S&P Global
Ratings

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Summary:
New Orleans; General Obligation

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Summary:

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Credit Profile		
US$285.0 mil pub imp bnds ser 2021A due 12/01/2050		
Long Term Rating	A+/Stable	New
US$120.835 mil taxable ltd tax rfdg bnds ser 2021 due 09/01/2030		
Long Term Rating	A+/Stable	New
US$15.0 mil taxable pub imp bnds ser 2021B due 12/01/2030		
Long Term Rating	A+/Stable	New

Rating Action

S&P Global Ratings has lowered its rating one notch to 'A+' from 'AA-' on the City of New Orleans' general obligation (GO) and limited-GO debt and removed the rating from CreditWatch with negative implications, where it had been placed on June 17, 2021. We have assigned our 'A+' rating to the city's series 2021A public improvement bonds ($285 million), the series 2021B taxable public improvement bonds ($15 million), and the series 2021 limited tax refunding bonds ($130 million). The outlook is stable.

Our CreditWatch placement was due to lack of timely information as the fiscal 2019 audit release was delayed by the December 2019 cyberattack.

The public improvement and taxable public improvements bonds, and the city's outstanding general obligation bonds are general obligations of the city of New Orleans, and secured by ad valorem taxes on eligible property with city limits. All ad valorem taxes levied by the City Council of New Orleans for the payment of the bonds are transferred to the Board of Liquidation, which has responsibility for the deposit and investment of such tax receipts and the servicing of outstanding debt. The city plans on using the series 2021A and series 2021B public improvement bonds on a variety of projects through the city, including road infrastructure, public facilities, public safety, and drainage systems. The series 2021 limited tax bonds are secured by a special ad valorem tax of 13.91 mills, which is subject to reassessment. The city plans on using the proceeds to refund the city's existing series 2012 taxable limited tax refunding bonds.

In addition, we have outstanding limited tax ratings on bonds secured by the Audubon Commissions portion of a dedicated 6.31 mill special ad valorem tax. Though the Audubon Commission is an unattached board and separate legal entity, it is considered a component unit of the city. The governing board of the commission is appointed by the mayor and because of this, the city has financial accountability for the commission and can exert its will. The city also has an outstanding series 2014 drainage system refunding bonds secured by a nine mill special ad valorem tax, which is currently levied and collected at 7.06 mills as a result of reassessments. Given that the limited-tax obligations are levied on the same base as the GO bonds, combined with a demonstrated commitment to support the obligations, we rate these limited-tax GO bonds on par with our view of New Orleans' general creditworthiness, as expressed in the rating on the unlimited-tax GO bonds.

Credit overview

The one notch downgrade is due to a decline in available reserves over the past three years as well as high unemployment and COVID-19 related economic effects and the city's lack of a plan to address its large pension obligations, which we view as elevated social and governance risks under our environmental, social, and governance factors. We have also changed our financial management assessment from good to standard based on our view of the city's revenue and expenditures assumptions. Although the city has diversified in recent years into financial services and technology, tourism and conferences remain a significant portion of the city's economy and the city has seen significant revenue declines due to the pandemic. While sales taxes are up through mid-year in fiscal 2021, compared to 2020, receipts are well under 2019 levels and management does not expect revenues to fully recover until 2025. Despite these revenue declines financial results have remained stable; however, the city's available reserve position has been declining, with the city reporting 6% of total expenditures in fiscal 2019 as the city is awaits grants proceeds. Officials expect to receive grant funds soon, and expect large additions to fund balances in fiscal 2021 or 2022. We expect ARP funding will allow management revenues to make budgetary adjustments, although the constant threat of hurricanes looms over the city's finances.

