

A Framework for Assessing New Orleans' Proposed 2020 Budget

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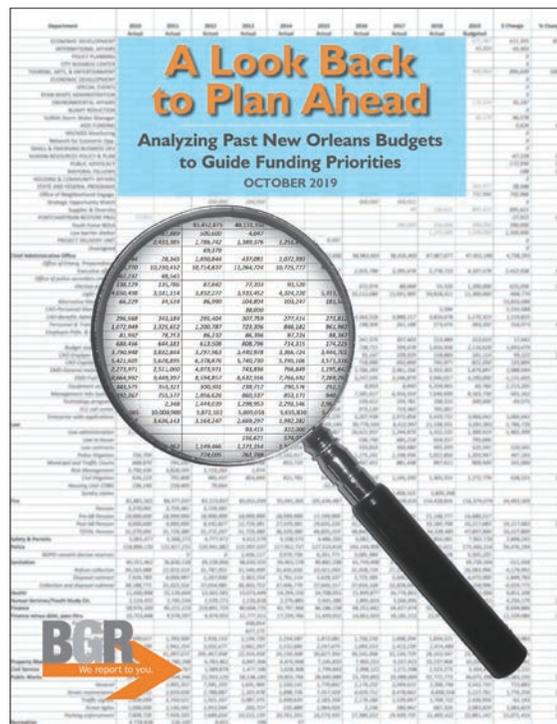
BGR's Spotlight on Local Government Issues

As the New Orleans City Council holds a series of hearings on the administration's proposed 2020 operating budget, BGR's recent analysis of a decade's worth of City budgets can help both policymakers and the public assess the \$722 million spending plan. BGR's report, [A Look Back to Plan Ahead](#), analyzes growth in revenues and changes in expenditures in the City's General Fund from 2010 to 2019 to identify how budget priorities evolved and why. The ultimate goal is helping the City identify options to reallocate existing revenues to high-priority needs. This is particularly important given the magnitude of the City's unmet needs for improvements to drainage, streets and public services.

Earlier this week, BGR issued a report supporting two City tax propositions and a bond proposition on the November 16 ballot. The propositions would primarily address infrastructure and public facilities through funding for improvements and maintenance. One reason BGR supports the propositions is that the City's needs are so great they cannot be satisfied solely by reallocating existing revenues. However, BGR continues to emphasize that the City owes it to taxpayers to take steps to deploy current resources optimally, starting with the 2020 budget.

The council has scheduled 10 hearings on the proposed budget for this week and the week of November 11. Under the City's charter, the council must adopt a budget by December 1. That means voters will likely decide the fate of the propositions without knowing key components of the budget. This includes a potential

roll-forward of property tax rates to capture new revenue from higher property valuations after the 2020 reassessment. Because of this, it is important for the City to demonstrate through the budget hearings that it is pursuing options to reallocate revenue to high-priority needs. To assist with this, the following discussion outlines key findings of BGR's report in the context of the [proposed budget](#). All page number citations are to the report available at [bgr.org](#).



Harnessing revenue growth.

The report found that strong revenue growth during the past decade helped the City cover major new expenses for court-mandated reforms at the Police Department and parish jail as well as legal settlements with firefighters and their pension system. For example, mandated funding for the jail exceeded the budgeted amount by \$25.5 million in 2015. However, the City was able to meet these costs as total revenue came in \$68 million above budget. The recurring nature of most of these revenues ensured the City could cover the jail costs in subsequent years. Thus, the City has demonstrated an ability to find money in the budget for new expenses when forced to do so by external factors, such as federal consent decrees (page 39).

