

Overview and Status Report on the New Orleans Capital Program

The City of New Orleans' capital improvement initiative approved by voters in 1995 is approaching an end. At the current rate, construction activities authorized in 1995 will probably wind down by 2003. The City has approved another bond proposition, which will be presented to the voters on November 7, 2000.

BGR's November 1997 *Status Report on 1995 City Capital Program* analyzed the City's progress in carrying out the 1995 ballot proposition (see Publications at www.bgr.org). This report updates BGR's earlier analysis. It also examines trends in the City's debt, and the status of coordinated capital planning among the City and other governmental entities in Orleans Parish.

Capital Planning and Budgeting in New Orleans

The capital planning process follows an annual cycle. Each spring, city departments, subordinate entities, and parochial offices occupying City facilities (e.g., the judicial system) submit five-year capital project requests. The City Planning Commission staff prioritizes the requests by scoring them on a 0 to 3 point scale for each of 17 weighted criteria designed to compare the relative importance of each project. The criteria (and the weights applied to the scores) are shown in Table 1.

Based on projections of available funds, the City Planning Commission recommends a five-year capital program of prioritized projects to the Mayor by October 15th of each year. The City charter requires the Mayor to submit the program and his recommendations to the City Council by November 1st. Once the five-year program is approved, the first year of the capital program becomes the City's capital budget appropriation for that year. As the budget year progresses, the City Council often appropriates funds for additional projects, typically because state or federal grants become available.

TABLE 1

CAPITAL PROJECT SCORING CRITERIA

Criteria	Scoring Weight
Public Health and Safety	3

External Requirements	3
Protection of Capital Stock	3
Economic Development	3
Operating Budget Impact	3
Life Expectancy of Project	3
Percentage of Population Served by Project	2
Relation to Adopted Plans	2
Intensity of Use	2
Scheduling	2
Benefit/Cost	2
Potential for Duplication	2
Availability of Financing	1
Special Need	1
Energy Consumption	1
Timelines/External	1
Public Support	1

The City's capital planning process is a "bottom up" approach; it evaluates separate projects independently submitted by city departments and agencies. Theoretically, the City's master plan should provide a broader, long-range perspective. However, the existing 1980 master plan is outdated, and has been largely irrelevant to the capital planning process. The City Planning Commission is currently working on a major initiative to develop a new master plan.

The capital planning process has little bearing on the most costly component of the City's capital spending: street projects. Minor street projects bypass the planning process entirely. For major streets the planning commission sometimes suggests changes to the program proposed by the Department of Public Works. (For example, in the new 2001 – 2005 program, the planning commission is recommending a new \$900,000 annual line item for emergency

street projects.) But the streets are not prioritized against other projects, and the planning commission defers to the judgement of the Department of Public Works on project selection.

In 1995, the planning commission's proposed capital program included a list of recommended major street projects. However, since 1995, none of the City's capital budgets have listed any street by name, with the exception of three streets in the New Orleans Business and Industrial District (NOBID). Instead, the adopted capital budgets simply appropriate large lump sums for major and minor streets, leaving individual streets to be selected outside of the formal planning and budget process.

Much like street projects, airport projects are not prioritized against other projects. However, the planning commission staff reviews airport projects for compliance with the airports' proposed master plan. Unlike street projects, the airport's capital projects are individually listed in the capital budget.

The City's planning process does not cover the activities of independent boards and commissions that lie outside of the city charter's control. Examples include the Sewerage and Water Board, the Regional Transit Authority, and the Orleans Levee District. The non-applicability of the process to the Sewerage and Water Board is particularly significant. That agency is responsible for sewer, water, and drainage facilities beneath the streets, which necessitates close coordination to avoid the City and the board tearing up each other's work.

Before the planning process even starts, all but a fraction of available capital funding is already earmarked for specific categories such as streets, public buildings, and airports. These categories are established by the terms of bond propositions or by the nature of the funding source (as is the case for airport projects). With so little flexibility, the planning process has minimal impact on how money is allocated among different categories of capital improvements. What the process does accomplish is to filter and prioritize non-street, non-airport projects within the predetermined funding categories.

Capital Funding Sources

Funding for capital projects comes from a variety of sources:

- General Obligation (GO) bonds: This debt is backed by the full faith and credit of the City, and has long-term maturities. (The City's existing GO debt extends until 2029.)

– Limited tax bonds: These function much like GO bonds, but are not secured by the full faith and credit of the City. Instead, they are paid for with specific voter-approved millages.

– Airport funds: Federal airport funds and local revenues generated from the airport's operation are shown in the capital budget, and are generally restricted to airport-related projects. Airport funding sometimes exceeds GO bonds in the City's capital program.

– Community development funds: A portion (\$1 to \$3 million annually) of the City's allotment of federal community development funding is used for capital projects in qualifying areas.

– Miscellaneous capital funds: Derived from the sale of the City's surplus immovable property, these funds constitute a minor source of funding (about \$400,000 annually).

