Research Update:

New Orleans Sewerage & Water Board, LA Sewerage System Revenue Bond Ratings Lowered To 'BBB+' From 'A'; Negative Outlook

April 7, 2026

Overview

- S&P Global Ratings lowered its rating to 'BBB+' from 'A' on the Sewerage & Water Board of New Orleans (SWBNO), La.'s sewerage system revenue bonds outstanding.
- The outlook is negative.
- The lowered rating more accurately reflects the sewerage system's ongoing structural challenges, physical risk exposure, and financial uncertainty. Accelerating debt service over the next five years, without corresponding rate increases, contributes to the negative outlook.

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Rationale

Security

The bonds are secured by a first-lien pledge of net revenues of the SWBNO's sewerage system. The rate covenant established by the utility 2014 master resolution requires annual debt service coverage (DSC) to be at least 1.25x on the senior lien and 1.1x on all debt. In addition, liquidity is provided by a common debt service reserve, funded at the lesser of maximum annual debt service, 125% of average annual debt service, or 10% of the par amount. Although we consider the bond provisions standard, we recognize that in previous years, certain extraordinary expenses altered SWBNO's income statement, which required the exercise of clauses of the 2014 general bond resolution that allows for adjustments to operating revenues regarding recently enacted rate adjustments to avoid a covenant violation. The accounting treatment for these, which was independently reviewed by SWBNO's external auditor, agrees with the utility's management team that these were attributable to nonrecurring weather events.

As of Dec. 31, 2025, the sewerage system had $482.1 million of first-lien debt outstanding in addition to $152.9 million of available undrawn capacity under various state and federal loans. Total debt includes a $275 million Water Infrastructure Finance and Innovation Act (WIFIA) loan agreement, entered into between the SWBNO and Environmental Protection Agency (EPA).

Credit highlights

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The negative outlook reflects our view of the sewerage system's rising debt service and reliance on external funding sources, including federal disaster aid, state loans, tourism-related revenues, and potential general fund support. We view these revenue streams as inherently unpredictable and subject to external decision-making, including possible interference at the city level, which could constrain the system's ability to sustainably fund its capital program and operations, increasing the likelihood of a downgrade during the next 12-24 months.

The sewerage fund has historically benefited from strong financial performance, its provision of an essential service, and a large, established service area, underpinning its previous rating. SWBNO has substantially advanced its federally mandated sewer rehabilitation program, completing most of the required basin-level improvements under the Sewer System Evaluation and Rehabilitation Program. The board's demonstrated ability to access low-cost financing--including state revolving funds and federal programs--has been a key factor in mitigating the financial effects of the consent decree and supporting ongoing capital execution.

While the SWBNO has met all requirements under the consent decree, which we consider credit supportive, we believe its very high rates of sanitary sewer overflows and ongoing capacity constraints indicate that the sewerage system has not yet reached a level of operational stability commensurate with the scale of investment. Moreover, service rates have remained unchanged since 2020, which has begun to compress operating margins amid rising costs and stagnant customer growth. Affordability considerations, including very high poverty levels (23.1% of the service area is below the poverty line), significantly limit the political and practical feasibility of implementing necessary rate adjustments. This reluctance to adjust rates, despite clear financial pressures, raises risk regarding management's approach to long-term financial sustainability. Therefore, the downgrade reflects our expectation that, without demonstrable and sustained improvements in both infrastructure reliability and revenue generation, credit quality will remain pressured in the medium-to-long term, and that a raised rating is unlikely.

The City of New Orleans is facing a significant general fund structural imbalance, which further heightens the sewerage system's overall credit vulnerability. This includes rapid drawdowns of available general fund reserves and escalating receivables. Although certain structural protections limit the ability of the city's government to extract funds from SWBNO, we believe the city council could take steps to circumvent such protections in times of severe financial distress, including reducing discretionary general fund support, slowing reimbursements under established cooperative endeavor agreements (CEAs), or deferring routine maintenance on shared infrastructure, all of which would create working capital strain at SWBNO.

