New Orleans, Louisiana

New Issue Report

Ratings

Issuer Default Rating[a]	A+
New Issues	
General Obligation Refunding Bonds, Series 2016	A+
Public Improvement Bonds, Series 2016	A+
Outstanding Debt	
Unlimited Tax Bonds[a]	A+
Limited Tax Refunding Bonds[b]	A+
Audubon Commission Aquarium Tax Bonds[a]	A+

[a]Upgraded from 'A–' on Sept. 12, 2016.
[b]Upgraded from 'BBB+' on Sept. 12, 2016.

Rating Outlook

Stable

Related Research

Fitch Rates $120MM New Orleans, LA Bonds 'A+'; Upgrades Outstanding (September 2016)

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New Issue Details

Sale Information: Approximately $50,400,000 General Obligation Refunding Bonds, Series 2016, scheduled to sell on or about Sept. 14 via negotiation, and $70,000,000 Public Improvement Bonds, Series 2016, scheduled to sell mid-October (sales details to be announced).

Security: Unlimited ad valorem tax levied against all taxable property in New Orleans (the city) (both series).

Purpose: GO refunding bonds: to refund a portion of the city's outstanding tax-supported debt for interest savings; public improvement bonds: to finance street improvements.

Final Maturity: GO refunding bonds: Dec. 1, 2036; public improvement bonds: to be announced.

Key Rating Drivers

The upgrade of the city's Issuer Default Rating (IDR) and bond ratings to 'A+' from 'A–' largely reflects the assessment of the city's credit profile using Fitch Ratings' revised criteria for U.S. state and local governments, which was released on April 18, 2016. The 'A+' rating reflects sound revenue growth prospects and a manageable liability burden, as well as adequate expenditure flexibility and a less than robust operating cushion.

The city's economy continues to perform well, as evidenced by recent gains in economically sensitive revenues. Management settled a long-running pay dispute with firefighters, although other public safety and pension challenges remain. Reserves are now at satisfactory levels. Under the new U.S. state and local government rating criteria, Fitch generally ties both unlimited and limited tax ratings to the IDR, resulting in a two-notch upgrade for the Audubon Commission bonds and a three-notch upgrade for the series 2012 limited tax refunding bonds.

Economic Resource Base: New Orleans' status as a major tourism destination, along with its significant commercial presence, supports Fitch's projection of solid growth prospects as the city continues its recovery from Hurricane Katrina in 2005. The local economy continues to diversify from a historical reliance on shipping and energy with gains in healthcare and technology. The population is estimated at about 390,000, roughly 85% of the pre-Katrina total.

Revenue Framework: 'aa' factor assessment. New Orleans' 10-year revenue history has trailed U.S. GDP but exceeded inflation, and Fitch anticipates a similar, if not stronger, performance going forward as the economy expands. The city's ability to increase revenues through fees and charges is balanced against an inability to increase property or sales tax rates without voter approval.

Expenditure Framework: 'a' factor assessment. Spending increases should generally track revenue growth. A recent settlement with firefighters over back pay establishes a certain repayment schedule, although other pressures continue. Carrying costs (debt and employee benefits) are moderately high, but Fitch considers overall expenditure flexibility adequate.

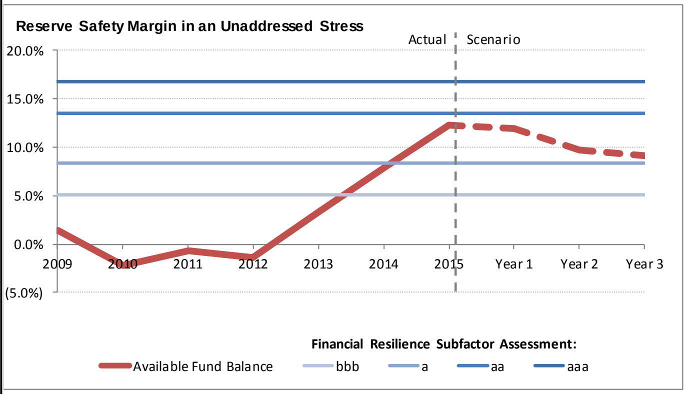
Long-Term Liability Burden: 'aa' factor assessment. The combination of debt and employee benefits is moderate at about 15% of total personal income. This level is not expected to shift materially, as the city's debt plans appear manageable over the near term. However, pension contributions likely will increase given current net pension liabilities.

Operating Performance: 'a' factor assessment. New Orleans has rebuilt operating reserves, but the combination of public safety and pension spending pressures restricts spending flexibility; limited revenue-raising ability further constrains the overall financial resiliency assessment.

New Orleans (LA)

Scenario Analysis

v. 1.10 2016/06/22



Analyst Interpretation of Scenario Results:

The city's relatively modest (albeit improved) reserves, along with a somewhat constrained expenditure flexibility profile, provide only adequate gap closing ability in the event of a moderate economic decline. The spending pressures, along with a fairly volatile revenue stream, would likely result in a modest erosion of reserve levels during a downturn.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(3.4%)	0.2%	3.7%
Inherent Budget Flexibility	Midrange		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	410,897	463,778	499,681	509,954	541,705	567,996	639,381	617,879	618,843	641,591
% Change in Revenues	-	12.9%	7.7%	2.1%	6.2%	4.9%	12.6%	(3.4%)	0.2%	3.7%
Total Expenditures	500,782	511,762	523,971	529,286	512,385	536,342	610,480	622,690	635,143	647,846
% Change in Expenditures	-	2.2%	2.4%	1.0%	(3.2%)	4.7%	13.8%	2.0%	2.0%	2.0%
Transfers In and Other Sources	40,440	30,549	34,297	205,445	6,187	4,886	3,746	3,620	3,626	3,759
Transfers Out and Other Uses	2,198	1,977	2,663	146,039	9,215	10,512	58	59	60	62
Net Transfers	38,242	28,572	31,634	59,406	(3,028)	(5,626)	3,688	3,561	3,565	3,697
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(51,643)	(19,412)	7,344	40,074	26,292	26,028	32,589	(1,250)	(12,736)	(2,558)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(10.3%)	(3.8%)	1.4%	5.9%	5.0%	4.8%	5.3%	(0.2%)	(2.0%)	(0.4%)
Unrestricted/Unreserved Fund Balance (General Fund)	7,256	(11,591)	(3,717)	(9,336)	16,956	42,984	75,323	74,073	61,337	58,780
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	7,256	(11,591)	(3,717)	(9,336)	16,956	42,984	75,323	74,073	61,337	58,780
Combined Available Fund Bal. (% of Expend. and Transfers Out)	1.4%	(2.3%)	(0.7%)	(1.4%)	3.3%	7.9%	12.3%	11.9%	9.7%	9.1%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	53.8%	26.9%	16.8%	10.1%	6.7%
Reserve Safety Margin (aa)	40.4%	20.2%	13.5%	8.4%	5.0%
Reserve Safety Margin (a)	26.9%	13.5%	8.4%	5.0%	3.4%
Reserve Safety Margin (bbb)	10.1%	6.7%	5.0%	3.4%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History

Rating	Action	Outlook /Watch	Date
A+	Upgraded	Stable	9/12/16
A–	Affirmed	Stable	10/22/15
A–	Revised	Stable	4/30/10
BBB	Upgraded	Stable	4/13/09
BBB–	Assigned	Stable	10/23/07

Related Criteria

U.S. Tax-Supported Rating Criteria (April 2016)

Rating Sensitivities

Reversal of Recent Gains: A material deterioration in recently bolstered financial flexibility through some combination of additional spending pressures and economic weakness would likely pressure the current 'A+' rating.

Improved Financial Resilience: Given the inherent volatility of much of the city's operating revenues, an increase in operating reserves would help mitigate this risk and bolster financial resilience, improving chances for further positive rating action.

Credit Profile

While still a tourism-based economy, New Orleans has diversified since Hurricane Katrina in 2005, most notably in healthcare. The new University Medical Center/Veterans Administration Hospital is a combined $1.9 billion complex ultimately expected to employ 20,000. Tourism continues its post-Katrina rebound, with a 2015 visitor count of 9.8 million (up 2.7% from 2014), and visitor spending at a record $7 billion. Airport traffic and cruise bookings also were at record levels in 2015. The Port of New Orleans reported a record period of container shippings earlier in 2016.

Revenue Framework

Sales and property taxes are the two largest components of the general fund revenue total, and combined were roughly one-half of the $639 million operating revenue total in 2015. The 10-year revenue history of 2.5% annual gains through 2014 trailed U.S. GDP over the same period, but recent larger gains reflect some acceleration in the city's post-Katrina recovery. The city's large tourism sector generates significant exposure to economic cycles.

The city's revenue prospects are solid. Management anticipates some moderation from recently strong growth rates, as several new large retail projects are now included in annual totals.

The city's ability to independently increase revenues is limited, as any increase in property tax millage or sales tax rate must be approved by voters. However, Fitch believes that the other locally controlled operating revenues (e.g. fees, charges), which are the only avenues to independently raise revenues, provide satisfactory flexibility in this area.

Expenditure Framework

As with most U.S. cities, public safety is the largest general fund expenditure category at 40% of 2015 outlays. Ongoing spending associated with a police consent decree and parish prison operations will keep overall spending pressures elevated. The city share of parish prison operating expenses were budgeted for $44 million in 2016, just below 10% of general fund spending and up from $35 million budgeted in 2015.

Spending levels over the near to intermediate term generally should track or marginally exceed an expected solid pace of revenue growth.

The city retains adequate flexibility regarding main expenditure items, although civil service commission rules govern certain workforce-related adjustments (e.g. layoff procedures). Carrying costs (combined debt and retiree benefit outlays) in fiscal 2015 were moderately high at 22.7% of governmental spending, and expected increases to pension contributions likely will move carrying costs higher in coming years.

Long-Term Liability Burden

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 pending new-money sale is the first installment of $120 million approved by voters in April 2016 for street improvements. The pace of debt amortization is roughly 55% repaid within 10 years.

The city provides pension benefits through three major pension plans, one of which it administers as a single-employer program. The other two are a state police pension plan and a local firefighter pension plan, the benefits and contributions for which are set by the state Legislature. The combined debt and net pension liability for the city represents a moderate 14.8% of total personal income; combined pension assets to liabilities are relatively low at 45%, suggesting future contribution increases are likely, but Fitch expects the overall liability burden to remain in the moderate range. Other post-employment benefits total $191.7 million, or 1.4% of personal income.

Operating Performance

The city's relatively modest, albeit improved, reserves, along with a somewhat constrained expenditure flexibility profile, provide only adequate gap-closing ability in the event of a moderate economic decline. For details, see Scenario Analysis on page 2.

The city's record during the current economic recovery — boosting reserves and increasing pension contributions — indicates a commitment by the current administration to bolster the city's financial profile during periods of expansion when economically sensitive revenues are increasing. Fitch's expectation is that any deferral of required spending in the future would be minimal during growth periods.

As planned, 2016 operating results will include a drawdown in reserves, driven primarily by a payment associated with a recent firefighter settlement regarding back pay. Of the projected $16.5 million use of fund balance, $15 million is the settlement payment. This decline would push reserves down to around 9% of spending. Economically sensitive revenue growth continues at a solid pace, with sales taxes projected to climb more than 3% from 2015 to $180 million.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.