– State and federal funds: On occasion, the state has helped fund specific projects in New Orleans' capital program. Over the last decade, the state's contribution has been as high as \$34 million (in 1991), but has been far less significant recently. Federal sources other than community development funds and airport funds are irregular components of the City's capital program.

1995-Approved Bonds

In 1995, the voters approved a two-part capital financing package: \$147.4 million in GO bonds, and \$15.8 million in ten-year tax limited bonds backed by a 2.5 mill property tax previously earmarked for neighborhood housing and economic development. A third component of the 1995 program did not require voter approval: \$8.8 million of borrowing backed by a \$1.25 million annual portion of the land based casino's payments. The casino's bankruptcy derailed this component, which remains unfunded, despite the casino's eventual emergence from bankruptcy.

The GO bond portion of the 1995 referendum authorized five discrete categories of projects. See Table 2.

TABLE 2
GENERAL OBLIGATION BOND IMPROVEMENTS
APPROVED IN 1995

Major streets	\$ 41,200,000
Minor streets	50,000,000
Parks, playgrounds, and recreational facilities.	2,330,000
Public buildings and facilities (includes \$12 million for the convention center and \$5 million for NOBID infrastructure improvements.)	47,910,000
Improvements to the Criminal Court Building, Central Lockup, and the Municipal Traffic Court Building.	5,960,000
TOTAL GENERAL OBLIGATION BONDS	\$147,400,000
Source: Text of July 15, 1995 Ballot Proposition No. 1.	

The 1995 referendum dedicated the \$15.8 million funding component to parks and recreation facilities, and equipment for fire fighting, sanitation, and mosquito control. The ballot proposition did not specify how the \$15.8 million was to be distributed among these categories; however, the City's capital program divided the funds as shown in Table 3.

The City issued the bonds authorized by the 1995 propositions in five increments; the final \$32.4 million increment was sold in November 1999. See Table 4.

TABLE 3
LIMITED TAX BOND IMPROVEMENTS
APPROVED IN 1995

New Orleans Recreation Department	\$ 10,350,000
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Parks and Parkway Commission (Lawrence Square)	800,000
Audubon Park Improvements	500,000
City Park Project Greenspace	245,000
Equipment	
Fire Apparatus	3,150,000
Sanitation Heavy Equipment	500,000
Mosquito Control Equipment	255,000
TOTAL LIMITED TAX BONDS	\$ 15,800,000
Source: Official Statement, \$15,800,000 Limited Tax Bonds, Series 1996, Appendix F.	

Where did all of the 1995 bond money go? For about half of the money, the answer is nowhere. At the end of August 2000, \$76.9 of the \$163.2 million from the bonds had not been spent or encumbered. See Table 4. Although all of this had been appropriated by 1999 (i.e., authorized by the City Council for expenditure), many projects have not progressed enough to lock in the funds under a contractual obligation or purchase order. Funds are not considered encumbered until they are obligated in one of these ways.

Table 4
STATUS OF 1995 BOND PROPOSITION FUNDING
(As of August 25, 2000)

	Amount Issued	Expended	Encumbered	Balance
1995 Issue	\$ 25,000,000	\$ 22,835,393	\$ 1,817,887	\$ 346,720
1996 Issue	15,800,000	13,364,253	618,410	1,817,337
1997 Issue	50,000,000	28,597,877	5,452,944	15,949,178
1998 Issue	40,000,000	4,173,061	7,671,512	28,155,427
1999 Issue	<u>32,400,000</u>	<u>317,266</u>	<u>1,443,574</u>	<u>30,639,160</u>
TOTAL	\$ 163,200,000	\$ 69,287,850	\$ 17,004,327	\$ 76,907,822

Source: City of New Orleans bond fund summary report, August 25, 2000; BGR calculations.

One reason for the sluggish schedule performance is that the City had an enormous backlog of capital work in progress in 1995 when the most recent bonds were approved. At the beginning of 1995, the City had about \$62.8 million of unencumbered pre-1995 bonds designated for its backlog of capital projects.

Another reason much money remains unencumbered is that street projects have been moving at a snail's pace. Of the \$76.9 million in unencumbered 1995 bond program money, about \$60 million is for street projects. The City has a much better track record implementing non-street projects. On a dollar-

value basis, 74% of the 1995 program's funding for non-street projects was expended or encumbered, compared to only 38% for street projects, as of August 2000.

These differences mirror a division of responsibility for capital projects. Non-street projects are administered by the Capital Projects Division of the Chief Administrative Office. Street projects are administered separately by the Department of Public Works. Both organizations ultimately report to the Chief Administrative Officer.

Non-Street Projects

The vast majority of the non-street projects funded by the 1995-approved bonds are either complete or under construction. Table 5 summarizes this status, as reported by the City.