Our rating also reflects the following:

- Economy that is underpinned by leisure and hospitality related to tourism, maritime, and upstream energy production. While we recognize that there are many large economic development projects ongoing in the city, S&P Global Market Intelligence's current forecasts indicate that the New Orleans area's population, employment, and income growth will lag those of the state and nation through 2029.
- Low customer concentration; none of the 10 largest customers accounted for more than 1.5% of total 2024 revenue, and the top 10 combined only accounted for 6.7% of the sewerage system's revenues.
- Comparatively lower income and per capita wealth metrics. Median household incomes in New Orleans were only 69% of the U.S. average in 2025, further tempered by Orleans Parish's elevated poverty rate, which most recently was 23.1%, and constrains the system's ability to pass on rising costs.

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- SWBNO has substantially completed its consent decree-driven capital program, including substantial basin-level rehabilitation and implementation of modern maintenance practices. Work to date includes pipe rehabilitation/replacement, manhole improvements, and targeted system reconstruction. SWBNO has also implemented formalized maintenance practices, including routine inspection and cleaning cycles, condition tracking, and system monitoring protocols. This represents a meaningful structural improvement relative to pre-decree operations. However, the system continues to experience significant infiltration and inflow, resulting in wet-weather-driven overflows. This indicates that hydraulic limitations persist even after substantial rehabilitation, implying the system requires additional capital needs beyond current program's scope. This weakens the linkage between capital investment and realized operational improvement.
- Although historical DSC remains adequate, exceeding 2.0x during the past three audited years (across all liens), we expect DSC to decline to approximately 1.7x in fiscal year 2025 (unaudited), given contracting revenues and rising expenditures. Given scheduled debt increases, all else remaining equal, we project DSC to fall to 1.4x by fiscal 2026; if expenses continue to rise according to recent trends, we believe DSC could fall even lower to below 1.0x by fiscal 2028. This represents a key vulnerability to the system's credit profile, particularly given the evolving federal funding landscape and persistent inflationary pressures. Maintaining historical financial performance would require sustained cost containment, which elevates the risk of deferred maintenance and long-term asset deterioration. We understand that recently completed capital projects might result in reduced energy costs and leak prevention, which could translate into cost savings over time. Our calculation of DSC excludes the board's allocation under an interlocal agreement of "fair share" non-operating revenue because they are used for capital projects.
- Liquidity is currently sufficient to support near-term operations, but cash reserves have fluctuated in line with ongoing capital spending, limiting financial flexibility. The board has a covenant to maintain reserves equivalent to at least 90 days of operating expenses, and it monitors year-to-date intrayear financial performance monthly and posts it to the Board of Liquidation's website. SWBNO also has an internal policy to repay interfund borrowings between utility divisions in three years.

Environmental, social, and governance

We believe the city's exposure to climate hazards represents a long-term and outsized risk to credit quality. New Orleans' unique location and geography, with extensive low-lying areas, exposes it to storm-damage risks, as evidenced by a history of named hurricanes and tropical storms. To mitigate this risk, New Orleans has focused on maintaining its network of drainage pumps, worked with insurance providers to expand coverage levels, and improving building codes to require certifications such as Leadership in Energy and Environmental Design (LEED). According to S&P Global Sustainable1 data, New Orleans 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 rising sea levels, 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.

A below-sea-level city, enclosed by levees, with a high groundwater table, sinking soils, and a pump-dependent system creates a structurally constrained environment where even well-funded capital programs cannot fully eliminate sewerage overflow risk in the near term. Moreover, as of Dec. 31, 2024, SWBNO's budget for its 10-year capital improvement plan, which includes critical drainage and flood control projects, was approximately $3.2 billion, which we

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consider substantial. Affordability is SWBNO's primary social risk, given the area's above-average poverty rate and below-average income levels. New Orleans leadership last pre-approved annual across-the-board rate adjustments for both water and sewer by 10% for 2012-2020. SWBNO maintains means-based and other customer-assistance programs, which we consider credit supportive.

In our view, SWBNO's governance structure presents elevated risk, given its overlapping priorities with the general government, and the city council's ability to potentially limit rate-setting flexibility. While SWBNO has experienced recent changes in upper management, we anticipate these transitions will not negatively impact credit quality, particularly given the new Executive Director's successful track record in securing funding for aging infrastructure in similarly challenged metropolitan systems. We believe this experience will be instrumental in maintaining public confidence and continued support for the system's financial needs.

