November 24, 2010

Mayor Mitchell Landrieu
City Hall, Room 2E04
1300 Perdido Street
New Orleans, LA 70112

Dear Mayor Landrieu,

Over the past several weeks, BGR staff members have been attending the budget hearings, listening closely as the City Council and the Landrieu administration work to hone the 2011 budget. We commend the administration and council for addressing the issues seriously and collegially. As policymakers, you are certainly faced with a difficult situation.

To assist in your efforts, we offer the following suggestions for tightening the budget. These suggestions are based on our observations in the past several weeks. We have not conducted a full-fledged review of City expenditures.

Paying for Economic Development

The proposed budget for the Mayor's Office includes $4.7 million for certain economic development purposes. This sum includes $2.25 million in General Fund money, and $2.46 million from the City's Economic Development Fund. The latter is replenished annually by capturing half of a 1.82-mill property tax dedication for housing and economic development.

The administration proposes to use the General Fund revenue to pay for the operations of the new public-private partnership, known as the NOLA Business Alliance, and the Mayor's Office of Economic Development. The majority of the Economic Development Fund ($2.2 million) would be used to establish a small business lending fund and a deal-closing fund to support economic development projects. The remainder would pay for two staff members to administer the fund.

Given the current fiscal situation, we suggest that the City consider limiting its expenditures for economic development operations and initiatives to the revenues available in the Economic Development Fund. This would free up $2.25 million in General Fund revenue.

We note that the City could turn to other sources to finance some of the economic development programs that it has on the table. For example, it

could apply the unrestricted portion of the Urban Development Action Grant (UDAG) fund toward a small business lending initiative or the deal-closing fund.[1]

Youth Employment

The draft 2011 budget proposes significant increases for youth services. As expected, it would nearly double expenditures for recreation, increasing them from $5.3 million to $10 million. However, the administration has also proposed a major expansion of the Mayor's Earn & Learn Summer Youth Employment Program, increasing total funding from $1 million in 2010 to $2.7 million in 2011.

The Earn & Learn Program provides local youth aged 14 to 24 with summer jobs, paying their salaries to work for businesses, nonprofits, governmental agencies and religious entities. As budgeted, it would serve 2,000 youths at a cost of $1,350 per person.

The City does not require private sector participants in the Earn & Learn program to provide any matching funds. Requiring a match would help to defray the cost of the program.

Mayor's Office of Communications

The current budget proposal places significant emphasis on improving relations between the City and its citizens. The motivation is a healthy one, but some of the expenditures appear excessive.

For instance, the Mayor's Office of Communications would receive about $1 million. That budget includes significant funding (totaling $231,000) for contracts to handle community meetings, press conferences, job fairs, event management and design of informational materials.

The 2011 budget proposes to spend more on communications than in any year since 2008. According to prior years' budgets, the amount budgeted in 2011 is roughly triple the average actual communications expenditures in the four years prior to Katrina. In neighboring Jefferson Parish, the budget for the three-person Public Information Office staff is only about $200,000 for 2011. That office does not anticipate spending any money on outsourcing.

In the past, the Mayor's Office of Communications served primarily as the personal public relations arm of the Mayor. We believe that significant belt-tightening, rather than expansion, is the appropriate response in this area.

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[1] UDAG funds become unrestricted after they have been loaned and repaid twice. As of April 2011, $2.4 million of funds met that description. Memorandum to City Council members from Ernest Gethers, Office of Community Development, dated April 21, 2010. We attempted to determine how much of that is currently available, but were unable to do so.

Connecting with Neighborhoods and Nonprofits

In addition to the investments in the Office of Communications, the proposed budget would put about $478,000 into a new Office of Neighborhood and Citizen Engagement. That office would have a staff of six to "liaise with neighborhood associations, businesses, social aid and pleasure clubs, auxiliary organizations, churches in neighborhoods"; provide capacity building and technical assistance to "organizations within neighborhoods"; collect data; and "build unity and cooperation within and across neighborhood boundaries by facilitating dialogue and exchange of best practices." The office would also be in charge of ServeNOLA, an initiative to focus volunteer efforts and support capacity building among local nonprofits, at an additional proposed cost of $379,000.

