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Summary:
Orleans Parish Law Enforcement District, Louisiana; General Obligation

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Credit Profile		
US$15. mil GO bonds ser 2010 dtd 03/01/2010 due 09/01/2024		
Long Term Rating	A/Stable	New
Orleans Parish Law Enforcement Dist GO bnds ser 2008 dtd 12/01/2008 due 09/01/2018		
Long Term Rating	A/Stable	Upgraded
Orleans Parish Law Enforcement Dist GO bnds ser 2001 dtd 03/01/2001 due 03/01/2002-2016		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating to 'A' from 'BBB' on the Orleans Parish Law Enforcement District, La.'s existing general obligation (GO) debt. At the same time, we assigned an 'A' rating and stable outlook to the district's series 2010 GO bonds.

The upgrade is based on the district's ability to maintain healthy reserves during a significant capital program and projected strengthening of its financial position in the near term.

The rating also reflects our opinion that:

- The district provides a limited but essential service in the housing of city, state, and federal inmates, allowing for high demand for its operation, given its location within the city of New Orleans and the presence of state and federal courts within its boundaries.
- The consolidation of the civil sheriff's department and the criminal sheriff's department into one office headed by the criminal sheriff on May 3, 2010, which will add more than $3.8 million to the sheriff office's general fund balance without significant additional expenses.
- Assessed value (AV) growth will allow the district to maintain its 2.9 millage levy to service its debt and its recently authorized $63 million bond package;
- The increase in the number of prisoners served by the district lessens the district's dependence on per diem increases to maintain budget structural stability; and
- Completed and submitted applications that have resulted in the Federal Emergency Management Agency's (FEMA) commitment to fund $237.5 million in construction projects. Under program guidelines, 100% of the architecture and engineering costs are immediately available as well as roughly 75% of the project cost.

The rating is constrained, in our view, by:

- The district's dependence on New Orleans for roughly half of its general fund revenues;
- Future significant capital needs in the form of new construction through 2011, when management projects to have the capacity to house between 4,500 and 5,000 prisoners; FEMA will fund over 85% of project costs while

future bonds sales will fund the remainder; and
- Adequate income levels, which have not strained property tax collection rates.

An unlimited parishwide ad valorem tax secures the bonds. The district is a component unit of Orleans Parish Criminal Sheriff's Office. The criminal sheriff's office is charged with keeping the jails and preserving the peace, and it serves as executive officer of the criminal district courts. The law enforcement district will continue to levy and collect ad valorem taxes to secure GO debt following the May 3, 2010, merger and consolidation of the criminal sheriff and civil sheriff offices into one office to be known as the Sheriff of the Parish of Orleans. The new office will be responsible for all functions, duties, and responsibilities performed by both the criminal sheriff and civil sheriff. Bond proceeds will be used to construct, improve, renovate, and repair jails and other criminal sheriff facilities.

Orleans Parish Law Enforcement District is coterminous with the city of New Orleans and Orleans Parish and has a population of over 336,000, according to the U.S. Census Bureau. For 2010, the population is estimated at more than 383,000, an increase of nearly 100,000 in the past two years. In January 2010, the state of Louisiana was awarded roughly $474 million in funds from FEMA for storm-related damages to Charity Hospital. The award should help significantly in New Orleans' continued rebuilding.

Income levels are adequate, with per capita median household income equal to 86% of the national average. Unemployment is about 6%. The district currently operates seven detention facilities with over 3,514 beds, compared with 12 facilities and 7,900 beds before Hurricane Katrina struck in 2005. Officials plan to increase capacity to roughly 4,500-5,000 by 2013.

Despite the reduction in operating revenues, district officials have been able to achieve balanced operations by reducing operating expenditures, in particular those related to personnel. The district has reduced its staff to 750 currently, from 1,200 people pre-Katrina. It has substantial flexibility to complete the reconstruction of its facilities. Resources available to the district include more than $237 million in committed funds from FEMA and a $63 million bond program, which was approved by an overwhelming majority of the district's voters in October 2008. These resources will fund a 500-bed temporary jail facility within six months and the bulk of an 1,800-bed facility scheduled to open in 2010. In addition, a 1,500-bed facility is scheduled to open next year.

