

# RatingsDirect®

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## Summary:

# New Orleans, Louisiana; Miscellaneous Tax

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## Summary:

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### Credit Profile

New Orleans misc tax		
<i>Long Term Rating</i>	A/Stable	Affirmed
New Orleans (AGM) misc tax		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' long-term rating and underlying rating (SPUR) on New Orleans's series 2011A-1 aquarium tax bonds, issued on behalf of the Audubon Commission.

The rating reflects our view of the commission's:

- Growing tax base, which highlights the city's role as a regional economic engine for the state;
- Maximum annual debt service (MADS) coverage of 2x; and
- Limited additional capital needs.

We believe the following factors limit the authority's credit strengths, specifically the city's:

- Adequate, although below-national average, wealth and income levels; and
- Exposure to natural disasters, which may cause a decline and potential disruption in pledged revenues.

The bonds are considered special limited obligations of the city and are secured and payable solely from an irrevocable pledge and dedication of funds to be derived from the levy and collection of special ad valorem tax on all property subject to taxation in the city authorized to be collected over 35 years, beginning in 1987. Currently, the city levies 2.99 mills to pay the principal and interest of the commission's debt.

New Orleans is in southern Louisiana, on the Gulf Coast. It is the state's largest city and economic center. New Orleans' estimated pre-storm population was about 455,000, many of whom were lifelong residents. The city's population peaked at 627,000 in 1960. On Aug. 29, 2005, Hurricane Katrina made landfall on the Gulf Coast, leading to the city's widespread destruction, an outflow of residents, and massive rebuilding costs. Since fall 2005, however, New Orleans has experienced a strong recovery: Current taxable assessed value (AV) now exceeds pre-Katrina levels, the historically strong tourism industry has rebounded, and sales tax revenue is growing. In addition, the population has returned to 81% of the pre-Katrina total; the 2014 estimated population is 369,250.

From fiscal years 2005 to 2006, taxable AV decreased by 22% to \$1.67 billion due to the effect of Hurricane Katrina. Since the hurricane, the property tax base has recovered. Taxable AV has increased by 77% to \$3.1 billion, or an estimated true market value of \$28.5 billion, in fiscal 2014. The tax base is very diverse, in our view, with the 10 leading taxpayers accounting for 11.3% of AV.

Per capita effective buying income is good, in our opinion, at 70% of the national level. Per capita retail sales are adequate, in our opinion, at 69.3% of the national average. Market value per capita, a wealth indicator, is strong, in our view, at \$77,064. As of April 2014, the city's unemployment rate was 4.7%, slightly above the state's rate (4.5%) and lower than the national rate (6.3%).

Pledged revenues have remained strong. For fiscal years 2000 through 2007, the city levied a tax rate of 4.11 mills to pay principal and interest on the commission's existing debt. In 2008, the tax rate was reduced to 2.99 mills, which the commission believes is sufficient to maintain strong debt service coverage (DSC) on the series 2011A-1 bonds and all parity debt. The city has agreed to maintain the millage rate so that pledged revenues will continue to provide DSC in line with its covenants and similar to current levels.

Audited fiscal 2013 (Dec. 31) pledged revenues totaled \$8.38 million and provided 2.13x coverage of MADS. Unaudited pledged revenues totaled \$8.37 million in fiscal 2014, providing 2.18x coverage of MADS; MADS dropped by over \$100,000 from fiscal 2013 to fiscal 2014. Officials are projecting pledged revenue collections of at least \$8.66 million, which will cover MADS by over 2.2x. At this time, officials do not have plans to issue additional debt on behalf of the Audubon Commission. Officials attribute current and projected MADS coverage levels to the city's continued economic expansion through both commercial and retail construction.

The city may issue additional bonds on behalf of the commission as long as the tax revenues in the calendar year preceding the issuance of additional bonds are at least 1.33x MADS. Legal provisions also call for the maintenance of a debt service reserve fund at no more than 75% of the tax revenues of the calendar year. The pledged revenues for fiscal 2013 were \$8.38 million. The city's Department of Finance collects the tax and then remits the proceeds to the Board of Liquidation. The board— was established in 1880 to deal with financial claims related to post-Civil War reconstruction and now serves as a custodian for city funds allocated for city debt service payments.

## **Outlook**

The stable outlook reflects our opinion of the recovery of New Orleans' property tax base, the city's growing economy, and management's lack of additional parity debt plans, which will likely lead to stable DSC by pledged revenues. The outlook also reflects our expectation that any budgetary challenges the city faces will not impair its ability to meet its debt service obligations on its special ad valorem tax-supported debt since the bonds' legal provisions state the city must first use pledged revenues for debt service.

For these reasons, we do not expect to change the ratings within the two-year outlook time frame unless pledged revenues drop substantially. Conversely, should pledged revenues improve materially, we could raise the ratings further.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Special Tax Bonds, June 13, 2007

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