Environmental, social, and governance factors

In our view, the city faces pressure as a result of the social risks represented by the pandemic and unknown effects of COVID-19 variants, given the State of Louisiana's low vaccination rate compare to national averages, although we note that New Orleans has a high rate of vaccination compared to the US. We believe this could result in elevated unemployment and disruptions in consumer spending that we believe will have a material and sizable impact on the city's key operating revenue as compared with peers. However, we believe that the city's environmental risks represent a longer-term--and more outsized--risk to long-term credit quality. As a result of weak soils and the global incidence of sea level rise, the U.S. Army Corp of Engineers stated that engineering analysis indicates that the Greater New Orleans Hurricane and Storm Damage Risk Reduction System may not provide the intended mitigation by as early as 2023. The city reported the Army Corps of Engineers has included $3.4 billion in its most recent President's budget request to address the issue. The city's location exposes to the city to flooding and storm damage risks, as evidenced by the city's history with named hurricanes. Our analysis of governance risk factors incorporates a significant cyberattack to the city's digital infrastructure at the end of 2019. Despite the financial impact of this attack, we believe that the city's governance risks are in line with those of peers.

Our rating reflects our view of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA), but a high parish unemployment rate exceeding 10%;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2019;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2019 of 6.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.3% of total governmental fund expenditures and 2.2x governmental debt service, and access to external liquidity we consider exceptional;

- Very weak debt and contingent liability profile, with debt service carrying charges at 15.4% of expenditures and net direct debt that is 95.6% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

Stable Outlook

Upside scenario

If the city can increase available reserves and sustain positive budgetary performance, if the city takes steps to address its firefighters pension liability, and if the city's projections and expected results align with actual results we may raise the rating.

Downside scenario

If the city's reserves continue to decline, or if the economic recovery is prolonged and revenues are slow to return to historical levels, we may lower the rating.

Credit Opinion

Adequate economy

We consider New Orleans's economy adequate. The city, with an estimated population of 394,125, is located in Orleans Parish in the New Orleans-Metairie MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 90.8% of the national level and per capita market value of $98,487. Overall, the city's market value fell by 6.7% over the past year to $38.8 billion in 2021. The parish unemployment rate was 12.2% in 2020, which we consider high and a negative credit factor.

Located in the southeastern part of Louisiana, New Orleans is the state's largest metropolitan area and features a diverse economy. Over the past decade, New Orleans has continued to diversify its local economy, with strong growth in the technology, healthcare, manufacturing, and energy sectors. Three of out the top ten taxpayers in the city are now in banking. New businesses to the city include DXC technology, a digital media company that expects to hire 2,000 employees in the next several years, other technology companies such as iMerit, Fortive, and DreamLeague Gaming, as well as small expansions at Boeing, Advanced Cutting Solutions and LM Wind Power. In addition, Breeze Airlines, which was founded in 2018, recently began operating out of Louis Armstrong International Airport, which just finished a major renovation.

Despite this ongoing growth and diversification, the area remains exposed to the tourism industry, with a large proportion of jobs in retail and hospitality. Beginning in late February or early March 2020, the COVID-19 pandemic began having a severe impact on visits to the city. With such a strong reliance on this sector, the sharp drop-off in visitors has had an outsized effect on the local economy, particularly employment in vulnerable service industry sectors. Parish unemployment, which has historically trended above national levels but tracked that of the state, peaked in April 2020 at 22.2%. While reopening have helped moderate this number somewhat, unemployment still remains elevated at 11.1% in April of 2021. Therefore, we have adjusted our economy score to account for the persistent high unemployment figures. The pandemic has significantly reduced sales tax revenues, which is reflective of economic activity in the city. In fiscal 2019 (Dec. 31 year end), the city reported $249 million in sales tax revenues, and in fiscal 2020 (unaudited), the city collected $180 million. Sales taxes from January to June 2021 are 16% percent ahead of 2020 at this time, with the city budgeting for $173 million in sales tax revenues. Officials report that festivals for the fall such as Jazz Fest, the French Quarter festival are continuing as planned, Carnival cruise lines is planning on resuming operations in September, and that hotels have seen a recent uptick in activity nearing 80 percent occupancy. Management tentatively expects revenues to fully return to pre pandemic levels by 2025.

