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**BUREAU OF
GOVERNMENTAL
RESEARCH**

938 Lafayette St., Suite 200
New Orleans, LA 70113
Phone 504-525-4152
Fax 504-525-4153
www.bgr.org

BGR MEDIA RELEASE

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Contact: Janet R. Howard, *President*
(504) 525-4152, ext. 107

City Budgets Examined

The Bureau of Governmental Research today released *Budgeting in a Time of Crisis: A Review of the City of New Orleans' 2007 Budgets*, a report on the City's operating and capital budgets for 2007, the second post-Katrina fiscal year.

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

- Much of the growth is due to a \$298 million increase in grants and FEMA reimbursements. Recurring revenues (mainly from locally generated sources) are expected to be down \$133 million.
- \$71 million of the funding for the Operating Budget is borrowed under federal and state disaster relief programs.
- The Operating Budget includes FEMA reimbursements intended for capital projects, rather than operations. As a result, the budget is overstated by an unknown amount. To date, the City has

transferred at least \$20 million from the Operating Budget to the Capital Budget.

Overall, City departments are budgeted to spend 29% more than in 2004, largely due to FEMA reimbursements included in their respective budgets. Despite the budgeted increases, departments such as City Planning and Safety and Permits Departments, both critical to rebuilding, remain understaffed.

Capital Budget. The City Charter stipulates the procedure for adopting the capital budget. Basically, it calls for a five-year Capital Improvement Plan, with the first year of that plan forming the basis for the current year's capital budget. For 2007, the City included a mere \$150,000 in its Capital Budget. Through April 5, the City had amended the Capital Budget to add approximately \$34 million.

Relying 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. 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. Since 1998, debt service payments from the City's Operating Budget have increased from \$9.8 to \$43.2 million. In addition, the Board of Liquidation (which separately administers the City's bonded debt) pays about \$50 million a year on the City's bonded indebtedness.

Collectively, City debt payable from the Operating Budget or from millage assessed by the Board of Liquidation approaches \$1 billion. This is a significant burden for a city that has suffered the damage and population loss of New Orleans. It is a burden that will increase as the City borrows additional disaster relief funds and seeks other funds to rebuild. The City has already asked the Board of Liquidation to begin selling \$260 million of voter-approved bonds for capital projects.

The City created the 2007 budget under very difficult circumstances and dealt with myriad challenges. The Mayor and the staff of the Chief Administrative Office deserve credit for producing the proposed Operating Budget on time while dealing with FEMA, insurers, and uncertain revenue streams. Nonetheless there are important budget-related issues. The decision to include capital funds in the Operating Budget makes it difficult to ascertain the City's real operating position. It is unclear how the City is using nonrecurring FEMA funds. The Capital Budget adopted in December was virtually nonexistent.

There are also some serious long term financial problems facing the City. 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 resources in the post-Katrina era.

"We hope that the City will focus on the issue of rebuilding its tax base as it rebuilds itself" said Poco Sloss, BGR's Chairman. Actions taken now will affect the operating and capital budgets – and the quality of life -- for many years to come."

The full report may be found at www.bgr.org.

BGR is a private, non-profit, independent research organization dedicated to informed public policy making and the effective use of public resources for the improvement of government in the New Orleans metropolitan area. For more information call 525-4152 or visit BGR's website, www.bgr.org.