STANDARD & POOR'S

RATINGSDIRECT®

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New Orleans, Louisisana; General Obligation

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Credit Profile		
New Orleans GO		
Long Term Rating	BBB/Stable	Upgraded
New Orleans pub imp bnds		
Unenhanced Rating	BBB(SPUR)/Stable	Upgraded
New Orleans pub imp bnds ser 1999 dtd 11/01/1999 due 11/01/2000-2019 2024 2029		
Unenhanced Rating	BBB(SPUR)/Stable	Upgraded
New Orleans GO		
Unenhanced Rating	BBB(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on New Orleans, La.'s general obligation (GO) debt to 'BBB' from 'BB' due to active rebuilding efforts, the city's effort to restore structural balance to their budget, and the economic expansion due to rebuilding efforts. The outlook is stable.

Standard & Poor's also raised the SPUR on the city's limited-tax GO debt to 'BBB-' from 'BB-', with a stable outlook, based on the city's long-term ability to continually meet its obligations.

In our view, the rating continues to reflect:

- The efforts of the Road Home program to assist residents in their rebuilding efforts, which is reflected in the improved assessed values (AVs) since Hurricane Katrina, as well as the increasing population;
- The return of major employers and taxpayers to the city;
- Conservative and sophisticated financial management policies that include long-range budget and capital plans; and
- The possibility of the Gulf Opportunity Zone Program (GOZP) and Community Disaster Loan (CDL) being forgiven.

These strengths are mitigated by the city's:

- Ongoing challenges for basic infrastructure rebuilding, estimated at more than $14 billion of capital repairs;
- Lack of a structurally balanced budget; and
- Adequate, although below the national average, wealth and income levels.

The city's full faith and credit pledge secures the bonds.

The pace of recovery has been the dominant factor in determining revenues and, consequently, the city's ability to raise service levels. New Orleans has historically relied on sales taxes for the majority of its revenues; therefore, economic activity generated by residents and visitors is critical to budget stability.

New Orleans' pre-storm population estimates were about 455,000, many of whom were life-long residents who did not follow the steady exodus to the suburbs and elsewhere since the U.S. Census peak of 627,000 in 1960. Pre-Katrina, the city had about 10.1 million visitors and tourists, over 40,000 businesses, and about $3 billion in construction activity occurring. Post-Katrina, the city had about 134,000 damaged housing units, millions of lost revenues, and almost 50% of the city's work force laid off. Since the fall of 2005, the city has seen their assessed value (AV) increase to pre-Katrina levels, a growing population, the recovery of hotel/motel tax, and strong sales tax growth.

The fiscal 2009 AV represents a 2.8% increase over fiscal 2008 to $2.4 billion, or an estimated market value of $6 billion. The top 10 taxpayers, in our opinion, are very diverse at 13.7% of total AV.

Audited results for fiscal 2007 (ending December 31) reflect a $16 million drawdown, bringing the unreserved general fund balance to $78.7 million, or a very strong 18.5% of expenditures. However, a portion of those funds are dedicated to future expenditures. The city continues to see their primary revenue sources, property taxes (37.9%) and sales tax revenues (35.7%), reflect the city's recovery. Property taxes increased by 7.4% in fiscal 2007 compared to fiscal 2006. Sales tax revenues are 12.8% lower than fiscal 2004, the largest sales tax revenues collected over the previous six years. The fiscal 2009 budget reflects a 2.2% increase in sales tax revenues over fiscal 2008 revenues. During fiscal 2008, management used a projected $22.4 million of the fund balance for one-time expenditures and damage caused by Gustav, of which the city does not expect about 25% of costs to be reimbursed. As a result, management is projecting an unreserved general fund balance of $23.5 million, or a good 4.8% of expenditures.

Officials adopted a balanced budget in fiscal 2009, and officials are projecting to increase the unreserved general fund balance by $14.7 million due to a hiring freeze and spending reductions, as well as a 10-mill increase bringing the millage rate to 37.87 mills. The city has budgeted to spend about $25.3 million of the CDL and another $8.5 million of their GOZP. The increase was due to the city's use of the fund balance to fund recurring expenditures. However, the city has $10 million remaining from the CDL, which they plan to use in fiscal 2010. The city's five-year plan anticipates that they will meet their 10% fund balance policy by fiscal 2011.

The city's additional capital needs are very large due to the storm damage, as well as infrastructure needs that had accumulated before 2005. The city is planning to issue around $80 million in GO bonds sometime in the spring or early summer of 2009. Currently, the city's overall net debt burden is, in our view, moderate at $2,022 per capita, but a high 11% of market value.

