New Orleans Risk Is Close to Home --- With Tax Base Devastated, Most Debt Is Held Locally, Creating Further Pressure

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By Tom Sullivan

Major cracks are developing in New Orleans's municipal financial structure, after the city's tax base was devastated in the destruction wrought by Hurricane Katrina last August.

The Orleans Parish school district is so desperate that it recently put its broken-down school buses that were submerged in the flood on auction over eBay. "This is a collector's dream come true," says the sales pitch on the Web site. "We will provide a certificate of authenticity attesting that this bus was at the Orleans Parish School Almonaster Bus Barn and was flooded in the aftermath of Hurricane Katrina!"

The school bus is being sold "as is," of course. The top bid as of Friday was $3,650. The bidding ends next Thursday.

The bus sales "won't materially help the district, but shows an effort" to do whatever it takes to emerge from the Katrina catastrophe, said Richard Larkin, municipal analyst at the Parsippany, N.J., firm of JBHanauer.

President Bush found progress in the rebuilding of New Orleans during a visit Thursday, but the rebirth of the Big Easy is likely to be a long slog. "The American people have never had to deal with anything like this," said Daniel Genter, president of Los Angeles-based RNC Genter Capital, with $2.3 billion in total assets, including some New Orleans debt that is either insured or prefunded. People will have "to learn to digest that [the city] will not be rebuilt in one or two years," he said.

Consider the grim statistics laid out at a Fitch Ratings teleconference Thursday on the hurricane's repercussions: Just 10% of the city's businesses have reopened since the storm hit. Just 60% of its hotels and 40% of its eateries have reopened at a time when tourism is taking on greater importance to the local economy. The levees and canals that broke down in the hurricane will take years to repair, and many construction permits won't be issued until those repairs are made.

Most of the estimated 200,000 who left the city haven't returned. The collection rate on property taxes is estimated to be 50% and the city hasn't collected those taxes since the hurricane. New Orleans officials "need to get tax bills out," said Steve Murray, senior director at Fitch Ratings during the teleconference.

Due to the devastation, the city undertook a property revaluation, as homes that survived were suddenly of much higher value than those that were destroyed. A higher value means a higher tax bill for homeowners who vote. But Fitch analysts said they're hopeful the bills will be sent.
New Orleans-related muni bonds got at least some short-term relief this week as the Louisiana State Bond Commission began soliciting proposals from bond counsels and underwriters for a $400 million bond sale with proceeds to be used to assist the state's various political subdivisions make debt service payments. Proposals are due Tuesday, said Whitman Kling, director of the commission. The state will use $200 million Gulf tax credit bonds provided by the federal Gulf Opportunity Zone Act and $200 million of state general obligation debt in the offering, Mr. Kling said.

A request for debt service assistance of up to $90 million has already been made by the Sewerage and Water Board of New Orleans for both its insured and uninsured bonds, said Kling.

The Sewerage and Water Board has $137 million of bond anticipation notes, or BANs, backed by a letter of credit, maturing in July, said Fitch's Mr. Murray. Those BANs are single-B, a junk rating. The authority told Fitch it had just $80 million in cash on hand and it is "exploring options" to drum up the rest, Mr. Murray said.

There's been virtually no trading in New Orleans general-obligation bonds, except for a few oddlots, according to people in the market. Its general-obligation debt is quoted about 0.15 to 0.20 percentage point off the triple-A municipal benchmark scale.

Many of the holders of that debt are residents and banks in the city. So if uninsured city-related bonds -- the most vulnerable to default -- were to go unpaid, they'd be victims yet again.