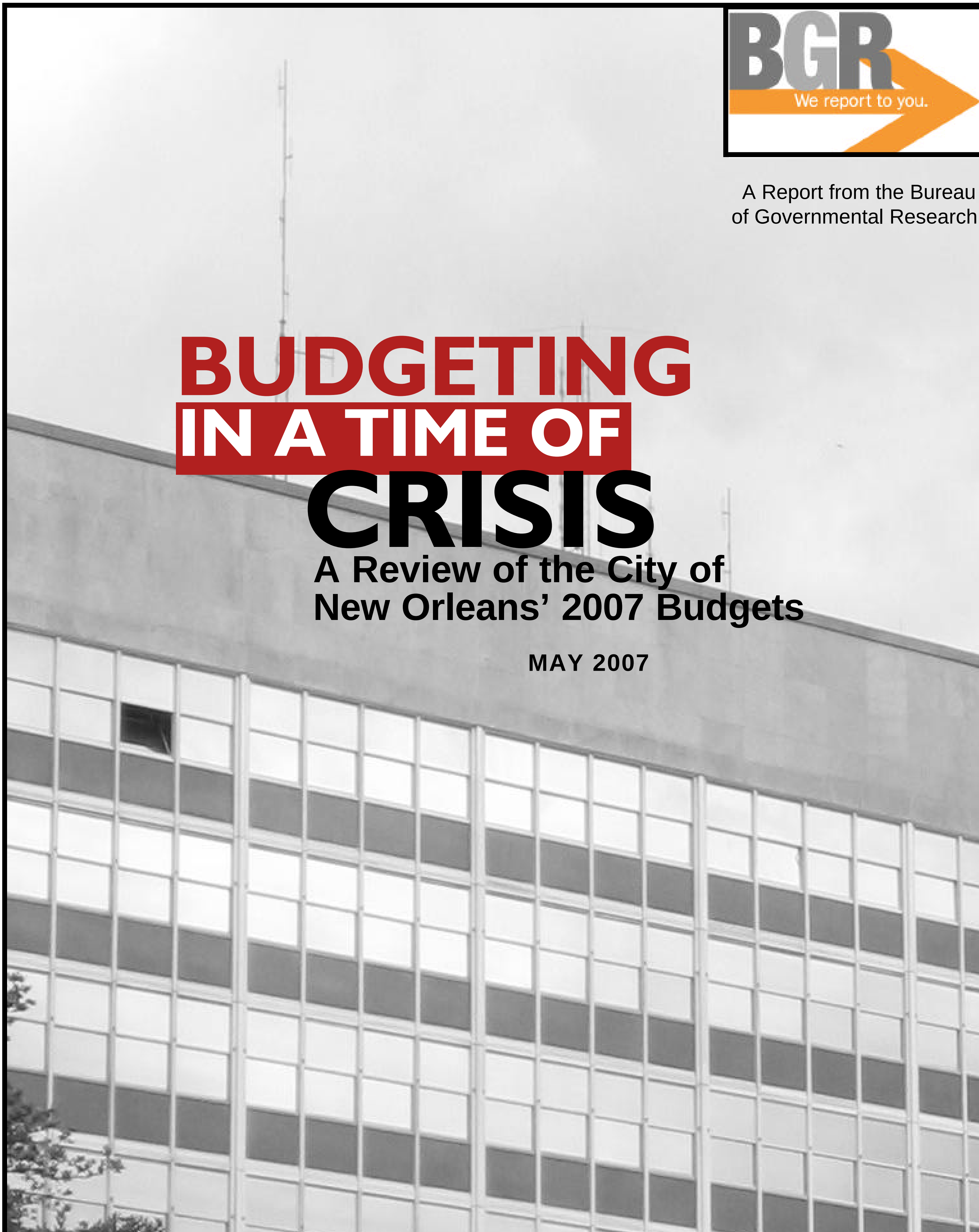

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A Report from the Bureau
of Governmental Research

BUDGETING IN A TIME OF CRISIS

A Review of the City of New Orleans' 2007 Budgets

MAY 2007

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EXECUTIVE SUMMARY

Last December, the New Orleans City Council adopted the City of New Orleans' operating and capital budgets for 2007, the City's second post-Katrina fiscal year. In this report, BGR provides information on the 2007 budgets and the City's debt.

Operating Budget Revenues

At first glance, the City's 2007 Operating Budget of $773 million appears robust. The budget shows a 44% increase in operating funds over 2004, the last full fiscal year before Hurricane Katrina. A more detailed review indicates that the revenue picture is not as positive as it seems for a number of reasons:

- Most of the increase is attributable to a $298 million increase in grants, including over $114 million in committed FEMA reimbursements to compensate the City for disaster-related expenses and losses. Recurring, mostly locally generated, sources are expected to be $133 million less than in the year before the storm.

