New Orleans, Louisiana

The affirmation of the issuer default rating (IDR), general obligation (GO), public improvement bond (PIB), and limited tax (LT) bond ratings at 'A' reflects an 'a' financial resilience assessment based on Fitch's assessment of the city's 'limited' budgetary flexibility and expectation that available general fund reserves will be maintained at a minimum of 10% of spending through economic cycles. Prior to the receipt of substantial pandemic-related stimulus funding, the city's reserve levels approximated this minimum threshold.

The ratings also consider the city's 'midrange' revenue volatility and a population and economy of sufficient size and diversification, balanced against Fitch's 'weakest' assessment for population trend and a 'weak' assessment for demographic and economic level metrics and an elevated long-term liability burden.

The revised Outlook to Negative reflects likely budgetary pressures due to rising actuarially determined contributions (ADC) to the city's pension funds, particularly the firefighters' pension and relief fund (FPRF), that could diminish both the long-term liability burden and financial resilience.

The ratings also incorporate a -1 notch additional analytical factor that reflects the city's history of pension contributions below the ADC.

Ratings Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A decline in available general fund reserve levels sustained below 10% of spending, which would lower Fitch's assessment of financial resilience to below 'a';
- A sustained approximate 20% increase in long-term liabilities and carryings costs assuming current levels of personal income and governmental resources;
- Continued underfunding of the ADC for the firefighter pension plans, further increasing the risk to depletion and leading to a higher net pension liability and contribution levels.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Sustained maintenance of available general fund reserves above 17.5%, which would increase Fitch's assessment of financial resilience to 'aa' or higher;
- A sustained approximate 20% decrease in long-term liability metrics assuming current levels of personal income and governmental resources;
- Improved demographic and economic trend and level metrics, including but not limited to sustained population growth, a lower unemployment rate relative to the national average, and higher median income relative to Fitch's portfolio median;
- Sustained full funding of the city's actuarially determined contributions to its pension plans.

Ratings

Long-Term IDR	A

Outlooks

Long-Term IDR	Negative

New Issues

$183,000,0000 Public Improvement Bonds, Issue of 2024A	A
$17,000,000 Public Improvement Bonds, Issue of 2024B	A

Sale Date

Competitive sale scheduled for July 31.

Outstanding Debt

General Obligation Refunding Bonds	A
Limited Tax Refunding Bonds (Taxable)	A
Public Improvement Bonds & Public Improvement Refunding Bonds	A
Public Improvement Bonds (Taxable)	A

Applicable Criteria

U.S. Public Finance Local Government Rating Criteria (April 2024)

Related Research

Fitch Assigns 'A' Rating to New Orleans, LA's $200MM PIBs; Outlook Revised to Negative; Removed UCO (July 2024)

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Security

The series 2024A&B bonds and outstanding GO bonds and PIBs are payable from an unlimited ad valorem tax levied against all taxable property in the city. Outstanding LT bonds are payable from limited ad valorem taxes (such rates subject to adjustment periodically due to reassessment) upon all taxable property in the city. All of the city's GO debt has been issued by the Board of Liquidation, which has an independent board and manages all bonded debt matters of the city, including setting millage rates for repayment.

Rating Headroom & Positioning

New or Leans Model Implied Rating: 'A' (Numerical Value: 5.35)

- Metric Profile: 'A+' (Numerical Value: 6.35)
- Net Additional Analytical Factor Notching: -1.0

Individual Additional Analytical Notching Factors:

- Pension Contributions: -1.0

New Orleans' Model Implied Rating is 'A'. The associated numerical value of 5.35 is in the middle of the 5.0 to 6.0 range for its current 'A' rating.

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the Model Implied Rating will be the IDR except in certain circumstances explained in the applicable criteria). The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA'), and so forth down to 1.0 ('BBB-' and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile, and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

Current Developments

The city's current financial position is robust, aided by the city's strategic use of $388 million in American Rescue Plan Act (ARPA) funds for revenue loss and one-time capital expenditures or public safety recruitment/retention payments. Since 2020 (Dec. 31 fiscal year-end), the city allocated certain public safety spending to the federal treasury department fund (the designated fund for federal stimulus funds), leading to reductions in annual general fund spending of nearly $100 million or more compared to 2019 levels. Coupled with solid growth in post-pandemic property and sale tax revenues, the city's available general fund balance posted net surpluses annually from 2020-2022, increasing the city's unrestricted reserves to $403 million or nearly 60% of spending in 2022.