**Table 5
NON-STREET PROJECT Status**

Budget Years	Project	Bond Funds	Status (October 2000)
1996	Fire Apparatus Replacement	\$ 3,150,000	Completed
1996	Crime Lab Addition	415,000	Completed
1996	Criminal Courts Reroofing	275,000	Completed
1996	Civil Courts Cooling Tower Replacement	200,000	Completed
1996	Stallings Center Improvements	550,000	Completed
1996	City-wide Lighting Improvements, NORD	500,000	Completed
1996	Comiskey Playground Improvements	300,000	Completed
1996-97	City Hall HVAC Improvements, Ph. I & II	1,500,000	Completed
1996	City Hall Fire Alarm Upgrades	600,000	Completed
1996-97	City Hall Sprinkler System	1,000,000	Completed
1996	Golden Age Center Improvements.	550,000	Completed
1996-97	City-wide NORD Roofing & Painting	300,000	Completed
1996	Conrad Playground Improvements	150,000	Completed
1996	Mugrauer Center Improvements	300,000	Completed
1996	Harrell Stadium Improvements	550,000	Completed
1996	Harrell Pool Improvements	700,000	Completed
1996	Joe Brown Pool	250,000	Completed
1996	Taylor Pool	800,000	Completed

1996	Fischer Playground Improvements	500,000	Completed
1996	Pradat Pool	800,000	Completed
1996	Cabrini Playground Improvements	180,000	Completed
1996	Treme Center & Pool Improvements	574,200	Completed
1996	Pontchartrain Park NORD Facility	100,000	Completed
1996	A.L. Davis Playground Improvements	303,000	Completed
1996	Willow Brook Playground Improvements	200,000	Completed
1996	Behrman Stadium Improvements	145,000	Completed
1996	Sanitation Equipment Acquisition	500,000	Completed
1996	Mosquito Control Equip. Acquisition	255,000	Completed
1996	Laurence Square Renovations	800,000	Completed
1996-97	City Park Project Greenspace, Ph. I & II	750,000	Completed
1996-97	Audubon Park Improvements, Ph. I & II	1,000,000	Completed
1996-97	Central Library Improvements	475,000	Completed
1996	334 Royal (VCC) Improvements	335,000	Completed
1996-98	Fuel System Compliance Program, Ph. I, II, & III	1,750,000	Completed
1996-97	Convention Center Expansion	12,000,000	Completed
1996	NOMA Street Lighting	220,000	Completed
1996	Citywide Play Equipment, Ph. I	450,000	Construction
1996	Lemann Pool Improvements	827,800	Construction
1996	Milne Pool (design and match for state funds)	900,000	Working Drawings
1996	Mandeville Center Improvements (NORD)	520,000	Design
1997	Fire Stations #26 & #36 Improvements	685,000	Completed
1997	Police Admin. Bldg. Improvements., Ph. II	730,000	Completed
1997	ADA Building Improvements, Ph. I	150,000	Completed
1997-98	House of Detention Sprinkler Sys., Ph. I & II	1,100,000	Completed
1997	House of Detention Re-roofing	385,000	Completed
1997-98	Mechanical Upgrades - City Buildings	250,000	Completed
1997-98	Electrical Upgrades - City Buildings	250,000	Completed
1997-98	Plumbing Upgrades - City Buildings	250,000	Completed
1997	City-wide NORD Fencing	100,000	Completed
1997	Main Brake Tag Station Improvements.	1,000,000	Completed
1997	Re-roof Mosq. Control Operations Bldg.	125,000	Completed
1997	Smith Library	150,000	Completed
1997	Alvar Library Improvements	100,000	Completed

1997	Municipal/Traffic Ct. Sprinkler Sys.	850,000	Construction
1997-99	Gentilly Landfill Closure	5,650,000	Construction
1997	Burke Park Renovations	600,000	Construction
1997	Police Communication Center Upgrades	850,000	Construction
1997	City-wide Play Equipment, Ph. II	100,000	Bidding
1997	Municipal/Traffic Court Elevator Improvements.	75,000	Working Drawings
1997	Criminal Courts HVAC Upgrades	925,000	Working Drawings
1997	Youth Study Center Renov. & Expan.	2,200,000	Bidding
1997-98	Gentilly Library Improvements	400,000	Bidding
1998	Fire Station #6 & Supply Shop Improvements	370,000	Completed
1998	City-wide NORD Fencing	100,000	Construction
1998	Police Admin. Bldg. Improv., Ph. III	1,500,000	Construction
1998	MTA East Shower Facility	150,000	Construction
1998	Central Library Basement Waterproofing	225,000	Construction
1998	N.O. East Regional Library Improvements.	175,000	Construction
1998-99	Local Match for State-funded New Orleans Regional Medical Center (NORMC) Projects	1,000,000	Design
1998-99	ADA Building Improvements	250,000	Construction
1998	Land Acquisition and Design, New District Fire Station (near Third & Broad)	370,000	Land Acquisition Underway
1998	Relocate Parking Adjudication to MTA	275,000	Completed
1999	House of Detention Elevator Repairs	750,000	Completed
1999	Gallier Hall Fire Alarm Improvements	330,000	Design
1999	House of Detention HVAC Improvements.	1,100,000	Design
1999	DA's Office Mechanical Sys. Improvements.	250,000	Design
1999	Criminal Cts. Fire Alarm Sys. Upgrades	500,000	Design
1999	Earhart Blvd. Lighting	175,000	Design
1999	Coliseum Square Improvements	325,000	Design
1999	Mosquito Control Admin. Bldg. Renov.	235,000	Working Drawings
1999	Trailways Bldg. Demolition	400,000	Design
1999	Broad Street Fuel Facility Canopies	125,000	Design
1999	MTA Fire Training Facility, Ph. V	675,000	Working Drawings
1999	Edna Pillsbury Health Clinic Improvements.	2,875,000	Design
1999	Design - New District Station (Area of Third & Broad)	1,800,000	Awaiting land acquisition
1998	Available for Reprogramming	175,000	