- Seventeen percent of the funding for the General Fund portion of the Operating Budget ($71 million of $412 million) is borrowed under federal and state disaster relief programs. The borrowed funds are needed to balance the budget.

- The City has placed all FEMA reimbursements, including funds intended for capital projects, in the Operating Budget. As a result, the Operating Budget is overstated by an unknown amount. To date, the City has initiated the transfer of at least $20 million from the Operating Budget to the Capital Budget.

Operating Budget Expenditures

The 2007 Operating Budget, which includes the General Fund and various other funds, anticipates a 49% increase in expenditures from the 2004 level. The increase is attributable to expenditures of grants and FEMA reimbursements, largely for disaster-related uses or losses. General Fund expenditures, which are financed largely by recurring, locally generated sources and borrowings, are expected to decline by 10% from the 2004 level, falling from $455 million to $411 million. Expenditures would have to be reduced by another $71 million were it not for the borrowings.

The collective budgets for City Departments grew by 29% from 2004 levels, due largely to an influx of federal grants and reimbursements to the Chief Administrative Office (CAO), Neighborhood 1, Sanitation, Safety & Permits, and Public Works Departments. Nearly half the Operating Budget — $362 million — goes to five City departments: Police, CAO, Neighborhood 1 (the department that administers the City's housing programs), Sanitation, and Fire. The Police Department accounts for nearly 15% of expenditures. The CAO and Neighborhood 1 are the two departments with the next highest level of expenditures (9% each). The Sanitation Department accounts for 8% of Operating Budget expenditures. The Fire Department ranks fifth with 6% of expenditures.

The City's Operating Budget funds 2,000 fewer employees than in 2004. It maintains police expenditures at 89% of pre-storm levels and increases expenditures for garbage collection. Despite the overall increase in funding for City departments, some departments critical to rebuilding remain understaffed and underfunded.

Capital Budget

The City Charter spells out the procedure for crafting and adopting the Capital Budget. Basically, it calls for a five-year Capital Improvement Plan. The first year of that plan is the basis for the current year's capital budget. For 2007, the City government adopted a Capital Budget of a mere $150,000 and a five-year plan that reiterates pre-storm priorities.

The administration characterizes the $150,000 budget as "conservative." It maintains that, at the time the budget was prepared, revenues from sources such as FEMA reimbursements and insurance proceeds were too uncertain to include them in the Capital Budget at all. (It was, however, comfortable enough to include more than $113 million of FEMA funds in the Operating Budget.) With respect to the five-year plan, the administration has indicated that it is awaiting the adoption of a citywide recovery plan by the City Planning Commission and the City Council. It plans to adopt a comprehensive budget amendment reflecting that plan once it is in place.

Through April 5, the City has amended the Capital Budget to add approximately $34 million. Reliance on sporadic amendments is troubling, since it opens the door to ad hoc decision making and eliminates the opportunity for a thorough public vetting of priorities. This is particularly true where the City is shortening the amendment process by using procedures reserved for emergencies. While the administration may be understandably reluctant to invest much time in revising the long term capital plan pending the results of the current citywide planning effort, a budget and interim plan are needed to guide current expenditures.

Debt

To deal with their post-Katrina financial challenges, both the City and the Board of Liquidation (which administers the City's bonded indebtedness), have been borrowing under a state program that helps local hurricane-impacted governments pay debt service. In addition, the City has been borrowing to fund operational expenses under a federal disaster relief program intended to replace revenues lost as a result of the disaster. Both programs offer low-interest, deferred payment loans. To date, the City has borrowed $147.7 million and the Board of Liquidation $27.6 million under these programs. The City expects to draw down the remaining loans for which it is eligible over the next three years, adding another $144.5 million in debt for the City. Like other borrowers, the City and Board of Liquidation are hoping that the federal and state governments will ultimately forgive the loans.

While grants, FEMA reimbursements and disaster-relief loans are welcome resources in this difficult period, the City's heavy reliance on them underscores the need for rebuilding the City's tax base and other sources of locally generated revenues.

Since 1998, debt service payments from the City's Operating Budget have increased from $10.3 million to $43.2 million. The City's debt payable out of the Operating Budget (including $147.7 million of disaster relief loans) now totals $482 million. The City's bonded indebtedness administered through the Board of Liquidation totals $510 million. Collectively, the debt approaches $1 billion.

Conclusion

The City created the 2007 budget under very difficult circumstances and dealt with a myriad of challenges. The Mayor and the staff of the Chief Administrative Office and other departments deserve credit for producing the proposed Operating Budget on time while dealing with FEMA, insurers, and uncertain revenue streams. The City Councilmembers and their employees did admirable work delving into the details.