The general fund posted a nearly $77 million net deficit in 2023, reducing available general fund reserves to $326 million or 34.5% of spending. The deficit resulted from the city reallocating spending for public safety back to the general fund, the defeasance of a $50 million note that was issued in 2020 as precautionary bridge financing, and certain one-time expenditures.

With general fund revenues and expenditures totalling $814 million, the 2024 budget was adopted as balanced as required by the city charter. Reflective of an 18% reassessment gain (required every four years), the budget includes a 15% increase in property taxes relative to the 2023 budget. Sales and use taxes are budgeted to be flat and are on budget through the first four months. Due to mid-year budget amendments for additional police officers, purchase of police vehicles, and one-time infrastructure improvements, the city projects a $92.3 million (11.6% of spending) use of fund balance, reducing available general fund reserves to approximately $234 million or nearly 30% of spending.

This cushion includes restricted reserves for natural disasters ($33 million) and emergencies ($100 million), both of which add up to 14% of 2023 spending. The city's current fund balance goal totals two months (16.7%) of annual spending. However, the city is expected to formally adopt a fund balance policy during the 2025 budget process.

The resurgence of the city's tourism sector since the Covid pandemic has been aided by the return of Mardi Gras, Jazz & Heritage Festival, and Essence Fest. Upcoming major events in the city include three Taylor Swift concerts in Oct. 2024 and Super Bowl LIX in Feb. 2025, both at Caesars Superdome.

The current offerings represent the final installment of the $500 million GO authorization approved by voters in 2019. The city's 2024-2028 capital improvement plan, totalling $786 million, does not include any additional GO bonds and relies primarily on pay-go capital outlays for 63% of the total, followed by Federal Emergency Management Agency (FEMA) reimbursements at 36%.

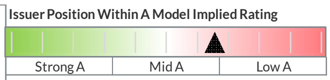
Profile

The city of New Orleans, which is coterminous with the parish of Orleans, is located in south eastern Louisiana and occupies approximately 199 square miles. New Orleans' status as a major tourism destination, along with its significant commercial presence, has been a major growth driver in recent years. The local economy also continues to diversify from a historical reliance on shipping and energy with gains in health care and technology. The population is estimated at about 364,000, almost 74% of the pre-Hurricane Katrina population in 2005.

Key Drivers

Issuer: New Orleans (LA)		Financial Profile	0.0
Type: City General Obligation		Demographic & Economic Strength	0.0
Current: A, RO:Sta (2024/04/04)		Long-Term Liability Burden	-1.0
Fiscal Year	2023	AAF Notching Total[d]	-1.0
Metric Profile	6.35	MIR - Metric	5.35
Metric Profile Mapping	A+	MIR - Mapping	A

Issuer Position Within A Model Implied Rating



Rating position post application of analytical overlay

		Analyst Input	Metric		Composite		
Metric	2023	2023	Percentile	Weight	Percentile / Value	Assessment	Weight
Financial Profile							
Financial Resilience Components							
Available Reserves (FB/Expenditures: 5-Year Low) (%)	12.8	12.8					
Revenue Control Assessment	Low	Low					
Expenditure Control Assessment	Low	Midrange				a	35%
Budgetary Flexibility	Minimal	Limited					
Financial Resilience	bbb	a		100%			
Lowest Cumulative 3 Year Revenue Performance (+/-) since 2008 (%)	-6.8					Midrange	0%
Revenue Volatility(1)	0.71	0.71	40%	100%			
Demographic and Economic Strength							
Trend							
Population Trend (%)(2)	-0.1		9%	100%	9%	Weakest	8%
Unemployment Rate as Percentage of National Rate (%)(5)	125.0		23%	33%			
Population w/ Bachelor's Degree and Higher (%)(2)	40.7		75%	33%	36%	Weak	26%
MHI as a % of the Portfolio Median (2)	71.9		10%	33%			
Concentration & Size							
Population Size(2)(3)	369,917		100%	50%	100%	Strongest	9%
Economic Concentration (%)(2)(3)	38.2		100%	50%			
Long-Term Liability Burden							
Liabilities/Personal Income (%)	8.8	10.8	16%	35%			
Liabilities/Governmental Revenues (%)(6)	136.9	169.0	54%	25%	39%	Weak	21%
Carrying Costs/Governmental Expenditures (%)	16.4	14.8	50%	40%			

(1) Model directly uses revenue volatility. Percentiles are for information only: metric percentile represents the issuer; composite percentile represents the average of the issuer's class. The Revenue Volatility metric represents the issuer's revenue volatility relative to the median revenue volatility of the total issuer portfolio.