1999	Available for Reprogramming	250,000	
	Total, Non-Street Projects	\$ 67,000,000	
Source: 1996 City of New Orleans Capital Budget, as updated by Chief Administrative Office			

Street Projects

Sixty-two percent of the capital funding approved by the voters in 1995 was specifically designated for major (\$41.2 million) and minor streets (\$50.0 million). The ballot proposition listed a number of major streets by name. The City subsequently programmed several others for funding as well, and earmarked an additional \$5 million for NOBID streets. The 1995 bond proposition included \$50 million for "minor streets" simply as a lump sum category without naming specific streets. Table 6 summarizes the status of street projects funded by the program, as reported by the City.

TABLE 6
STREET PROJECT STATUS
(October 2000)

Project	Bond Funds	Status
Major Streets Listed in the 1995 Bond Proposition		
Alcee Fortier (Chef to Dwyer); Pressburg (Read to Wright)	\$ 3,377,730	Completed
Almonaster (Franklin to Law)	2,548,230	Under Construction
Crowder (I-10 to Morrison)	0	Resurfaced using other funds
Esplanade (Rampart to Claiborne); N. Galvez (Esplanade to Elysian Fields)	4,820,640	Completed
Jefferson (St. Charles to Claiborne)	443,821	Under Construction
Louisa (Almonaster to Higgins)	0	Deferred
Louisiana (Tchoupitoulas to Magazine)	89,940	Partially designed; now deferred
Magazine (Broadway to Napoleon); Prytania (Jefferson to Napoleon)	4,546,172	Design (preliminary)
Martin Luther King (Claiborne to Broad)	822,090	Design (final)
McArthur (Gen. DeGaulle to Kabel)	2,907,410	Completed
N. Galvez (Clouet to Poland); Chartres; Elysian Fields	3,280,637	Design (final)
Oak (Leake to Carrollton)	751,627	Design (preliminary)
Poydras (Claiborne to Broad)	404,910	Design (final)
Teche (Bringier to Opelousas) and Newton	3,817,720	Design (final)

Major Streets Added by the City		
Fountainbleau (Carrollton to Broadway); Octavia (Fountainbleau to Grape)	2,551,027	Completed
Morrison Rd. (Jahncke Canal to Vincent St.)	2,348,796	Bids Received
Tchoupitoulas St. (Clarence Henry to Felicity)	8,489,250	Completed
Minor Street Projects		
Abundance (Dead End to Annette);Lafreniere (Allen to Annette)	322,478	Design (preliminary)
Andry, Piety, Etc	1,337,278	Design (preliminary)
Argonne (Polk to Harrison)	2,194,854	Design (final)
Baronne (Napoleon to Delachaise); First (S. Roman to N. Claiborne)	1,468,136	Design (preliminary)
Burthe (Fern to Broadway)	1,661,068	Bids Received
Camelot (Chef Menteur to Dwyer Canal)	1,561,548	Design (preliminary)
Carondelet; Chestnut	1,308,811	Design (final)
Carondelet (Napoleon to Louisiana)	1,523,146	Design (final)
Cernay, Dreux, Forstall, Knight	2,205,000	Completed
Charlton (Pratt to Paris); Chatham (Pratt to Filmore)	1,134,879	Design (preliminary)
Chatham (Filmore to Robert E. Lee)	1,324,396	Design (preliminary)
Clematis (Gentilly to Humanity)	1,569,880	Design (preliminary)
Clouet (N. Robertson to N. Miro)	1,545,053	Completed
Elenore and Perrier	1,330,546	Design (final)
Emerald (Opal to Zicon); Walker (Canal to Marshall Foch); Center (Tacoma to 36 th)	1,288,746	Design (preliminary)
Erickson, Finland, Hyman, Rhodes	2,466,298	Design (preliminary)
Erie (Hendee to Whitney); Evergreen (Dead End to Bringier); Comet(Fiesta to Prancer)	1,132,211	Design (preliminary)
Fairfax (Westchester to Sullen); Herald (Gen. De Gaulle to Berkeley); Essex (Fairfax to Sullen)	1,489,711	Design (preliminary)
Forstall (Claiborne to Rocheblave)	1,229,508	Design (preliminary)
Gallier (N. Robertson to N. Miro)	2,035,000	Design (final)
Germain (Vicksburg to Orleans); S. Alexander (D'Hemecourt to Cleveland)	1,226,541	Design (preliminary)
Hampson (Fern to Broadway)	1,935,706	Bids Received
Hudson Place, Eton	2,850,000	Completed
Madrid, Soldiers, Mendez	1,099,546	Design (preliminary)
N. Dorgenois (Bern to Elysian Fields)	1,869,546	Design (preliminary)
N. Olympia (St. Louis to Orleans)	260,610	Design (preliminary)
Peniston (Carondelet to Freret)	900,307	Design (preliminary)
Piety (St. Claude to Urquhart); Congress (St. Claude to N. Robertson)	791,583	Design (preliminary)
Prieur (Upperline to Napoleon)	340,171	Design (preliminary)
River Oaks (Gen. De Gaulle Berkeley)	302,318	Design (preliminary)