Nonetheless, there are some important issues. As noted above, the Operating Budget includes capital funds, making it difficult to ascertain the City's operating position. In addition, it is unclear how the City is using nonrecurring FEMA funds. The Capital Budget adopted in December was almost nonexistent.

There are structural problems that will have to be addressed in the near future. One is the City's growing reliance on debt. Excluding federal and state loans, the City's bonded indebtedness and other debt totals $844 million. As noted above, when the borrowings under disaster relief programs area included, outstanding indebtedness approaches $1 billion. This is a significant burden for New Orleans given the damage and population loss it has suffered. It is a burden that will increase as the City borrows additional disaster relief funds and seeks additional borrowings to rebuild.

The growth in the City's Budget is the result of increases in grants, FEMA reimbursements and borrowings under disaster relief programs. Locally generated revenues are down, and the City does not expect to be self-sufficient until 2011. While grants, FEMA reimbursements and disaster-relief loans are welcome resources in this difficult period, the City's heavy reliance on them underscores the need for rebuilding the City's tax base and other sources of locally generated revenues. It also underscores the importance of carefully reviewing expenditures and resource allocations in the post-Katrina era.

* * *

OVERVIEW OF THE 2007 BUDGETS

The Home Rule Charter of the City of New Orleans (Charter) requires that the Mayor submit annually to the City Council for its consideration and approval an operating budget, a five-year capital program, and a capital budget (the first year of the five-year program). The Council is required to adopt the budgets by December 1, with such increases, decreases or deletions as it deems advisable. It may add new items with a two-thirds vote. The City's fiscal year, and thus its budget year, is the calendar year. Both the operating and capital budgets must be balanced.

Table 1: City of New Orleans Budget Overview (in millions of dollars)

	2004 Actual	2005 Unaudited Actual	2006 Amended	2007 Adopted	% Change 2004-2007
Operating Budget					
Revenues	$536.6	$626.1	$517.2	$773.3	44
Expenditures	$517.7	$499.2	$517.2	$773.3	49
	Adopted	Adopted	Adopted	Adopted	
Capital Budget	$32.5	$67.2	$0.2	$0.2	-100

Source: City of New Orleans: 2004 data from the proposed 2006 budget; 2005 and 2006 data from the proposed 2007 budget; 2007 data from the adopted operating budget; capital budget data from the 2004 to 2007 adopted capital budgets.

The 2007 Operating Budget totals $773 million; the Capital Budget is a mere $150,000. Table 1 provides comparative information for 2007 and the preceding three years.

OPERATING BUDGET

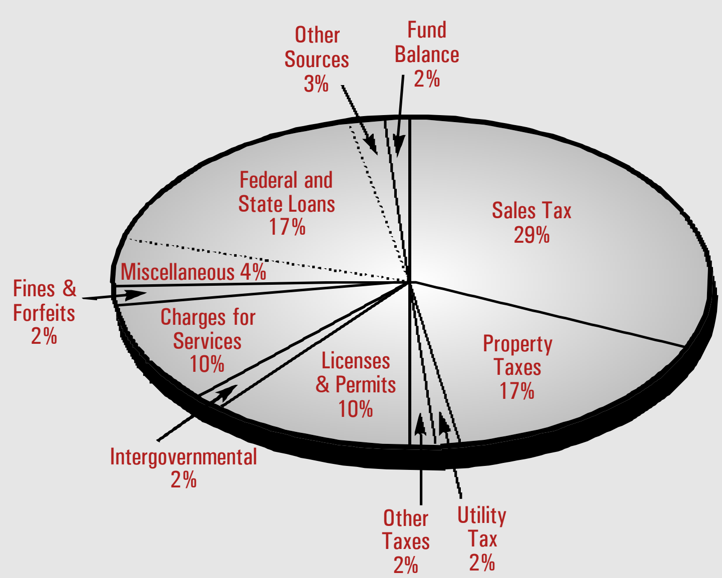
The Operating Budget includes the General Fund and various other funds (collectively referred to as Other Funds in this report). The General Fund receives discretionary revenues as well as some property taxes and revenues dedicated to specific government functions (e.g., the 16.87 mills levied to support the police and fire departments). The special funds receive revenues dedicated to a specific use or agency. (Examples of such funds include the Downtown Development District Fund and the Federal Grants Fund).

The General Fund pays for basic government services, such as police, fire, and code enforcement, and contributes to the support of various judicial and parochial offices as required by the state constitution. It also pays debt service on short-term and certain other types of debt. The City's Operating Budget does not include debt service for the City's bonded indebtedness. That debt service, approximately $50 million a year, is paid by the Board of Liquidation from a property tax levied for that purpose.