Outlook

The negative outlook reflects our view that there is at least a one-in-three chance we lower the rating during the next two years, particularly if the sewerage system is unable to achieve tight expense controls, fair-share funding is reduced, or if its revenue raising ability is otherwise hindered. If New Orlean's institutional stress presents challenges during the outlook period and constrains the sewerage system's ability to sustainably fund its capital program, it would increase the likelihood of a downgrade during the next 12-24 months.

Downside scenario

We could lower the rating if unplanned cash draws, accelerated capital spending and maintenance costs, or general fund interference cause the water system's financial metrics to deteriorate to a level no longer comparable with those of its rating category peers.

Upside scenario

An outlook revision to stable would be predicated by New Orleans demonstrating sustained economic recovery that supports the sewerage system's capital expenditures. Continued demonstrable state, federal, and local financial support for critical infrastructure projects and revenue-generating initiatives will be crucial to maintaining predictable financial metrics and a stable outlook.

Credit Opinion

SWBNO provides essential drinking water, sanitary sewer, and drainage services to the City of New Orleans. The city's economic health is a key consideration for credit quality, as it impacts the system's affordability. New Orleans' economy is characterized by a strong tourism sector – representing a significant portion of employment (nearly 40% above the U.S. average) – which, while creating sensitivity to economic fluctuations, also demonstrates the city's unique appeal. The population is currently estimated at 352,000 in 2025, down from 383,997 in 2020, and ongoing economic development efforts are focused on broadening the economic base.

Although SWBNO has made substantial investments to enhance system resilience against storm events, a significant portion of its infrastructure is aging, creating the potential for service disruptions. The sewerage system consent decree is a multi-decade capital reinvestment mandate for SWBNO to rebuild large portions of its sewerage system, eliminate or reduce sewer

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system overflows and implement permanent operations, maintenance, and monitoring programs. The substantial completion of the smart metering program in 2025, which replaced all residential mechanical meters, is expected to improve billing accuracy, reduce nonrevenue water losses through leak detection, and streamline operations. Similarly, the commissioning of a new power complex in late 2025 enhances system resilience and reduces vulnerability to power grid disruptions.

The utility operates within a complex governance framework that introduces financial interdependencies with New Orleans. Although legally independent, the system's board includes representatives appointed by the mayor and city council, which also controls rate setting. The New Orleans Board of Liquidation acts as trustee for both city and SWBNO debt. Financial transactions are primarily conducted through CEAs for joint infrastructure projects, creating substantial receivables and payables between the entities. The city often provides initial funding for these projects, awaiting grant reimbursement, which can create timing mismatches and potentially strain liquidity. This structure, while avoiding direct general fund transfers, introduces complexity and potential financial risk to SWBNO's operations and capital planning.

New Orleans Sewerage and Water Board, Louisiana--economic and financial data

		Fiscal year-end			
	Most recent	**2024**	**2023**	**2022**	**Median (A-)**
Economic data					
MHHEBI of the service area as % of the U.S.	69.0				79.0
Unemployment rate (%)	4.9				4.2
Poverty rate (%)	23.1				13.2
Water rate (6,000 gallons or actual) ($)	55.7				43.4
Sewer rate (6,000 gallons or actual) ($)	76.8				40.7
Annual utility bill as % of MHHEBI	2.0				1.4
Operational management assessment	Vulnerable				Standard
Financial data					
Total operating revenues ($000s)		154,248	152,155	152,619	2,853
Total operating expenses less depreciation ($000s)		102,765	112,342	105,634	2,141
Net revenues available for debt service ($000s)		54,020	43,936	49,221	--
Debt service ($000s)		20,200	20,493	22,997	--
S&P Global Ratings-adjusted all-in DSC (x)		2.7	2.1	2.1	1.4
Unrestricted cash ($000s)		73,956	79,615	60,471	2,105
Days' cash of operating expenses		263	259	209	418
Financial management assessment	Standard	--	--	--	Standard

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List		
Downgraded;Outlook Action		
	To	**From**
Water & Sewer		
New Orleans Swg & Wtr Brd, LA Sewer System	BBB+/Negative	A/Stable

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