Royal (Caffin to Charbonnet)	201,712	Design (preliminary)
S. Gayoso (Fontainebleau to Washington); Upperline (Johnson to Tonti)	1,185,868	Design (preliminary)
Touro (Claiborne to St. Claude)	1,132,546	Design (final)
Walmsley, Willow, Valmont, Vendome	4,545,000	Design (final)
Wales, Prentiss, Reineer, Selma	1,229,999	Design (preliminary)
NOBID Projects		
Industrial Parkway	1,097,664	Completed
Intracoastal Drive	747,336	Completed
Michoud Blvd	3,155,000	Completed
TOTAL 1995 BOND PROGRAM STREET FUNDING	\$96,200,000	

Source: July 15, 1995 Ballot Proposition No. 1. Street segment and status information was drawn from reports furnished by the CAO's office and the Department of Public Works.

The City's plans have changed for several major street projects since 1995:

- Jefferson Avenue was originally slated for a major reconstruction, but was downscoped to a simple resurfacing. The City had to change its approach because of a Sewerage and Water Board plan to build a major underground canal on Jefferson.
- The original plans for Louisiana Avenue would likewise involve major, costly subsurface drainage work. At this point, the City does not plan to go forward with a Louisiana Avenue project under 1995 bond funding.
- The Oak Street project will probably be reduced in scope to accommodate merchant concerns regarding the disruption during construction.
- Similarly, the Magazine Street project will probably be cut back from a full reconstruction to a resurfacing to avoid disrupting local businesses.
- Other streets (Poydras Street, for example) are being downscoped to a simple overlay to stay within available funding, or have simply been deferred (Louisa Street).

Street surface work (the City's responsibility) is highly dependent on subsurface work involving water, sewer, and drainage lines (largely the Sewerage and Water Board's responsibility). Both entities overtly recognize the need to work together. The two entities have a written agreement that establishes a system for planning, designing, and executing subsurface work — at least in theory. In practice, the system is non-existent when it comes to

project selection. For project implementation, the system has been slow, cumbersome, and sometimes ineffective.

For example, the Sewerage and Water Board was planning an underground canal on Jefferson Avenue that would have destroyed much of the reconstruction work that the City was simultaneously planning before the 1995 bond referendum. The City went so far as to pay for a final design, but eventually abandoned the plan in favor of a less expensive overlay.

Part of the problem was the uncertainty of when the canal would be built. The board's capital program lists the canal project in 2001-2002, but construction is unlikely before 2004, and could be later, depending on approval by the Corps of Engineers. The result: money spent on a street design that will never be built and on an overlay that will probably be torn up a few years after it is completed.

While coordination between the City and the Sewerage and Water Board on street projects has been poor, it is improving. The Mayor recently formed the Public Works Coordinating Council — an inter-agency task force to address the coordination and schedule problems. BGR interviewed a number of participants in the process, and their general consensus is that the task force has prompted action on some of the languishing street projects, at least in the short-term.

Banking on the performance improvements it hopes to achieve, the City has laid out an aggressive schedule to have all street projects under construction by April of 2001. This would require awarding street construction contracts eight times faster than the City's historical performance since 1995.

There is no question that the street program can be accelerated. However, an eight-fold improvement in such a short period is unlikely. Further, it runs the risk of sacrificing engineering design quality and overloading the capacity of the local construction industry to handle the work economically. (Only a small number of contractors are capable of handling the City's street work.)

The City will not complete all of the street work it contemplated in 1995. In the first place, the City had to eliminate some projects because \$8.8 million of the capital program secured by the casino revenue did not materialize. The City had planned to devote this entire amount to street projects. Also, the Chief Administrative Office indicates that in the early stages of the 1995 program, construction bids ran high, an effect attributed to the strong economy and a bidders market for street work. An alternative explanation is that the City bid the initial batch of bond program street projects over too short an interval, and drove up construction prices.