The City projects a 44% increase in operating funds over 2004, the last full fiscal year before Hurricane Katrina. Most of the increase is attributable to an anticipated increase of approximately $300 million in government grants and FEMA reimbursements. These are included in Other Funds. The budget reflects a nearly five-fold increase in such funds since 2004.

General Fund revenue, excluding borrowed funds, is expected to decline by $133.4 million (28%) from 2004 levels. Most of the revenue in that fund is locally generated, from sources such as taxes and fees. The decline in those sources is partially offset by $70.6 million of borrowings from the state and federal gov-

Chart A: General Fund Revenue by Source, 2007



Source: City of New Orleans, 2007 data from the adopted operating budget

Table 2: City of New Orleans General Fund Revenues (in millions of dollars)

	2004 Actual	2005 Unaudited Actual	2006 Amended	2006 Unaudited Actual	2007 Adopted	% Change 2004-2007
Taxes	$254.3	$215.9	$52.2	$197.2	$204.5	-20
Licenses & Permits	$64.2	$56.1	$22.1	$51.9	$40.8	-36
Intergovernmental	$13.1	$11.9	$6.7	$8.2	$9.2	-30
Charges for Services	$53.3	$36.3	$16.7	$23.1	$39.2	-26
Fines & Forfeits	$16.2	$9.9	$4.2	$6.6	$9.8	-39
Miscellaneous	$49.4	$19.8	$4.4	$12.3	$17.5	-65
Other Sources	$15.3	$18.4	$12.2	$12.0	$12.8	-17
Fund Balance	$8.6	$19.7	$22.3	n/a	$7.2	n/a
Subtotal	**$474.4**	**$388.0**	**$140.8**	**$311.3**	**$341.0**	**-28%**
Other Financing Sources:						
Community Disaster Loan	-	$83.7	$205.8	$53.4	$49.3	n/a
State Tax Credit Loan	-	-	-	$10.1	$21.3	n/a
Total General Fund	**$474.4**	**$471.7**	**$346.6**	**$374.8**	**$411.6**	**-13%**

Source: City of New Orleans: 2004 data from the proposed 2006 budget; 2005 and 2006 data from the proposed 2007 budget; 2007 data from the adopted operating budget. FY 2006 Unaudited Actual data from City Revenue Estimating Conference, February 2007.

ernments under disaster relief programs.

General Fund Revenues

The 2007 Operating Budget anticipates that approximately 53% of total City revenues will go to the General Fund. (with the remaining 47% going to Other Funds). Chart A provides a breakdown of General Fund Revenue by sources for 2007, and Table 2 provides comparative information for 2007 and the three preceding years.

Taxes account for half of 2007 General Fund revenues. Over 60% of the tax revenue ($123 million) comes from a 2.5 cent sales tax and a portion of the hotel/motel tax paid by visitors. Local sales taxes are down by 19% from 2004. The decline is smaller than one might expect, given New Orleans' population loss. The City attributes the higher than expected revenue to continued automobile sales and sales of construction materials and other items related to rebuilding. The next largest source of income, property tax, is down 15%. Table 3 summarizes the breakdown of tax revenues.

Table 3: City of New Orleans Tax Revenues (in millions of dollars)

	2004 Actual	2005 Unaudited Actual	2006 Amended	2006 Unaudited Actual	2007 Adopted	% Change 2004-2007
Sales Tax	$150.7	$117.1	$21.3	$122.3	$122.8	-19
Property Tax	$80.1	$82.7	$28.5	$60.4	$68.2	-15
Utility Tax	$10.8	$8.3	$2.0	$7.1	$6.6	-39
Doc. Transaction Tax	$7.3	$4.7	$0.2	$4.7	$3.0	-59
Parking Tax	$3.5	$2.2	-	$2.3	$2.0	-43
Gaming Taxes	$1.1	$0.3	-	$0.0	$1.5	32
Other Taxes	$0.8	$0.6	$0.2	$0.4	$0.4	-50
Total Tax Revenue	**$254.3**	**$215.9**	**$52.2**	**$197.2**	**$204.5**	**-20%**

Source: City of New Orleans: 2004 data from the proposed 2006 budget; 2005 and 2006 data from the proposed 2007 budget; 2007 data from the adopted operating budget. FY 2006 Unaudited Actual data from City Revenue Estimating Conference, February 2007.

Other Funds

As noted above, Other Fund revenues have increased by nearly 500%. Most of the increase is attributable to a $297.6 million increase in grants, including over $113 million in committed FEMA reimbursements. Table 4 provides comparative information on Other Funds.