While we do believe that the city will continue to recover gradually, we believe that COVID-19 variants could disrupt the recovery, which would likely affect New Orleans more than other local economies not as reliant on tourism. Nationwide, despite the increase in COVID_19 cases, the pace of U.S. economic activity remains high, as people continue to visit restaurants and take trips, however. our projections indicate that Louisiana and New Orleans unemployment rate will continue to lag the rest of the United States given the region's reliance on oil and gas as well as hospitality jobs. For more information, see "U.S. Real Time Data: Growth is Still On Track Despite Rising COVID-19 Cases" published July 23, 2021 on Ratings Direct and "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes" published Jun 24, 2021.

Adequate management

We have changed our view of the city's management from good to standard, based on our view of the city's revenue and expenditure assumptions. In our previous report in September of 2020, the city expected a significant surplus in fiscal 2019, but the final audit showed a small deficit as well as a large difference in expected final fund balances. While we understand that extenuating circumstances surrounding the pandemic introduced volatility in estimating results and the timing surrounding various revenues sources can cause differences between expected results in the final audit, we believe that management's revenue and expenditures assumptions introduce risk into the city's financial operations.

Officials use historical trends, local economic reports from local universities, and routine contact with the assessor's office when developing budgetary revenue and expenditures. Officials also use an informal five-year operational financial plan that is reviewed and updated annually. Strengths include strong oversight in terms of monitoring progress against the budget during the year through monthly review of budget-to-actual results, a formal five-year capital plan that is reviewed annually, and strong investment management policies. Although officials have a formal debt policy to govern the issuance of GO debt, the city lacks a formal policy that governs other security types beyond the constraints of current state laws. The city has a formal reserve target to improve the assigned fund balance to 10% of recurring revenues to cover insurance deductibles in case of a major hurricane.

The city implemented a hazard mitigation plan in 2015, and officials state they continue to work to complete items, recently allocating $32 million for disaster purposes. The U.S. Army Corp stated in a Federal Register dated April 2, 2019, that engineering analysis indicates the Greater New Orleans Hurricane and Storm Damage Risk Reduction System (HSDRRS) no longer provide 1% level of risk reduction as early as 2023, due to weak soils and the global incidence of sea level rise. Management indicated the Army Corp has begun plans for remediation.

The city has identified deferred maintenance costs, but only some costs related to hazard mitigation has been included in the long-term capital plan. In addition, it has not identified any city-specific expenses related to the HSDRRS. While we believe the city has maintained quality hazard mitigation plans and has experience with disaster response, our view is that the city needs to take additional steps to identify future costs related to hazard mitigation.

In fiscal 2019, the city was subject to a cyberattack, which shut down financial systems, and cost the city approximately $7 million dollars. Officials at the city state that recovery events related to the cybersecurity event are nearly complete. The city has not identified plans to address the substantial pension liability related to the pension plans it manages, in particular the firefighters plan. For example, the city has not identified actuarial assumption changes, or crafted a funding plan. The city has made adjustments to the New Orleans Municipal Employees Retirement System (NOMERS), such as adjusting actuarial assumptions in an effort to address the plan's unfunded liability.

Weak budgetary performance

New Orleans's budgetary performance is weak in our opinion. The city had slight deficit operating results in the general fund of 0.6% of expenditures, but a surplus result across all governmental funds 10.5% in fiscal 2019, after adjusting for one-time capital expenditures. Weakening our view of New Orleans's budgetary performance is the city's deferral of significant expenditures, which we think inflates the budgetary result ratios. We negatively adjust our performance score based on the city's underfunding of its firefighters pension plans in three out of the past four years. The city currently has no new plans to address the firefighters liability.

The primary government revenue sources are property taxes (44%), and sales taxes (39%). For fiscal 2018, the city reported strong operating results, with a surplus of $22.3 million, due primarily to an increase in sales taxes and a substantial increase in revenues from the city's hotel and motel business. For fiscal 2019, the city reported a deficit of $4.1 million, which includes a $12.5 million transfers out of the general fund to account for grant funded projects. The city's audit was delayed due to a cyberattack that occurred late in the year. The cyberattack cost approximately $7 million, but has caused significant time investment to restore and recover key infrastructure. Despite the cyberattack, the surplus was again primarily attributed to continued tax growth, particularly sales tax and hotel#?#motel tax increases.