Accountability for the minor street projects remains a BGR concern. The minor street projects do not go through the City's capital planning process. Thus, the largest single component of the 1995 bond authorization — an undifferentiated \$50 million pool of funds — bypassed the system designed to insure that capital funding is spent on the City's highest priorities. The choice of minor street projects was relegated to a fundamentally political process.

City officials downplay this issue, contending that all of the street projects funded are worthwhile, and would probably receive a high priority in a formal ranking process.

In 1995, BGR recommended that the City prioritize minor streets based on the physical condition of each street. In principle, the City established such a system utilizing American Public Works Association criteria. Nonetheless, minor street funding was divided equally among the five council districts; each council member determined priorities within the district.

Council members were furnished the physical condition ratings to make their choices, and the Chief Administrative Officer indicates that all of the streets chosen were in the bottom three (of seven) condition categories (poor, very poor, and failed). BGR spot-checked eight minor street projects in one council district, and found that this was true in each instance. Other than the councilmember's personal preference, BGR was unable to determine a rationale for why eight streets were chosen over the other 208 streets in that district.

Current Capital Budget

The City's adopted 2000 capital budget authorizes \$46.4 million in projects. See Table 6. About 97% of this is for the airport; the remaining 3% (\$1.4 million) is for minor streets and a smattering of smaller projects. The City has no direct control over this imbalance. Capital improvements at the airport are supported by federal money earmarked for airport purposes, and by local revenues generated from the airport's operation; these funds are generally restricted to airport-related projects.

Because the last of the funds authorized by the voters in 1995 had been appropriated in the 1999 capital budget, only minimal funding for non-airport projects was available for 2000.

A limited untapped pool of capital funding remains in the Capital Improvements and Infrastructure Trust Fund established by the 1995 bond election. The 2.5 mill tax dedicated to that fund exceeds debt service on the

\$15.8 million bond issue supported by it. The fund's balance stood at \$5.7 in 1999, and should reach \$7.7 million by the end of 2000.

TABLE 7
CITY OF NEW ORLEANS 2000 CAPITAL BUDGET

Miscellaneous Capital Funds

Citywide Playground Equipment	\$ 50,000
NORD Playspot Repairs	75,000
Recovery I Monitoring (Sanitation Department)	25,000
Nursery Administration Building Roof Replacement	25,000
City Park Improvement Assoc., Outdoor Track Lighting	25,000
Public Library Emergency Branch Repairs	50,000
Mosquito Control Board Termite Control Program	25,000
CAO's Capital Projects Planning Fund	100,000
Juvenile Court Access Control & Security	<u>25,000</u>

Subtotal Miscellaneous Capital Funds \$ 400,000

Community Development Funds

Minor Street Improvements	\$ 1,000,000
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Airport Funds (discretionary, bond, and federal funds combined)

Program Management	\$ 4,085,310
Landscaping Stage 3 (Phase 2-5)	1,500,000
Apron Drainage, Oil/Water Separator Ph. 2	5,045,500
Airport Access Road Improvements	3,905,000
Overflow Parking Lot/West Taxi Lot Lounge	3,400,000
Aberdeen Street Extension	3,000,000
Concessions Improvement Program	3,000,000
Committed Airport Planning Studies	4,000,000
Parking Garage Elevators	1,000,000
Program Management Office Build Out	400,000
Continental Airlines President's Club	750,000
Roadway Meetings	300,000
TACA Building Interior Renovations	500,000
Upgrade Garage Equipment	1,800,000
Upgrade Loading Bridges	1,000,000
Large Equipment Purchases	1,000,000
NOAB Staff Relocation to West Terminal	500,000
New Restroom Facilities for Concourse B	1,000,000
Perishable Goods Center Federal Inspection Facility	300,000
Residential Sound Insulation Ph. I	1,500,000
EAC Facility Building #2	<u>7,000,000</u>

Subtotal Airport Funds	\$ 44,985,810
TOTAL 2000 CAPITAL BUDGET	\$ 46,385,810

Source: Ordinance No. 19474, adopted December 1999; and BGR summary calculations. Does not reflect subsequent amendments, which are not significant.

Capital Interest Underwrites the City's Operating Budget

The City's operating budget is partially supported by interest earned on unspent capital funds. See Table 8.

**TABLE 8
OPERATING BUDGET REVENUE FROM
INTEREST ON CAPITAL FUNDS**

1996	\$ 4,500,000
1997	7,300,000
1998	8,400,000
1999	8,200,000
2000	4,800,000

Source: City of New Orleans Comprehensive Annual Financial Reports, 1996 – 1999, Note 10. Interest for 2000 is from the City's adopted operating budget.

The New Orleans City Charter (§ 6-204) defines capital project funds to include "monies derived ... from the proceeds of bonds." The City's longstanding practice is to construe "proceeds" to mean only the immediate proceeds from sale of bonds, not the subsequent interest earned on those proceeds. Another section of the charter, §6-201(2)(a), requires all receipts to be deposited in the City's general fund, unless otherwise mandated by law. Under this latter provision, interest earned on unspent bond proceeds goes to the general fund, where it is kept to subsidize the City's operating budget.