Grants, Contributions, Fund Transfers is the category for anticipated but not yet awarded grants. (No amounts appear for 2004 and 2005 because funds are transferred from that budget category in the course of the year.)

Grant Funds reflects federal and state funds that are already committed, including reimbursements from FEMA. The annual Community Development Block Grant and other HUD grants ($27.4 million for 2007) and unspent funds from prior years are separately reported in the category of Community Development Funds.

Special Revenue Funds include the Downtown Development District, New Orleans Regional Business Park, the Economic Development Fund, and the Neighborhood Housing Improvement Fund. The

Table 4: City of New Orleans, Other Fund Revenues (in millions of dollars)

	2004 Actual	2005 Unaudited Actual	2006 Amended	2007 Adopted	% Change 2004-2007
Grants, Contributions, Fund Transfers	-	-	$20.2	$100.0	n/a
Grant Funds	$25.6	$125.6	$86.2	$173.2	575
Comm. Dev. Funds	$18.4	$17.9	$49.4	$68.4	272
Special Revenue Funds	$10.2	$2.2	$10.4	$15.0	47
Library	$7.8	$8.5	$4.2	$4.3	-45
Self-Generated	$0.3	$0.2	$0.2	$0.8	134
Total Other Funds	**$62.3**	**$154.4**	**$170.6**	**$361.7**	**481%**

Source: City of New Orleans: 2004 data from the proposed 2006 budget; 2005 and 2006 data from the proposed 2007 budget; 2007 data from the adopted operating budget.

Library Fund holds the proceeds from a dedicated property tax, and the decline over 2004 revenue reflects loss of the property tax base. Self-Generated revenue is the Police Department's share of proceeds from the disposition of evidence seized in drug and other raids.

OPERATING BUDGET EXPENDITURES

The Operating Budget anticipates a 49% increase in expenditures from the 2004 level. The increase is attributable to a nearly 500% growth in Other Funds expenditures. General Fund expenditures are expected to decline by 10% from the 2004 level, from $455.4 million to $411.6 million. See Table 5.

Table 6 provides information on major types of expenditures for 2007 and the preceding three years. Chart B on page 6 provides a more detailed breakdown of Operating Budget expenditures for 2007.

City Departments

Nearly half the Operating Budget — $361.9 million — goes to five City departments: Police, Chief Administrative Office (CAO), Neighborhood 1, Sanitation and Fire. The Police Department accounts for 14.6% of expenditures. The CAO and Neighborhood 1 are the two departments with the next highest level of expenditures (9% each). The Sanitation Department accounts for 8% of budgeted expenditures. The Fire Department ranks fifth with 6% of the budget.

Police Department. The Police Department budget of $112.9 million is $7 million more than in 2006, but $13.3 million (11%) lower than in 2004. The budget contains funds to increase the number of police officers to 1,600 from the 1,420 officers the Superintendent of Police reported during the November budget hearings. The budget includes $16.3 million of grant funds, including $4.5 million from FEMA.

Chief Administrative Office. The budget of the CAO totals $68.1 million, a 30% increase from 2004. The office provides consolidated oversight and services for City departments and administers vehicle maintenance, health care, management information services, light and gas, budget preparation, City capital projects, and spe-

Table 5: City of New Orleans Operating Budget, Expenditure by Fund (in millions of dollars)

	2004 Actual	2005 Unaudited Actual	2006 Amended	2007 Adopted	% Change 2004-2007
General Fund	$455.4	$449.5	$346.6	$411.6	-10
Other Funds	$62.3	$49.7	$170.6	$361.7	481

Source: City of New Orleans: 2004 data from the proposed 2006 budget; 2005 and 2006 data from the proposed 2007 budget; 2007 data from the adopted operating budget. The 2005 preliminary numbers are unaudited.

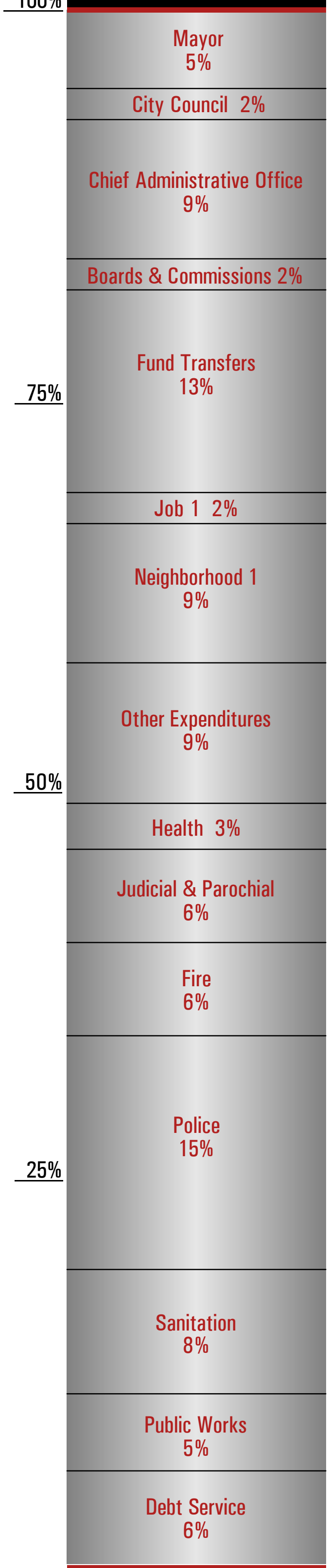
Table 6: City Operating Budget Expenditures (in millions of dollars)

