

Research Update:

# New Orleans Sewerage & Water Board Bond Rating Cut To 'BBB+' On Infrastructure Reliability Challenges; Outlook Negative

March 26, 2026

## Overview

- S&P Global Ratings lowered its rating on the [Sewerage & Water Board of New Orleans](#) (SWBNO), La.'s water system revenue bonds outstanding to 'BBB+' from 'A-'.
- The negative outlook reflects the water system's limited rate-setting flexibility and reliance on external funding sources, including federal disaster aid, state loans, tourism-related revenues, and potential general fund support. The downgrade reflects our view that a lower rating more appropriately captures the water system's persistent structural challenges, physical risk exposure, and heightened uncertainty about SWBNO's overall financial and operational trajectory.

## Rationale

### Security

The bonds are secured by a first-lien pledge of net revenues of the SWBNO's water 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 for all debt. Additional 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 the 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 water system had \$205 million of first-lien debt outstanding.

### Credit highlights

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Historically, the rating has been supported by the water fund's strong financial performance, essential service provision, and large, established service area. While low outstanding leverage remains a relative credit strength, it is outweighed by the systemwide fragility characterized by accelerating distribution system failure rates and operational reliability concerns, constrained revenue-raising flexibility, and dependence on uncertain external funding sources. We believe extended reliance on expense minimization could lead to the prolonged underfunding of operations given the system's flat customer growth and relatively limited revenue-enhancement opportunities. The lower rating better aligns with our expectation that, absent meaningful improvements in both infrastructure reliability and revenue generation, SWBNO's credit quality will remain pressured in the medium-to-long term.

We believe the system faces mounting risk from an aging and degraded asset base, characterized by a reliance on patchwork repairs rather than full asset replacement. This has resulted in elevated main breaks, leaks, pressure variability, and recurring service disruptions, including relatively frequent boil-water advisories. In our view, these conditions materially increase exposure to unplanned capital needs and operational risks, particularly in the context of extreme weather events. Affordability considerations, including very high poverty levels within the service area, further limit the system's willingness and ability to implement necessary rate adjustments. In our opinion, this dynamic contributes to weaker management assessments.

The City of [New Orleans](#) is facing a significant general fund structural imbalance, which further heightens the water 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 general 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 down 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:

- Leisure and hospitality related to tourism, maritime, and upstream energy continue to underpin the economy. 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. The city has seen sustained job losses in manufacturing, trade, information, finance, professional and business services, and federal government payrolls. That leaves little in the New Orleans' economy to generate economic momentum, and right now it is largely sustained by construction, health care, and leisure and hospitality.
- A lack of customer concentration; none of the 10 largest customers accounted for more than 1.5% of total 2024 revenue, and all of the top 10, combined, only accounted for 6.7% of the water 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 constrain the system's ability to absorb its rising costs.
- Asset adequacy is considered vulnerable, with a significant risk of infrastructure failure. Planned capital investments reflect SWBNO's long-term strategy to modernize its core infrastructure, increase reliability and customer service, and meet regulatory compliance. The water system is undertaking a lead service line inventory to comply with revised Environmental Protection Act regulations, but the ultimate remediation costs remain uncertain and could be

substantial. We also recognize that the board is embarking on a condition assessment of critical distribution system assets.

- Although historical debt service coverage (DSC) has been credit supportive, both DSC and liquidity have exhibited volatile trends. Based on preliminary fiscal 2025 data, unaudited DSC is projected at 1.99x, which we consider strong. We understand the SWBNO also received a \$15.4 million legal settlement in fiscal 2025, which might bolster overall cash on hand. However, we believe the water system's financial projections offer limited visibility into the sustainability of SWBNO's capital program. Our stress scenario --assuming three years of flat revenue from unaudited fiscal 2025 levels, 3% annual operating expense inflation, and increasing debt service--projects a significant decline in DSC to 1.2x by fiscal 2027 and below 1.0x by 2028. Just given scheduled debt increases, all else being equal, we project DSC falling to 1.5x. 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.
- SWBNO 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 this to the Board of Liquidation's website. SWBNO also has an internal policy to repay interfund borrowings between utility divisions over 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 the city to storm-damage risks, as evidenced by a history of named hurricanes and tropical storms. To mitigate these concerns, New Orleans has focused on maintaining its network of drainage pumps, worked with insurance providers to expand coverage levels, and improved building codes to require certifications such as LEED. According to our Sustainable<sup>1</sup> 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 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.