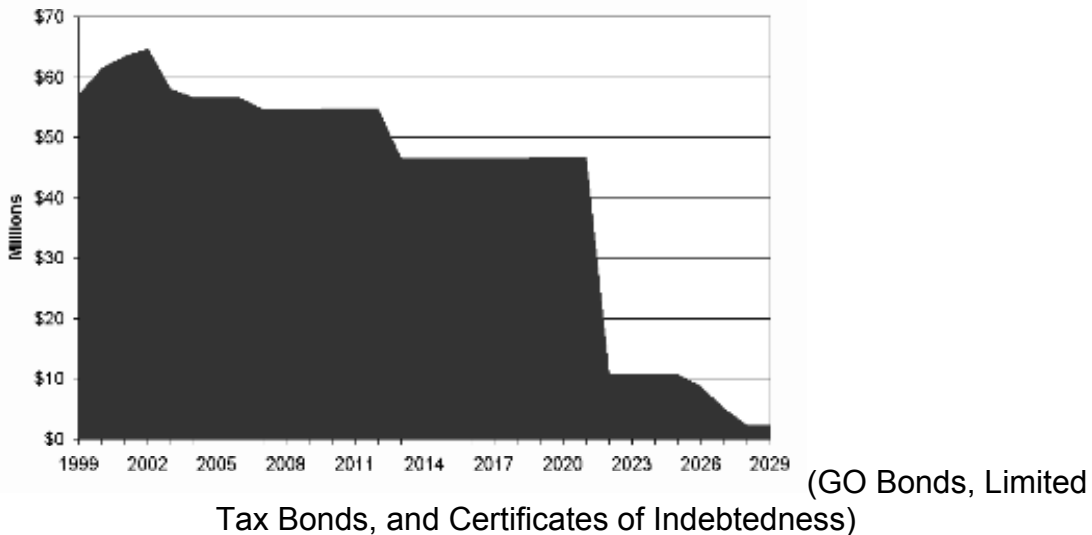
Diverting interest to the operating budget departs from the more widely accepted municipal management practice of crediting interest income to the capital fund that produces it. The City's approach effectively shrinks the funding originally approved by the voters for capital projects. Over time, inflation erodes the purchasing power of the bond proceeds. Interest income could attenuate this effect, but the erosion continues unabated in New Orleans when interest goes to the operating budget.

A second undesirable effect of this practice is that the City's annual operating budget becomes dependent on non-recurring long-term debt financing.

Debt Service

Annual debt service on the City's several forms of long-term debt will peak in 2002 at approximately \$64.6 million, and will drop through 2012 when it levels off at about \$46.5 million until 2021. See Figure A. This debt service does not include new borrowing authorized by the City Council shortly before this report went to press. The City plans to issue an additional \$27 million in certificates of indebtedness to pay lawsuit judgments, and an additional \$180 million in bonds to finance the City's old firefighters' retirement system.

Figure A
PROJECTED ANNUAL CITY DEBT SERVICE



Source: City of New Orleans Comprehensive Financial Report, 1999 and payment schedules for the City's outstanding certificates of indebtedness.

In 1995, a 10.6 mill tax increase staged over three years was projected to retire the proposed general obligation bonds. Because assessed property values grew significantly, and because a large portion of the City's debt was refinanced in 1995, the increase was not necessary. The City's debt service millage has remained at 26.9 mills since 1992.

Recent growth in assessed values provide an unencumbered revenue stream to support additional GO borrowing under current millage rates. City officials are banking on this excess to issue the new bonds proposed on the November 7, 2000 ballot without a tax increase.

Bond Rating

Rating companies give the City good marks for financial management. Nevertheless, New Orleans' high poverty rate and its penchant for covering budget shortfalls with non-recurring revenue drag down the City's bond rating. The most recent Moody's Investors Service rating (August 1999) classified the City's GO bonds as "Baa2." This is unchanged from the May 1998 rating, and puts New Orleans in the lowest 10% of bond ratings among the nation's largest cities.

To avoid paying higher interest because of its weak bond rating, the City's recent general obligation bond offerings have included repayment insurance that pushes the ratings for the insured bonds to a top notch "Aaa" level. The improved bond rating comes at a cost: the City pays higher interest rates to cover the price of the insurance premium.

The insurance protects the bondholders, not the City. The insurance pays the bondholders if the City defaults. The bondholders would be paid by the insurance company, which would then collect from the City under the City's "full faith and credit" obligation.

Future Capital Improvements

The City's 2001 capital budgeting process is now well underway. Capital funding requests in this year's cycle total approximately \$730.5 million over the next five years. On August 3, 2000, the City Council approved a \$150 million bond proposition for the November 7 ballot that would fund the City's capital program for this five-year period. Additionally, the Law Enforcement District of Orleans Parish (in effect, the Orleans Parish Criminal Sheriff) has proposed another \$27 million in bonds for the same ballot. These bond issues will not come close to funding the capital requests submitted during the current budget process.