Revenue Volatility is treated asymmetrically, where weight is marginal for issuers that exhibit low to moderate revenue volatility. For issuers with higher revenue volatility, this factor will moderately lower the metric profile, implying a somewhat reduced weighting for all other variables in these instances.

(2) Population, Concentration, MHI and Educational Attainment data is lagged by one year e.g. 2021 data is used and displayed for fiscal year 2022.

(3) Percentiles represent the class. Economic concentration is defined as the sum of the absolute deviation of the issuer from the national average proportion across major economic sectors.

(4) Additional Analytical Factors (AAF) have a potential notching range of +2/-2 for each of the three categories and an overall IDR notching range of +3/-3.

(5) County level data used for sub-county entities when the latest year's data is unavailable. If county data is unavailable, MSA data is used. MSA level data is used for cities that span multiple counties.

(6) As a proxy for per capita personal income for sub-county levels of local government, Fitch calculates the ratio of money income to per capita income for the county in which the rated entity is located and applies that ratio to the entity's money income. The estimated per capita personal income figure is multiplied by population to estimate total personal income.

Source: Fitch Ratings

Financial Profile

Financial Resilience - 'a'

New Orleans' financial resilience is driven by the combination of its 'Low' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'Limited' budgetary flexibility assessment.

- Revenue control assessment: Low
- Expenditure control assessment: Midrange
- Budgetary flexibility assessment: Limited
- Minimum fund balance for current financial resilience assessment: >=10.0%
- Current year fund balance to expenditure ratio: 29.5% Analyst Input (vs. 34.5% 2023 Actual)
- Five-year low fund balance to expenditure ratio: 12.8% Analyst Input (vs. 12.8% 2023 Actual)

Revenue Volatility - 'Midrange'

New Orleans' weakest historic three-year revenue performance has a modest negative impact on the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

- Lowest three-year revenue performance (based on revenues dating back to 2005): 6.8% decrease for the three-year period ending fiscal 2021

- Median issuer decline: -4.6% (2023)

State-Specific Revenue/Expenditure Context & Budgetary Control

General fund revenues are comprised primarily of sales and use taxes (32% of total), property taxes (23%), charges for services (11%), licenses and permits (9%), and hotel occupancy taxes (3.3%). The city's legal ability to independently increase revenues is constrained, as any increase in the property tax millage or sales tax rate must be approved by voters. The city's other locally controlled operating revenues (e.g. fees, charges, permits) are the only avenues to independently raise revenues and provide limited flexibility in this area.

The city retains adequate flexibility regarding main expenditure items. However, civil service commission rules that govern certain workforce-related adjustments (e.g. layoff procedures) would hamper to a degree the pace at which the city could affect staff reductions. Collective bargaining agreements (CBAs) are in place for police and fire but these agreements do not pertain to pay and benefits, which are established by the civil service board. As such, the city's CBAs do not include binding arbitration.

Demographic and Economic Strength

Population Trend - 'Weakest'

Based on the median of 10-year annual percentage change in population, New Orleans' population trend is assessed as 'Weakest'.

Population trend: -0.1% 2022 median of 10-year annual percentage change in population (9th percentile)

Unemployment, Educational Attainment and MHI Level - 'Weak'

The overall strength of New Orleans' demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Weak' on a composite basis, performing at the 36th percentile of Fitch's local government rating portfolio. This is due to very low median-issuer indexed adjusted MHI and elevated unemployment rate offsetting high education attainment levels.

- Unemployment rate as a percentage of national rate: 125.0% 2023 (23rd percentile), relative to the national rate of 3.6%
- Percent of population with a bachelor's degree or higher: 40.7% (2022) (75th percentile)
- MHI as a percent of the portfolio median: 71.9% (2022) (10th percentile)

Economic Concentration and Population Size - 'Strongest'

New Orleans' population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

- Population size: 369,917 (2022) (above the 15th percentile)
- Economic concentration: 38.2% (2023) (above the 15th percentile)

Additional Insight

The city's 2023 population of 364,136 represents a 5.9% increase from 2010. However, current levels have still not returned to pre-Hurricane Katrina levels (est. 494,294 in 2005).