Interestingly, the budget does not, according to the executive director of the City Planning Commission, include sufficient funding to implement the charter-mandated system for neighborhood participation in land use and planning decisions.[2] The charter specifically requires that the City provide for timely notification to a neighborhood of any proposed land use action affecting the neighborhood; provide the opportunity for meaningful neighborhood review of and comment on such proposals; and provide the opportunity for meaningful neighborhood participation in formulating and amending the master plan. The charter-imposed deadline for creating that system has already passed. Why the administration would create a separate, optional neighborhood participation program before addressing the charter-mandated neighborhood participation program is unclear.

Spending a total of $857,000 on the Office of Neighborhood and Citizen Engagement is extravagant. This becomes starkly obvious when that amount is compared to the total budget of $1.29 million proposed for the City Planning Commission – the entity that the administration expects to assume responsibility for charter-mandated neighborhood participation functions discussed above.

We suggest the City focus squarely and solely on the charter's mandate. Carrying out this mandate faithfully might not require more than one or two staff people, with a budget at a fraction of the current proposal. To take advantage of existing capacity within City government, we suggest that the City provide a modest sum to the City Planning Commission to this end. Such an approach might save hundreds of thousands of dollars.

Alternative Sources of Revenue

One way of easing the strain on the General Fund is to widen the range of governmental revenue sources. This is particularly critical in New Orleans because so much property value is off the tax rolls due to nonprofit, governmental and homestead exemptions, and tax abatements.

The administration has already proposed raising garbage collection fees, from $12 to $20 for residential users and from $20 to $40 for commercial users. This would bring the fee more

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[2] Presentation by the City Planning Commission at the November 3, 2010, budget hearing.

closely in line with the cost of service. However, collecting the entire projected cost through fees would free up an additional $4.5 million in General Fund revenue.

Raising the excise tax on nonresidential parking offers another alternative revenue source. Thousands of commuters benefit from City infrastructure and services, whether they live in New Orleans or not. Part of this cost is defrayed by the City's 3% excise tax on parking. But comparisons to some other cities indicate New Orleans' parking tax could be higher. After the additional 9% sales tax is added, it equals the 12% rate in Washington, D.C. However, the combined rate remains low compared to rates in Baltimore (20%), Philadelphia (20%), Miami (approximately 23%), San Francisco (25%) and Pittsburgh (38%).[3]

Keeping Other Needs in Mind

The administration has asked the City Council for an 8.74-mill roll-forward of property taxes to raise $23.1 million for City services. The Sewerage & Water Board is asking the City Council for a roll-forward of 6.16 mills, which would generate $16.4 million to address drainage issues.

As illustrated by the recent failure of the power systems that support water and drainage operations, the S&WB's infrastructure is in a dire condition. The board's current five-year capital program calls for sewerage, water system and internal drainage projects totaling $3 billion, with an estimated funding shortfall of approximately $940 million for these projects. Drainage makes up two-thirds of the total need, and accounts for about half of the shortfall.

The City Council is scheduled to consider the City's and S&WB's roll-forward requests on December 1. It will be tempting to solve the budget problems of the City, the entity for which City Council is directly responsible, without regard to the needs of other government bodies. We urge City Council to resist the easy road and instead fairly assess the needs of the City and S&WB, giving priority to those that meet the most critical needs of the community. As BGR has stated in past reports, the City's troubled infrastructure is in need of far greater attention than it has been receiving.

Conclusion

We hope you find these suggestions helpful. Taken together, they would free up millions of dollars, giving the City the ability to increase other services or to limit the requested millage roll-forward.

We reiterate the importance of considering the roll-forward requests of the City and the S&WB as a whole, and prioritizing them accordingly. In a City where reliable drainage is a matter of economic survival, addressing drainage needs ought to be near the top of the list.

We also believe the City should pay special attention to how its service expenditures compare to pre-Katrina levels, when the City had a larger population – and how they compare to other

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[3] Based on information gathered by BGR from those cities.

jurisdictions. In 2009, a study by the Office of Inspector General found that the per capita cost of service delivery in New Orleans significantly exceeded such costs in nine peer cities.[4]

In the year ahead, BGR will continue to explore ways to help the City find the funds it needs to function properly in the long run. If you have any questions or concerns, please do not hesitate to contact me at 525-4152 x107, or by e-mail at janethoward@bgr.org.

Sincerely yours,

Janet R. Howard
President & CEO

CC: Andrew Kopplin
        Norman Foster

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[4] Office of Inspector General, City of New Orleans, *Review of 2009 Budget Process for the City of New Orleans*, OIG-I&E-09-002, November 24, 2009, p. 22.