Outlook

The stable outlook reflects the city's active rebuilding efforts, as well as management's efforts to restore services to citizens. Any further upgrade is contingent on the city's ability to restore and maintain sound financial operations while managing a significant rebuilding effort to restore city infrastructure to pre-storm conditions. Furthermore, management's failure to achieve budgetary balance or an interruption in the economic base's recovery could stall any further positive rating action.

Economy: Important Tourism, Convention Sector Improves Slightly In 2007

New Orleans, as a port city, has always been a travelers' destination. More recently, however, it has hosted numerous conventions, meetings, and special events. The hotel and restaurant industry that grew to support this tourism was critical to area employment and tax revenues. As of August 2007, business travel and conventions were at 70% of pre-Katrina levels, and officials are projecting to see that increase to 90% of pre-Katrina levels in fiscal 2009.

The city's economy is based on health care and higher education. Leading employers include:

- Ochsner Health System (9,107 employees);
- Tulane University (4,410);
- Lockheed Martin Michoud Operations (2,832);
- American Nursing Services Inc. (2,250); and
- Children's Hospital (1,917).

In addition, Federal City is under construction. The project will house the Department of Defense, civilian federal agencies, and the contractors and suppliers who support them will all be based at Federal City. Once complete, officials project that they will retain an estimated 1,660 jobs in the area and add roughly 300 positions for a total of 1,960 jobs, in addition to spurring indirect economic development opportunities and investments.

As employers return to the city, residents, through the Road Home Program, are also returning and rebuilding. The Road Home program is designed to provide compensation to Louisiana homeowners affected by hurricanes Katrina or Rita for the damage to their homes. As of March 2009, over 152,000 people have applied for funds. The program has completed 141,000 applications and has awarded a total of $7.9 billion, which is an average payment of $64,000. Officials believe that 40% of sales tax revenues are related to construction activity. Neighborhoods on high ground -- such as the French Quarter, the Garden district, and the business district -- have had an increase in their population from pre-Katrina levels. Neighborhoods that received the most damage have seen about 50% to 55% of the residents return home.

Wealth and income levels have historically been adequate, but below the national average. Median Household effective buying income, in our view, is considered low at 86% and 73% of state and national levels, respectively. Market value, another indicator of wealth, is also low at $18,348 per capita.

New Orleans Board Of Liquidation

The New Orleans Board of Liquidation -- established in 1880 to deal with financial claims related to post-Civil War reconstruction -- now serves as a custodian for city funds allocated for city debt service payments. Notably, it maintains an extraordinary debt service reserve fund ($71.9 million) of half maximum annual debt service for GO bonds. Remarkably, the city made all of its post-Katrina principal and interest payments in routine fashion. The board consists of the mayor, two city council persons, and six citizen appointees.

Debt: Gulf Coast Tax Credit Bonds Are Still Funding Debt Service For Katrina-Affected Issuers

New Orleans continues to move forward with pre-hurricane capital projects, as well as rebuilding the city after Katrina and Rita. In fiscal 2008, the city had completed 60 projects, valued at $66 million. There are currently 122 projects, worth about $175 million, that are under construction. Another 222 projects, valued at $438 million, are in the design phase. The city has also identified about $363 million in street repair needs that they have begun to address. Management has developed a $14 billion plan to address the city's rebuilding efforts.

The city's fiscal 2009 capital budget of $181.5 million is funded through several different sources including:

- $55 million in GO bonds;
- $400,000 in capital funds;
- $5.9 million in insurance funds;
- $57.6 million in LRA CDBG funds;
- $350,000 in state capital outlay;
- $22.3 million from an intergovernmental agreement; and
- $40 million in FEMA public assistance funding.

In fiscal 2007, the city borrowed $23.5 million from the GOZP to pay their debt service.

Financial Management Assessment: 'Good'

Standard & Poor's deems New Orleans' financial management practices "good" under its FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

Highlights of city financial practices and policies include:

- In-house projections of revenues and expenditures as management prepares the budget for each new fiscal year;
- Quarterly budget reports provided to the city council;
- Financial planning, performed with the help of an internal model that projects revenues for five years; and
- Regular updates to the city's five-year capital improvement plan.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

Ratings Detail (As Of April 21, 2009)		
New Orleans downtown dev dist ltd tax bnds ser 2001 dtd 07/01/2001 due 12/01/2002-2015 2019 2022 2026		
Unenhanced Rating	BBB-(SPUR)/Stable	Upgraded
New Orleans drainage sys bnds ser 1998 dtd 12/01/1998 due 12/01/1999-2016 2018		
Unenhanced Rating	BBB-(SPUR)/Stable	Upgraded
New Orleans drainage sys bnds ser 2002 dtd 10/01/2002 due 12/01/2003-2022		
Unenhanced Rating	BBB-(SPUR)/Stable	Upgraded
New Orleans GO		
Unenhanced Rating	BBB-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.