	2004 Actual	2005 Unaudited Actual	2006 Amended	2007 Adopted	% Change 2004-2007
City Departments	$415.7	$403.9	$409.0	$535.5	29
Judicial & Parochial	$51.0	$41.8	$31.2	$48.6	-5
Debt Service*	$34.3	$36.6	$39.1	$43.2	26
Boards & Commissions	$12.3	$10.5	$13.4	$19.8	61
Miscellaneous	$4.4	$6.4	$4.3	$26.2	501
Fund Transfers	-	-	$20.2	$100.0	n/a
Total Expenditures	**$517.7**	**$499.2**	**$517.2**	**$773.3**	**49%**

*Excludes bonded indebtedness.

Source: City of New Orleans: 2004 data from the proposed 2006 budget; 2005 and 2006 data from the proposed 2007 budget; 2007 data from the adopted operating budget.

Chart B: Expenditures, 2007 Budget



Source: City of New Orleans, 2007 data from the adopted operating budget

cial projects. Its 2007 budget includes $23.4 million of FEMA funds. Three-fourths of that amount is going to the seven-person Capital Projects Administration office. Most of that money is for capital repairs funded as well as administered through that office.

Neighborhood 1. Neighborhood 1, funded by annual grants from HUD, a few smaller federal and state grants, and a 1.25 mill tax, has a $69.1 million budget. Neighborhood 1's proposed budget included $25 million for the One New Orleans Road Home Fast Track, a program to provide bridge loans to Road Home applicants for gutting, demolishing, or repairing hurricane-damaged homes. It proposes to spend $15 million to gut or perform mold remediation on homes.

Sanitation Department. The Sanitation Department's budget of $61.7 million is 65% higher than its 2004 expenses of $37.4 million. The 2007 budget includes $27.9 million to cover the cost of new garbage collection contracts with four companies as contrasted with one contract for $18.5 million in 2004. The budget also provides $7 million to cover the cost of disposal in a landfill; another $1.8 million for departmental personnel, the cost of servicing the DDD, and various cleaning projects; and $25.1 million for expenditures of FEMA funds. Other than to replace three street sweepers damaged in Katrina, it is unclear how the FEMA funds will be used.

Fire Department. The Fire Department's budget of $50 million is 8% lower than its 2004 budget. The 2007 budget includes funds for 770 positions, no change from the approved positions in 2006. The 2004 adopted budget included funds for 824 positions. The 2007 budget reflects a $6 million increase in personal services, due to a pension fund payment not included in 2006. The 2007 budget contains $3.8 million of FEMA funds. It is not clear how the FEMA funds will be used.

Public Works Department. The budget of the Public Works Department, which oversees road repairs, traffic lights, and parking meters, increases by 115% thanks to an allocation of $27.5 million of FEMA funds.

Office of the Mayor. The Office of the Mayor's budget has almost doubled, from $21.9 million in 2004 to $41.7 million in 2007. The increase is due partly to a $4 million increase in General Fund revenue, but mostly to almost $25 million of federal funds that are administered through the Office of the Mayor. No FEMA funds are budgeted for the Office of the Mayor.

City Council. The City Council's 2007 budget is entirely funded by the General Fund. It grew by 29%, from $10.5 million in 2004 to $13.5 million in 2007.

The collective budgets for City Departments grew by 29%, due largely to an influx of federal grants and reimbursements to Neighborhood 1 and the Sanitation, Safety & Permits, and Public Works Departments. Despite the overall increase in funding for City departments, some departments critical to rebuilding remain understaffed and under-funded. These include the City Planning Commission and Safety and Permits. Developers have complained that staff shortages in these departments have created long waits for reviews and inspections. The current budget provided funding to create some additional positions and fund salary increases in those areas, but the additional funding went only part way in addressing the problem. For example, the Planning Commission had a staff of 31 before the storm, but is currently budgeted for only 12 positions, up from nine in 2006. The staffing level is inadequate to allow the department to review applications in a timely fashion and perform its planning function.

