Moody's: New Orleans' Credit Profile has Improved Post-Katrina, but Fiscal Pressures Remain.

New York, August 24, 2015 — In the decade since Hurricane Katrina, New Orleans (A3 stable) has improved its fiscal management, rebuilt and bolstered its infrastructure and benefitted from the revitalization of its communities and the tourism industry. At the same time, the city's rising fixed costs, reliance on the volatile oil and gas sector, and vulnerability to flooding remain credit challenges, says Moody's Investors Service.

Compared to before the hurricane, New Orleans has improved its fiscal position by focusing on growing revenues, controlling expenses, and building reserves. Better sales tax collections and growth in property taxes have boosted the city's budget in both 2014 and 2015. New Orleans will also receive $36 million from its settlement with British Petroleum following the Deepwater Horizon oil spill.

The city also received a significant amount of federal aid after the hurricane which, combined with local and state funding, was used to strengthen levees, build new infrastructure and increase the city's emergency preparedness, according to Moody's new report "Ten Years After Katrina, New Orleans Better Prepared for Future Storms."

"The recovery of the local economy is a key stabilizing factor that has driven the city's recent positive momentum, by bringing people back, rebuilding communities and revitalizing the tourism industry, which is a key source of revenue for the city," says Andy Hobbs, a Moody's Assistant Vice President and Analyst.

The city's taxable property value has grown consistently since the hurricane, the number of conventions and trade shows hosted by the city has increased since the convention center reopened, and new developments such as the recent announcement that Viking Cruises will start operating out of the Port of New Orleans in 2017 are all factors that buoy the city's credit position.

However, offsetting these positive factors are the city's rising fixed costs for debt service, pension contributions and retiree healthcare payments, which have increased to $198 million in 2014, from $129 million in 2009.

"The city's fixed costs exceeds 30% of its operating revenues," says Hobbs. At the same time, "the city's contribution to its pension plans fell short by $17.7 million in fiscal year 2014, and annual pension requirements are expected to increase going forward".

In addition, New Orleans' dependence on the volatile oil and gas sector, declining employment in the public sector and below-average population growth leave the city trailing other metro areas in the US South in terms of key economic indicators. The city's population remains roughly 18% below pre-hurricane levels.

New Orleans also has weak liquidity because it used reserves to fill budget gaps during the recession.

Overall, though, the State of Louisiana and the education and transportation sectors have emerged stronger post-Katrina. The state received a significant amount of money in the form of federal aid and insurance proceeds, which provided the liquidity for a post-storm rebuilding boom and helped the state mitigate the effects of the national recession.

The city's ports emerged relatively unscathed from the hurricane, but nevertheless received federal and state financial support to make up for the decline in cargo and cruise activity following the hurricane. The airport also received aid that has allowed it to expand capacity and attract more flights to more destinations.

And while total university enrollment is still down 15% from pre-Katrina levels, emergency funds helped New Orleans' universities emerge stronger by allowing them to invest in capital facilities.

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