

## Research Update:

# New Orleans GO Rating Lowered Two Notches To 'A-' From 'A+' On Rapid General Fund Reserve Drawdowns; Outlook Negative

December 19, 2025

## Overview

- S&P Global Ratings lowered its rating on the City of [New Orleans](#)’ general obligation (GO) debt outstanding two notches to ‘A-’ from ‘A+’.
- At the same time, we removed the rating from CreditWatch, where it was placed with negative implications Oct. 29, 2025.
- The outlook is negative.
- The downgrade and negative outlook reflect the city’s significant negative expenditure variances, particularly in overtime pay, coupled with rapid drawdowns of available general fund reserves and escalating receivables that together precipitated the need to borrow \$125 million to cover payroll. The negative outlook reflects that there is a one-in-three chance we could lower our rating further given New Orleans’ history of projections not meeting actual results and budgetary challenges in 2026.

## 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 rating reflects New Orleans’ deteriorating financial position, reliance on cash flow borrowing, significant long- and short-term liabilities, and revenue and expenditures challenges in balancing

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the fiscal 2026 budget. Furthermore, we believe management has not implemented timely actions to adjust operating imbalances when necessary. The city council adopted a 2026 budget, and the current mayor vetoed it, only for the city council to override the veto by a 7-0 margin. In addition, the rating reflects our view of the city's diverse local economy and status as a tourism destination that is host to multiple entertainment, sporting, and other events, despite steady population declines.

Recently, the city acquired a \$125 million loan to cover payroll, which we attribute to negative expenditure and revenue variances in fiscal years 2024 and 2025. In addition, since 2022, the city's cash declined to \$40 million from \$279 million, squeezing its flexibility cushion. New Orleans officials cited multiple factors for the gap financing requirement as well as the use of available cash, including costs for overtime related to sporting events, the Bourbon Street terrorist attack on Jan. 1, 2025, a significant snowstorm, and hosting the Super Bowl, as well as the federal government shutdown, which delayed certain federal reimbursements.

Initially New Orleans withdrew the \$125 million loan request after facing opposition from the Louisiana State Bond Commission, but after negotiating with state officials, received approval to cover short-term needs. Requirements to receive the loan included having a team from the state legislator's office on site and to establish a payroll fund where disbursements require state approval. The loan's maturity is in June 2026, at which time reevaluation of the current arrangement with the state will occur. Currently, New Orleans does not expect to borrow additional funds for cash flow, but given the significant obstacles the city must overcome to achieve stable operations, we believe it is possible it will have to find additional avenues for short-term liquidity.

New Orleans has a new mayor elect, who will be sworn in Jan. 12, 2026. Officials state that the new administration will have latitude to make sweeping budgetary adjustments for 2026. The initial 2026 budget, which includes significant input from the incoming mayor, was vetoed by the current mayor in December. As of the time of this report, council subsequently overrode the mayor's veto, passing a budget that has approximately \$77 million in expenditure reductions, and \$76 million in proposed revenue enhancements. The outgoing mayor had proposed a budget that was based on identified revenue.

The budget has a variety of measures intended to reduce expenditures and increase revenue. Among the expenditure reductions are \$27.7 million in personnel costs, including furloughing staff, reducing headcount among probationary positions, and continuing the hiring freeze. The proposed 2026 budget document will fully fund certain public safety and essential service programs, such as the fire department, public works, sanitation, and public safety overtime. As a part of this proposed budget, the new administration has proposed \$76 million in revenue enhancements from utilities, American Rescue Plan Act funds, parking enforcement, collections, and grants. It also includes offsets of \$4.6 million from other agency fund balances such as Municipal and Traffic Court, the public defender's office, and municipal participation grants of less than \$3 million. We understand that the budget could be further amended this coming January when the new mayor is sworn in, and might offer other solutions for the city's budget crisis. The contentious budget process and variation between the mayor's proposed and final enacted budget packages highlight uncertainty as to how the city will operate and address budgetary challenges in 2026. Given the history of imbalanced budgetary performance, rapid loss of reserves, and the council's rejection of the outgoing mayor's proposed solutions to balance the budget, future rating actions will be contingent on audited financial statements demonstrating balanced performance.