For 2020 the city adopted a surplus budget. However, the pandemic brought with it sharp declines in key revenue sources, largely sales taxes and hotel#?#motel taxes (though these comprise a comparatively small part of the budget). 2020 revenues in total are slightly lower than 2019 at $725.7 million compared to $740.7 million. Sales taxes and other tax revenues declined significantly as expected, with the city reporting $204.9 million in other taxes (sales, motor vehicle, hotel and motel, and others), compared to fiscal 2019 when New Orleans collected $306 million. Much of the revenue gap was filed by state and federal grant money related to COVID-19 pandemic relief, with the city receiving $50M in CARES act funding and another $50 million in other grants. The city informed us they planned for significant employment adjustments, but given these other revenue sources, unaudited 2020 expenditures were in line with fiscal 2019.

For fiscal 2021, the city is expecting another surplus due to the American Rescue Plan, and continue recovery in sales tax revenue. Officials expect to receive $387 million in total, and currently have received $194 million. Prior to the pandemic, the city had leveraged a line of credit in preparation for COVID-19, but officials state they did not need to use the $50 million they received, and plan on repaying it later this year. Currently the city expects approximately a $5 million surplus.

Adequate budgetary flexibility

New Orleans's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2019 of 6.1% of operating expenditures, or $44.5 million.

Despite these stable budgetary performance, reserves we consider available to the city have declined in recent years. In fiscal 2017, restricted, assigned and unassigned funds totaled $63.4 million. This declined to $53.4 million in 2018, and the fiscal 2019 audit reported $44.3 million, down from $73.2 million in fiscal 2015. Nonspendable reserves, which according to the city, contain amounts awaiting reimbursement from various grant sources, increased from $18.3 million to $36.6 million. The city states that these funds are related to outstanding HUD/FEMA grants which is reflected by negative balances in the city's HUD and FEMA funds and that city will receive these funds in the near term, which will reduce the non-spendable line while increasing the unassigned fund balance line. In 2019, the HUD/FEMA funds reported negative $36.4 million , an increase from $33.2 million in fiscal 2018. Management reports the fund balances are classified in this way to protect reserves, and based on auditor recommendations. Officials plan on increasing reserves as possible in the future with no plans to spend down.

The city reclassified a significant amount of funds into non-spendable and the committed category, and also reclassified BP settlement funds from assigned to restricted in fiscal 2017 and fiscal 2018. The non-spendable line indicates funding awaiting reimbursements from respective grant funding sources, and the committed line accounts for funds that are set aside for future purchase orders. The restricted line contains BP settlement funds. Officials state that the funds can be repurposed with council approval. We have adjusted the fund balance to include BP proceeds in the restricted line, but are not including funds listed as non-spendable or committed, taking a conservative approach to our fund balance metrics.

Very strong liquidity

In our opinion, New Orleans's liquidity is very strong, with total government available cash at 33.3% of total governmental fund expenditures and 2.2x governmental debt service in 2019. In our view, the city has exceptional access to external liquidity if necessary.

In addition to the cash reported in the audit, we have included investments with maturities under one year in our calculations. New Orleans has demonstrated an exceptional ability to access the capital markets through the issuance of GO debt, utility revenue debt, and sales-tax-supported debt during the past 15 years. The city has no variable-rate debt or swaps in is portfolio. We consider the city's governmental investments liquid and nonaggressive, as they are held primarily in U.S. Treasuries and a state pool. The city disclosed two privately placed issues, both for $10 million, issued in 2016 and 2017, with 10-year terms. Officials state there are no acceleration or default provisions. Given that the total amount is covered by fund balances available to the city, we do not have any liquidity concerns about these two issues at this time. The city also entered in a revenue note in 2020 for $50 million in response to the pandemic and the city plans on repaying the note this fiscal year as the city did not need the funds.

