STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

New Orleans, Louisiana; Miscellaneous Tax

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Summary:

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Credit Profile		
US$13.82 mil dr sys rfdg bnds ser 2014 dtd 10/08/2014 due 12/01/2022		
Long Term Rating	A+/Stable	New
New Orleans drainage sys bnds ser 1998 dtd 12/01/1998 due 12/01/1999-2016 2018		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
New Orleans drainage sys bnds ser 2002 dtd 10/01/2002 due 12/01/2003-2022		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'A+' from 'A' on New Orleans, La.'s drainage system's special ad valorem tax-supported debt. The raised ratings are based on our view of the city's historical maximum annual debt service (MADS) coverage of over 7x as well as the sewer and water board and the city's adoption of a policy to better coordinate and leverage resources to complete future utility projects. At the same time, we assigned our 'A+' long-term rating to the city's series 2014 drainage system refunding bonds. The outlook is stable.

The ratings reflect our opinion of:

- The city's pledge of property tax revenues, which typically are less volatile than other forms of special tax pledged revenues;
- Management's lack of plans to issue additional parity debt in the near term;
- The city's growing property tax base; and
- The 9.27x MADS coverage based on pledged tax revenue.

In our view, the preceding credit strengths are partly offset by the city's exposure to hurricanes, which could result in a decrease in or a potential disruption to pledged revenue collections.

The drainage bonds are secured by a special ad valorem tax for the operation and maintenance of the drainage system. This tax was approved at an election in May 1981, to be levied for a period of 50 years, beginning in 1982, at a rate of nine mills. The tax is currently levied and collected at the rate of 7.06 mills due to reassessments.

Bond provisions feature an additional bonds test (ABT) that prohibits the issuance of additional parity debt unless budgeted pledged revenue from the year in which the additional bonds are issued provides at least 1.33x MADS coverage on existing and proposed bonds. Officials, however, have a policy of not issuing debt for the drainage system unless it can be supported by a 1.5x MADS ABT. Currently officials do not plan to issue additional debt during the next 12 to 18 months. Based on a recent agreement between the city and the sewer and water board to better coordinate and streamline capital projects to optimize cost efficiencies, we do not anticipate future potential parity debt will dilute coverage levels. Furthermore, officials can use excess pledged revenue not used for debt service for operating or capital expenditures.

As is the case with all bond issues for the Sewerage and Water Board of New Orleans, the New Orleans Board of Liquidation, City Debt, a separate and distinct entity, serves as the issuer of the bonds and custodian of special tax revenues and is responsible for investing the debt service funds and making timely debt service payments of principal and interest due following receipt of the pledged revenues. If New Orleans were to experience a reduction of taxable assessed value (AV) due to a reappraisal, it has the ability to increase the nine-mill levy so the tax generates the same revenue as the previous year. Pledged revenues increased 33% during the past five years to $19.2 million in fiscal 2013 from $14.5 million in fiscal 2008. MADS coverage has remained historically strong, at more than 7.0x. According to the most recent audit (fiscal 2013), pledged revenue totaled $19.2 million and provided 9.27x MADS coverage on the bonds; MADS is currently projected to occur in 2022. According to officials, pledged revenues already total $19.5 million through August 2014, and management believes year-end pledged revenues will be closer to $20 million. Tax collections remain strong, in our opinion, with New Orleans historically collecting more than 95% of the levy.

New Orleans is in southern Louisiana, along the Gulf Coast. New Orleans 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 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 93.2% 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%).

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 debt service coverage by pledged revenues. The stable outlook also reflects our expectation that any budgetary challenges faced by the city will not impair its ability to meet its debt service obligations on the the drainage system's 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 continue to 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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