available reserves (\$000s)	--	194,829	319,470	344,111
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	9.4	9.9	17.2

**New Orleans--key credit metrics**

	Most recent	2024	2023	2022
Net direct debt per capita (\$)	2,071	2,225	1,853	1,966
Net direct debt (\$000s)	765,789	822,604	705,999	771,010
Direct debt 10-year amortization (%)	48	48	56	62
Pension and OPEB cost % of revenues	--	9.0	8.0	8.0
NPLs per capita (\$)	--	3,132	3,321	3,445
Combined NPLs (\$000s)	--	1,157,996	1,265,268	1,351,205

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

**Ratings List**

**Downgraded**

	To	From
<b>Local Government</b>		
New Orleans, LA 13.91 Mill Limited Property Tax	BBB+/Negative	A-/Negative
New Orleans, LA Unlimited Tax General Obligation	BBB+/Negative	A-/Negative

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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