We note the city is currently facing a lawsuit from Orleans Parish School district over the collection of property taxes, with damages initially set at $7.6 million, with the legal matter not yet scheduled for trial.

Very weak debt and contingent liability profile

In our view, New Orleans's debt and contingent liability profile is very weak. Total governmental fund debt service is 15.4% of total governmental fund expenditures, and net direct debt is 95.6% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is in our view a positive credit factor.

Following this issuance, the city will have approximately $934 million in net direct debt outstanding. In November 2019, the electorate approved up to $500 million in GO bonds to be issued for a variety of projects. After the current issuance, officials expect to issue the remaining $200 million within the next five years.

Pensions

In our opinion, a significant credit weakness is New Orleans' large pension and OPEB liability, Given the lack of a firm plan that we think will sufficiently address the obligation by addressing the low funded ratios and large pension liabilities long term of the firefighters plans.

The city sponsors and participates in four separate pension systems and provides OPEB benefits:

- Fire Fighter's Pension and Relief Fund (Old Fire System), funded at 3.91% with a liability of $123.6 million
- Fire Fighter's Pension and Relief Fund (New System FPRF) funded at 7.69% with a liability of $377.2 million
- Employees' Retirement System of the City of New Orleans (NOMERS) funded at 57.9% with a liability of $251.5 million
- Municipal Police Employment Retirement System (MPERS) funded at 71.0% with liability of $249.7 million
- OPEB plan which is unfunded with a net liability of $148.6 million

Officials report that the firefighter's old system plan is handled on a pay as you go basis, with benefits payments as needed. Historically, the city has not made required payments on the firefighters plans, although the city did make the required payment in 2018. The previous board of the firefighters plan has been removed and a new board was instituted in the past year as a result of management issues with the plan. In addition, officials disclosed that the previous investment mix of the pension plan included properties and riskier securities that lost significant value during the financial crisis. The city passed a 2.5-mill property tax increase to help fund the firefighter plan in 2016, but funded ratios continue to decline and the liability continues to grow. However, officials provided no new information from our previous review on these plans, the liabilities increase from 2019 to 2018.

Management has made changes to the actuarial assumptions for NOMERS, reducing the discount rate to 7.25%, and making changes to the payroll growth assumptions and switching to a close amortization. We view these changes as beneficial, and while contributions may increase depending on investment returns, and the city now expects to make progress towards funding.

As of fiscal 2018, MPERS was funded at 71.%, with funding ratio increase in the past two years. The city's net pension liability proportion is $205 million. The discount rate to measure total pension liability was lowered to 7.2% in fiscal 2018. Although this rate is above our guidance of 6.5%, the growth in the net pension liability indicates that this plan is not a significant concern for the city.

We do not believe that these liabilities overwhelm the city's finances in the near term, but in the medium term we believe that the city's pension obligations will lessen budgetary flexibility and performance. In particular, we believe that the firefighters plan is a significant credit risk, and that the city will deal with financial pressures from the city-managed pension plans for the foreseeable future. We believe that the city will soon need to increase contributions to its city managed plans, which will reduce budget options for other operations.

Very strong institutional framework

The institutional framework score for Louisiana is very strong.

Ratings Detail (As Of August 6, 2021)		
New Orleans GO		
Long Term Rating	A+/Stable	Downgraded
New Orleans taxable GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded
New Orleans GO		
Long Term Rating	A+/Stable	Downgraded
New Orleans GO		
Long Term Rating	A+/Stable	Downgraded
New Orleans GO		
Long Term Rating	A+/Stable	Downgraded
New Orleans GO		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded
New Orleans GO		
Long Term Rating	A+/Stable	Downgraded
New Orleans GO		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded
New Orleans GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded
New Orleans GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded
New Orleans GO (AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded
New Orleans GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded

Many issues are enhanced by bond insurance.