The demand for capital projects far outstrips available funding. Further, the requests identified through the City's formal capital programming process constitute only part of the larger pool of capital requirements in local government. Other independent entities in Orleans Parish have major capital improvement plans: most notably, the Orleans Parish Schools, the Sewerage and Water Board, and the Regional Transit Authority. When combined with the City's, capital funding requests of local entities for identifiable projects are in the \$3 billion range. Even discounting "wish list" projects, this level of demand is staggering — particularly in view of the existing debt load of local entities in Orleans Parish.

Long-term direct municipal debt for the City of New Orleans was \$599.4 million at the end of 1999. This consists of general obligation bonds, limited tax bonds, and other forms of long-term borrowing, but only for the City government itself. This direct City debt is only 38% of local government debt. Including the various forms of overlapping debt of other entities (the Sewerage and Water Board, the Orleans Parish Schools, the Orleans Levee District, the Regional Transit Authority, the Audubon Commission, the Law Enforcement District, and the Aviation Board, etc.), the combined long-term debt of local governments in Orleans Parish stood at about \$1.56 billion at the end of 1999. On a per capita basis, this comes to \$3,386, which is well over the national average of \$2,952. While local government's per capita debt has been growing as a mathematical consequence of Orleans Parish losing population, the debt load would still exceed the national average if the 1990 population were used.

How is it that local government debt is so high while the overall quality of its facilities and infrastructure remains so low? BGR suggests three reasons:

- The City's facilities and infrastructure are old and neglected.
- Local government saves little of its recurring revenue for capital improvements, which are financed largely by borrowing.
- Frequent refinancing has lengthened the aggregate payout of local debt.

The combined effect of these factors is starkly demonstrated by the City's situation: it implements about \$25 to \$30 million per year in capital improvements, but spends about \$50 million annually to retire the long-term debt that funded for those improvements.

In view of the City's level of debt, should the City stop borrowing to finance capital improvements? At present, the City has no other alternative. The City's infrastructure is badly in need of work. State law seriously constrains the City's ability to raise revenue. Freeing up money for capital improvements through savings in the City's operating budget is a theoretical possibility, but not practically achievable in the near term.

Although different funding mechanisms support various components local government debt (e.g., property taxes, user fees, service charges), the entities responsible for this debt all ultimately answer to the same citizens of Orleans Parish. Yet there is no system by which capital needs of different governmental units in the parish are collectively prioritized and coordinated. Are roads more important than schools? Is drainage more important than recreation? These essential questions are not addressed in any capital planning process.

Conclusion

The City's record under the capital improvement program approved by the voters in 1995 has been mixed.

For non-street projects, the City has generally met its original commitments, with most of the non-street program complete, and the balance well underway. The situation is starkly different for street projects. Planning for the street projects is a serious weakness. Implementation has been slow, and coordination with other agencies has been lacking. Most of the street projects remain incomplete. The significant backlog of street projects at the start of the 1995 program explains part of this track record, but the backlog of projects today is actually greater than it was in 1995.

The City is well aware of the problem, and recently initiated a number of project management improvements to address it. Participants in the effort are optimistic that the improvements will bear fruit.

A key factor in BGR's support of the City's 1995 bond issue was the City's commitment to establish a process to assess and analyze the capital needs of all taxing entities in Orleans Parish. When BGR released its report on the City's capital program in November 1997, the City had not moved forward with this consolidated process. The same holds true today — nearly three years later.

On specific projects, the City administration has been proactive in facilitating the capital projects of other entities in New Orleans. Recent examples include the Regional Transit Authority's Canal Streetcar Line and Sewerage and Water Board's extensive sewer rehabilitation program. The City administration has also sponsored capital contributions by the City to other entities — such as \$12 million for the convention center in the 1995 bond package. Further, the administration has worked with the Criminal Sheriff for the Law Enforcement District's bond proposal on the November 7 ballot. However, these ad hoc efforts do not systematically address inter-jurisdictional priorities for scarce tax dollars.

The competition for capital funding will be particularly keen in the near future. The City and the Law Enforcement District have bond proposals before the voters in November. The Orleans Parish Schools' 1995 improvement program will wind up in the next two years, and the schools still have huge unmet capital needs. The Sewerage and Water Board will pursue additional capital funding for major drainage improvements and court-mandated sewer system rehabilitation in the next year or two. New federal drinking water standards will probably require more funding after

that. The burden of paying for these proposals will fall on the same revenue base — the citizens and businesses of New Orleans.

Considering the high per capita debt and the aggregate level of unmet capital needs in New Orleans, any significant capital financing in New Orleans will be financially difficult. In the absence of a viable inter-jurisdictional capital planning process, the citizens of New Orleans have no assurance that their financial sacrifices will yield the most effective results.