Management projects reaching its target prison population of 4,700 after the opening of its 1,500-bed facility. Roughly 500 federal prisoners, up from 316 in 2008, are projected to be housed in the new facility at that time. In our opinion, the budgetary challenges associated with the ramp-up in facilities are manageable, given the district's proven ability to make operating cuts if necessary, along with a steady increase in the number of prisoners. The increase in prisoners, along with expenditure cuts, has allowed the district to maintain a stable financial position in the midst of its major capital plan. Another factor that will keep the general fund healthy is the projected reduction of 50 security workers through attrition.

Since fiscal 2008, district officials have adopted a capital budget that assumed an 85% collection rate of property taxes and a tax rate of 2.9 mills, which is lower than the three mills historically levied by the district. Over the past four years, AV has increased to $2.8 billion for fiscal 2010, from $1.7 billion in fiscal 2006 due to property reappraisal and new construction. Market value is estimated at over $30 billion. There is no concentration among the district's leading taxpayers. AV has exceeded the losses, which represented a $470 million decrease following Katrina. Currently, FEMA grants of roughly $237 million have been awarded and roughly $178 million is now available.

The sheriff's office closed fiscal 2008 (Dec. 31) with a $5.9 million unreserved general balance, or 9.5% of operations. The sheriff's office projects ending fiscal 2009 with a $2.4 unreserved general fund balance, or 4% of operations following a planned $3.5 million drawdown related to increased operational costs. A general fund balance of $5.7 million, or 10.2% of operations, is projected for fiscal 2010 following the consolidation of the civil and criminal sheriffs' offices into one sheriff's office to be known as the Sheriff of the Parish of Orleans.

After a full year of operating as the Sheriff of the Parish of Orleans, the office's unreserved general fund balance is projected to close 2011 at $8.5 million, or 13.5% of operations. Fiscal 2012 is projected to end with an unreserved general fund balance of $12.1 million, or 20% of operations. Projections are based on the current number of inmates housed, along with, starting in fiscal 2010, a portion of the 500 inmates who will occupy the temporary facility within six months, and the audited fiscal 2009 civil sheriff office's financials. The merger and consolidation of the civil sheriff's office and the criminal sheriff's office into one office on May 3, 2010, will not have a significant operational impact on the budget for the Sheriff of the Parish of Orleans. In fact, at the date of consolidation, $3.8 million of liquid cash assets will become part of the sheriff's office's general fund.

Along with its conservative projections, the criminal sheriff's office has a number of measures that may also be implemented to strengthen its financial position. For example, management is prepared to delay its proposed salary raises. Also, management has access to roughly $10 million of revenues in an internal service fund. The district could also introduce an operations levy, which would require voter approval. Based on the district's fiscal 2010 AV, a levy of one mill would produce over $2.4 million, assuming a collection rate of 85%. Following fiscal 2006, fiscal 2007 and 2008 collection rates have been 93% and 97%, respectively. Management projects plant maintenance and capital outlay costs will stabilize following the completion of its facility in fiscal 2013, which, with continued increased housing capacity, will allow reserves to strengthen beyond the above projections.

Most of the sheriff's office's recurring operating revenues are attributed to charges to house city, state, and federal inmates, which amounted to $28 million, or 64% of operational general fund revenue at fiscal year-end 2008. The city of New Orleans comprised $23.8 million, or 54% of operational general fund revenues, followed by the federal government (6%), and the state (4%). Federal grants, including FEMA awards, on behalf of payments tied to city vehicles, and other revenues accounted for the office's other primary revenue source at 39% of total general fund revenues.

The district's overall debt burden is moderate at 4.6% of market value. Carrying charges are moderate at 9% and amortization of principal is average, with 100% repaid within 20 years. This issue is the third installment of a recently approved $63 million bond authorization. Officials plan to issue $20 million of additional debt within the next 24 months.

Outlook

The stable outlook reflects our expectation that the district's property tax base will remain stable as New Orleans rebuilds following Katrina and that property tax collections will remain sufficient to cover debt service on the bonds. The pace of construction and renovation of prison facilities to house inmates will be critical to the long-term stability of the district's major operational revenue stream. New Orleans' ability to continue to provide the necessary resources to support the housing of its inmates at the district's facilities will be key to the rating's stability.

Related Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Special-Purpose Districts, June 14, 2007

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