Long-Term Liability Burden

Long-Term Liability Burden - 'Weak'

New Orleans' carrying costs to governmental expenditures has improved while liabilities to personal income remain weak and liabilities to governmental revenue remain midrange. The long-term liability composite metric in 2023 is at the 39th percentile, indicating a somewhat elevated liability burden relative to Fitch's local government rating portfolio.

- Liabilities to personal income: 10.8% Analyst Input (16th percentile) (vs. 8.8% 2023 Actual)
- Liabilities to governmental revenue: 169.0% Analyst Input (54th percentile) (vs. 136.9% 2023 Actual)
- Carrying costs to governmental expenditures: 14.8% Analyst Input (50th percentile) (vs. 16.4% 2023 Actual)

Pension Adjustments

On an aggregate basis for all pension plans as of the most recent measurement date, the reported asset to liability ratio was 50.7%, or an estimated 46.6%, using Fitch's standard 6% rate of return adjustment. The Fitch-adjusted NPL was equal to $1,234.7 million, or about 5.5% of personal income.

Additional Analytical Factors and Notching

Long-Term Liability Burden Additional Analytical Factors and Notching: -1.0 notch (for Pension Contributions)

The -1 notch additional analytical factor reflects the city's history of sizeable underfunding of the ADC, particularly the FPRF (new system), which has resulted in a very low assets to liabilities ratio of 9%. The -1 notch also reflects uncertainty regarding the city's ability and commitment to funding at the ADC given the expected increase resulting from the use of a risk-free rate in the latest actuarial valuation.

Additional Insight

The city issues both unlimited tax debt through both the city and the Board of Liquidation, and limited tax debt for general infrastructure purposes. The city provides pension benefits through various plans. The single-employer programs include: Firefighter Pension and Relief Fund (FPRF) - old system; Firefighter's Pension and Relief Fund - new system; Police Pension Fund of New Orleans; and the City of New Orleans Employee Retirement System. The sole cost-sharing multiple employer plan is the Municipal Police Employees' Retirement System (MPERS), a state police pension plan, the benefits and contributions for which are set by the state legislature.

The FPRF (new system) has the largest net pension liability (NPL), totaling $762 million per the latest actuarial valuation as of Jan. 1, 2024. Due to historic underfunding of the ADC, the assets to liabilities ratio is very low at only 9%, based on a risk-free discount rate of 3.26%. The city's contribution of $40.8 million in 2023 equaled 59.8% of the ADC.

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

The analyst input reflects addition of the current offering, amortization of outstanding debt, adjustment of expenditures for defeasance of $55 million note in 2023. It also includes a forward look on the city's firefighter pension plan (new fund) based on a Jan. 1, 2024 actuarial valuation that uses a risk-free discount rate which lead to a higher net pension liability and actuarially determined contribution.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Summary

Description	Final value
Budgetary Flexibility Assessments	
Revenue Control Assessment	Low
Expenditure Control Assessment	Midrange
Collective Bargaining and Resolution Framework	Midrange
Workforce Outcomes	Midrange
Cost Drivers	Low
Metrics Assessments	
Financial Profile - Financial Resilience	a
Financial Profile - Revenue Volatility	Midrange
Demographic & Economic Strength - Trend	Weakest

Demographic & Economic Strength - Level	Weak
Demographic & Economic Strength - Concentration & Size	Strongest
Long-Term Liability Burden	Weak
Metric Profile Mapping	A+
Metric Profile	6.35
Additional Analytical Factors	
Total Notching - capped	**-1**
Financial Profile	**-**
Fiscal Oversight	-
Revenue Capacity	-
Contingent Risks	-
Non-Recurring Support or Spending Deferrals	-
Political Risks	-
Management Practices	-
Demographic & Economic Strength	
Economic and Institutional Strength	-
Revenue Concentration Risks	-
School District Resources	-
Long-Term Liability Burden	**-1**
Pension Funding Assumptions	-
Pension Contributions	-1
OPEB	-
Debt Structure	-
Capital Demands and Affordability	-
Model Implied Rating - Mapping	A
Model Implied Rating - Metric	5.35
Outliers and Developing Situations Considerations	No
Notching Rationale - 1	-
Notching Rationale - 2	-
Issuer Default Rating/ Issuer Default Credit Opinion	A

Source: Fitch Ratings

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.