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 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 preapproved annual across-the-board rate adjustments for both water and sewer by 10% per year in 2012, the last of which went into effect Jan. 1, 2020. SWBNO has had means-based and other customer-assistance programs in place for years, which we consider credit supportive.

In our view, SWBNO's governance structure presents elevated risk given overlapping priorities with the general government, and city council's ability to potentially limit rate-setting flexibility. Although SWBNO has had some turnover among upper management in recent years, we do not believe turnover will affect credit quality unless it were to create difficulty in maintaining public confidence and 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, particularly if the water system is unable to achieve tight expense controls, fair-share funding is reduced, or if revenue raising is otherwise hindered. If New Orleans' institutional stress present challenges over the outlook period and constrains the water system's ability to sustainably fund its capital program, it would increase the likelihood of a downgrade over 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 rated peers at the 'BBB+' rating level.

### Upside scenario

For us to return SWBNO to a stable outlook, New Orleans must demonstrate sustained economic recovery supporting the water system's capital expenditure affordability. 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 New Orleans. We view the city's economic outlook as a key credit factor, contributing to affordability challenges for the system. New Orleans' economic recovery remains incomplete following the pandemic, and the city's reliance on the volatile tourism sector--which represents a significantly larger share of employment (nearly 40% above the U.S. average) compared with other U.S. cities--heightens sensitivity to economic downturns. Population decline, to an estimated 352,000 in 2025 from 383,997 in 2020, further pressures 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 potential for service disruptions. The system's capital funding relies heavily on federal earmarks and similar mechanisms, which, while minimizing current costs, could lead to deferred maintenance and constrain long-term reinvestment.

The lack of comprehensive, regularly published condition reporting--a standard practice among peer utilities--further complicates our assessment of the system's overall health. However, we acknowledge recent progress. The substantial completion of the smart metering program in 2025, replacing 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 has enhanced system resilience and reduced vulnerability to power grid disruptions. SWBNO's stated goal of transitioning to a preventative maintenance program for new equipment is credit supportive, though the benefits will take time to materialize and won't immediately address the underlying asset condition concerns.

The utility operates within a complex governance framework that introduces financial interdependencies with New Orleans. Although legally independent, the system's board includes

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representatives appointed by the mayor and city council, which also control 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

	Most recent	Fiscal year-end			
		2024	2023	2022	Median (BBB+)
<b>Economic data</b>					
MHHEBI of the service area as % of the U.S.	69.0				80.0
Unemployment rate (%)	4.9				4.8
Poverty rate (%)	23.1				14.1
Water rate (6,000 gallons or actual) (\$)	55.7				43.9
Sewer rate (6,000 gallons or actual) (\$)	76.8				42.3
Annual utility bill as % of MHHEBI	1.4				1.5
Operational management assessment	Vulnerable				Standard
<b>Financial data</b>					
Total operating revenues (\$000s)		117,649	126,547	120,264	2,655
Total operating expenses less depreciation (\$000s)		98,048	91,723	98,054	2,021
Net revenues available for debt service (\$000s)		21,448	36,787	22,801	--
Debt service (\$000s)		12,740	12,741	12,737	--
S&P Global Ratings-adjusted all-in DSC (x)		1.7	2.9	1.8	1.3
Unrestricted cash (\$000s)		34,460	44,031	32,382	1,162
Days' cash of operating expenses		128	175	121	264
Total on-balance-sheet debt (\$000s)		205,382	210,976	218,020	7,920
Debt-to-capitalization ratio (%)		22.2	23.8	27.5	50.0
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
<b>Water &amp; Sewer</b>		
New Orleans Swg & Wtr Brd, LA Water System	BBB+/Negative	A-/Stable

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

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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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