The Safety and Permits Department, which lost half of its staff after Hurricane Katrina, has suffered from a shortage of plan examiners and inspectors. The shortage has resulted in delays to approve permits for new construction. The City Council increased the Mayor's proposed budget for this department by $1 million to enable the department to hire more people. FEMA pays $3.4 million for contracted electrical inspections. Without this allocation, the department's budget would be below its 2004 level.

Spread throughout the budgets for the city departments is $113 million of committed FEMA reimbursements. None of the FEMA money was allocated to the budget category Personnel Services, meaning that the funds would not be used to pay for staff. Beyond that, the use of these nonrecurring funds is unclear.

Judicial and Parochial Offices

The 2007 Operating Budget's allocation for judicial and parochial offices is 5% below the 2004 levels. The City increased its contribution to the District Attorney's office by $1.8 million from its 2006 level, bringing the City's contribution to $4.9 million. The purpose is to allow the District Attorney to increase prosecutors' salaries. It allotted $28.6 million to the Criminal Sheriff ($11.4 million more than in 2006 but less than the $35.1 million paid in 2004). The Operating Budget includes a $5.5 million payment to Criminal District Court, more than double the 2004 contribution of $2 million. $4.2 million of the $5.5 million is FEMA funding.

Miscellaneous

Miscellaneous Expenditures increased five-fold, due largely to reserves for hospitalization and Workers' Compensation and $11 million for an across-the-board pay increase. Fund Transfers is a $100 million designation for expenditures of anticipated grants and FEMA funds.

The 2007 budget contemplates adding another 215 employees, which would bring the total number to almost 4,000. In 2005, the City budgeted for just over 6,000 employees. Immediately after the hurricane, it laid off 3,000 employees. It subsequently hired or rehired approximately 800.

BGR's website, www.bgr.org/budgets/orleans.htm, contains additional information on City revenues and expenditures, the budget process, and departmental descriptions.

City Debt

Since 1998, debt service payments from the City's Operating Budget have increased from $10.3 million to $43.2 million. Such payments have grown 26% since 2004.[1] The debt service absorbs undedicated revenue that the City could use to provide services.

The budget does not include debt service for the City's general obligation bonded indebtedness and Limited Tax Bonds, which are administered by the Board of Liquidation. The Board of Liquidation administers City debt totaling $510 million. Debt service for such debt will total $55.7 million in 2007. Together, the City and Board of Liquidation budgets for 2007 include $99 million for debt service.[2]

The City has access to two government loan programs during the recovery. One is the federal Community Disaster Loan program (CDL). The City has borrowed $137.6 million to date. It expects to borrow approximately $50 million in 2007 and lesser amounts in subsequent years to total $240 million, the maximum eligible amount. The loans have low interest rates and no payments are due for five years. The City and other CDL borrowers hope that the federal government will follow precedent and relieve the borrowers of the repayment obligations.

Both the City and the Board of Liquidation have borrowed under a loan program established by the state and federal governments pursuant to the Gulf

[1] Part of the increase since 2004 is due to a change in the treatment of the Johnson Controls contract. Prior to 2007, that contract was paid out of the Capital Budget. In 2007, $3.2 million was paid out of the Operating Budget and included in debt service.

[2] Currently there is no debt service on the federal and state disaster relief loans, which are deferred five years.

Opportunity Zone Act of 2005 (Tax Credit Bond Program). The purpose is to help local governments pay debt service. The City borrowed $10.1 million in 2006. It expects to borrow $21.3 million in 2007, and to borrow an additional $20.8 million in subsequent years. The Board of Liquidation borrowed about $27.6 million under this loan program to make debt payments on the City's general obligation and limited tax bond debt in 2006 and 2007. Without these borrowings, the millage payable to the Board of Liquidation would have been higher.

While the CDL and Tax Credit Bond Programs have assisted the City in difficult times, they are not without their downside. Unless the borrowings are forgiven by the federal government and the state, they will eventually have to be paid back, adding to the City's future debt service load. (Currently, both interest and principal payments are deferred for five years and, in the case of the CDL loans, may be deferred for another five-year period if local revenues have not improved enough to pay debt service.)

The adopted 2007 Capital Budget contains only $150,000 for infrastructure. For years 2008 and forward, the capital improvement plan reiterates pre-Katrina priorities, without any adjustment to reflect the vastly changed needs in the City.

The City's total outstanding General Fund debt currently totals approximately $482 million. Total indebtedness, including $510 million of bonded indebtedness administered by the Board of Liquidation, comes to $992 million.