Currently, the city estimates it will have restricted rainy-day reserves in the general fund of \$35 million and unrestricted reserves of \$32 million (8% of 2024 general fund revenues) at the end fiscal 2025. For now, the city's council mandated reserve of \$35 million is intact, but the emergency reserve of \$100 million has been spent down to \$32 million. In 2025, New Orleans began to make expenditure cuts in June, limiting spending and implementing a hiring freeze resulting in approximately \$85 million of budgeted expenditures that were not processed. Despite these significant cuts, officials project another deficit in 2025 as officials expect that sales tax revenues will likely come in lower than in 2024 due to the terrorist attack and snowstorm but expect collections to return closer to historical levels in 2026. Also, administrators have implemented new internal control procedures, and currently have weekly and bi-weekly cash and expenditure reports to monitor current progress.

Despite the changes New Orleans has made, our rating actions reflect the sudden decline in liquidity requiring cash flow borrowing and surprise nature of the overtime spending, indicating weaker management practices for a city of this size. Given that New Orleans will need to continue to make expenditure cuts and potentially issue additional cash flow borrowing, we consider the city's finances to be under significant pressure and could deteriorate further. Previously, New Orleans mentioned it would spend down reserves to a \$133 million target, but these reserves have been spent down below their target, severely limiting the city's financial flexibility. An outlook revision to stable is contingent on the city demonstrating balanced results for multiple years.

Our rating also reflects the following for New Orleans:

- Per capita gross county product for Orleans Parish is 97.6% of the U.S. level, and per capita personal income is 96.9%. The local economy has seen a small decline in population, but 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 past couple of 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 with drawdowns approaching \$200 million, or 58% of reserves as reported in fiscal 2022 (\$344 million), and initial unaudited results suggest another deficit in fiscal 2025. As noted, the city has proposed a preliminary balanced budget for 2026, but in our view New Orleans has several challenges to overcome to return to balanced operations.
- As of 2024, the city reported \$194 million in available reserves, or 23.9% of general fund revenues, and initial unaudited 2025 figures indicate this will fall to approximately \$67 million, or 8% of 2024 revenues.
- 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 were recently approved by voters. 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 a credit negative until it makes material progress in funding these large pension liabilities

- Given the surprise nature of the financial changes in recent months and the contentious budget development and adoption process, 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. Future assessments depend on future performance and the city returning to balanced operations. City 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.
- 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 incoming mayor elect, that contains significant expenditure reductions and revenue enhancements.

In addition, New Orleans' exposure to climate hazards represents a long-term, and more outsized, risk to credit quality. According to our Sustainable1 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, improved building codes to require certifications such as LEED, and designated \$100 million in reserves for contingencies.

## Outlook

The negative outlook reflects our view that there is at least a one-in-three chance that the city's finances will continue to deteriorate, reserves will be further depleted, and that 2025 and 2026 audits will show continued distress, leading to further rating actions. If New Orleans is unable to balance operations, whether through revenue enhancements or through other means, we could take further negative rating actions.

## Downside scenario

We could take a negative rating action if New Orleans is unable to balance operations, cash flow borrowing continues beyond what is currently anticipated, or if reserves continue to decline in 2026.

## Upside scenario

We could revise the outlook to stable if the city returns to balanced operations in 2026 and beyond and maintains fund balances for multiple years following the current planned drawdown.

## New Orleans--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	4.08
Economy	2
Financial performance	5
Reserves and liquidity	5
Management	4.65
Debt and liabilities	3.75

## New Orleans--key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.	98	--	98	97
County PCPI % of U.S.	97	--	97	96
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 (%)	4.9	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)	--	937,490	905,931	633,668
Net transfers and other adjustments (\$000s)	--	(17460)	--	9,166
Operating result (\$000s)	--	-138,569	-76,513	167,756
Operating result % of revenues	--	-17	-9.2	21.2
Operating result three-year average %	--	-1.7	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
Net direct debt per capita (\$)	2,118	2,136	1,853	1,966
Net direct debt (\$000s)	783,026	789,851	705,999	771,010
Direct debt 10-year amortization (%)	40	57	56	62

## New Orleans--key credit metrics

Most recent	2024	2023	2022
Pension and OPEB cost % of revenues	--	9	8
NPLs per capita (\$)	--	1,378	1,619
Combined NPLs (\$000s)	--	509,573	616,845
			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;Outlook Action

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

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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