The City plans to borrow an additional $144.5 million over the next four years under the CDL program and the State Tax Credit Bond Program. In addition, the administration has indicated that the City may borrow from the private sector. The City has asked the Board of Liquidation to sell bonds now that the City's bond rating has improved to investment grade. (The City has voter approval from 2004 to issue up to $260 million of bonds.)

In addition to debt service discussed above, other financial concerns hanging over the City are unfunded expenses for court-awarded back pay for firefighters, hospitalization costs for employees and retirees, unpaid legal judgments, and repairs for roads and City facilities.

CAPITAL BUDGET

The City's Charter provides a detailed process for allocating capital funds. The Charter directs the City Planning Commission to prepare a five-year plan based on the amount and sources of funds provided by the CAO and a list of projects provided by each department or agency. The Commission must submit the prioritized capital program for the next five years with the projected sources of funds for each year in the period to the Mayor. The Mayor must submit to the Council a five-year capital improvement plan, a capital budget message commenting on the program, and a proposed capital budget ordinance for the first year of the program.[3]

The Charter in effect requires comprehensive, long-term planning for capital projects. The adopted 2007 Capital Budget contains only $150,000 for infrastructure. For years 2008 and forward, the capital improvement plan reiterates pre-Katrina priorities, without any adjustment to reflect the vastly changed needs in the City.

In preparing the 2007 Capital Budget, the City did not budget any funding from the remainder of Limited Tax Bond funds, FEMA reimbursements, insurance proceeds, Louisiana Recovery Authority infrastructure funds, or borrowings. The administration has advised BGR that this is because the City used a conservative approach. It maintains that, at the time the budget was prepared, it considered the City's financial situation too fragile to support a bond issue until 2008. In addition, the administration maintains that there were too many uncertainties surrounding other potential funding sources to include them in the Capital Budget. (It is unclear why the City was comfortable including

[3] *Home Rule Charter of the City of New Orleans*, Article V, Section 5-402(4) and Article VI, Section 6-204

FEMA grants and reimbursements in the Operating Budget, but not the Capital Budget.)

With respect to the five-year plan, the administration points out that it lacked the resources to undertake the major overhaul that the long-term plan required post-Katrina. In addition, it considered such revisions premature and wasteful, given that a citywide planning process was underway. It maintains that the City has given the public adequate information on priorities by identifying broad groupings, such as public safety, recreation, and infrastructure. The administration informed BGR that it intends to present a comprehensive, revised capital budget amendment to reflect the citywide plan ultimately approved by the City Planning Commission and the City Council.

Through April 5, the City has amended the Capital Budget to add approximately $34 million to the original $150,000. Reliance on sporadic amendments is troubling, since it opens the door to ad hoc decision making and eliminates the opportunity for a thorough public vetting of priorities. This is particularly true where the City is shortening the amendment process by using procedures reserved for emergencies. While the administration may be understandably reluctant to invest much time in revising the long term capital plan pending the results of the current citywide planning effort, a budget and interim plan are needed to guide current expenditures.

CONCLUSION

The City created the 2007 budget under very difficult circumstances and dealt with a myriad of challenges. The Mayor and the staff of the Chief Administrative Office and other departments deserve credit for producing the proposed Operating Budget on time while dealing with masses of FEMA paperwork and uncertain revenue streams. The City Councilmembers and their employees did admirable work delving into the details.

Nonetheless, there are some important issues. As noted above, the Operating Budget includes capital funds, making it difficult to ascertain the City's operating position. In addition, it is unclear how the City is using nonrecurring FEMA funds. The adopted Capital Budget was almost nonexistent.

There are structural problems that will have to be addressed in the near future. One is the City's growing reliance on debt. Excluding federal and state loans, the City's bonded indebtedness and other debt totals $844 million. When the borrowings under disaster relief programs are included, the outstanding indebtedness approaches $1 billion. This is a significant burden for New Orleans given the damage and population loss it has suffered. It is a burden that will increase as the City borrows additional disaster relief funds and seeks additional borrowings to rebuild.

While the Operating Budget appears robust, growing 44% since 2004, the revenue picture is not as positive as it seems. Most of the growth in the City's Operating Budget is the result of increases in grants, FEMA reimbursements, and borrowings under disaster relief programs. Recurring, locally generated revenues are down, and the City does not expect to be self-sufficient until 2011.

While grants, FEMA reimbursements, and disaster-relief loans are welcome resources in this difficult period, the City's heavy reliance on them underscores the need for rebuilding the City's tax base and other sources of locally generated revenues. It also underscores the importance of carefully reviewing expenditures and resource allocations in the post-Katrina era.

We report to you.

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