In light of this finding, our report calls for the City to direct a portion of future revenue growth to high-priority needs. To facilitate an assessment of the extent to which the proposed 2020 budget accomplishes this objective, BGR prepared the table on the next page. It shows how the proposed budget would distribute \$19.9 million in

projected additional revenue. The table shows all departments and budget line items that would increase by \$250,000 or more, with the largest increases listed first. It is also important to consider the percentage increase. For instance, the Fire Department’s proposed \$2 million increase is the largest in terms of dollars. But on a percentage basis, it would amount to a 1.7% increase, which is below the 2.8% average for all departments. Similarly, the proposed \$1 million increase for the Police Department is the fifth highest for all departments, but it represents an increase of just 0.6% from 2019.¹ Several of the departments in the table also were among

those with the largest increases during the past decade.²

Cutting costs. The City achieved substantial savings in certain areas during the past decade, including costs for sanitation (down \$7.1 million annually) and General Fund debt service (down \$26.4 million annually). However, these savings were fairly isolated as the vast majority of expenditure line items increased, with an average growth rate of 22%, net of inflation (page 36).

The report calls on the City to take a more comprehensive and systematic approach to identifying areas

CITY OF NEW ORLEANS PROPOSED 2020 BUDGET COMPARED TO 2019 ADOPTED BUDGET (\$ in millions)

Department or line item	2019 (adopted budget)	2020 (proposed budget)	\$ Increase	% Increase
Fire Department	\$116.6	\$118.6	\$2.0	1.7%
Tax Increment Financing	5.9	7.8	1.9	32.8%
Homeland Security and Emergency Preparedness	8.6	9.8	1.2	14.4%
Mayor’s Office and Initiatives	14.2	15.4	1.2	8.2%
Police	179	180	1.0	0.6%
Law	6.1	7	0.9	15.4%
Vehicle maintenance	5.9	6.8	0.9	15.2%
Juvenile Justice Intervention Center	6.4	7.2	0.8	13.2%
New Orleans Recreation Development Commission	13.5	14.3	0.8	5.9%
Emergency Medical Services	19.3	20.1	0.8	4.2%
Street maintenance	5.1	5.8	0.7	13.2%
Safety and Permits	8	8.5	0.6	6.9%
Information Technology applications	3.1	3.6	0.5	16.3%
Orleans Parish Public Defender	1.8	2.3	0.5	27.5%
Property Management	10.2	10.7	0.5	4.7%
NORDC NOLA Youth Works	0	0.5	0.5	N/A
Parking and traffic camera enforcement	22.9	23.3	0.4	1.9%
Health	2.2	2.6	0.4	20.1%
Office of Inspector General	3.9	4.3	0.4	11.4%
Chief Administrative Office, Capital Projects	0.8	1.2	0.4	44.8%
Traffic signals	2.4	2.8	0.4	14.9%
Clerk of Criminal District Court	3.7	4	0.3	7.3%
All other departments and line items	262.4	265.3	2.8	1.0%
TOTAL	\$702.0	\$721.9	\$19.9	2.8%

Notes: Percentages shaded light green indicate an increase of 0% to 9%. Those shaded medium green indicate an increase of 10% to 19%. And those shaded dark green indicate an increase of 20% or greater. Dollar figures include a pro rata share of \$400,000 in workers’ compensation costs for both years. Numbers may not add due to rounding.
Source: BGR calculations

where it can redirect revenues to high-priority needs. The breakdown of expenditures by departments and budget line items (page 23) can assist in that analysis. By focusing first on areas with the highest growth both in terms of dollars and percentage increases, the City can evaluate the factors driving the growth and assess whether the expenditure levels are appropriate.

The proposed 2020 budget would increase funding for all 25 City departments, except for one that would remain at its 2019 level.³ By contrast, allocations would decrease or stay the same for all but two of a dozen other local government entities that receive City funding. This dichotomy raises the question of whether there may be more potential options to reduce costs for certain City departments.

Parking and traffic camera enforcement. One of the report's most interesting findings is that annual costs for parking and traffic camera enforcement have increased by \$13.4 million since 2010, net of inflation. That exceeds the increases for all other departments or budget line items, except the jail and police and fire departments (page 28). In fact, the enforcement costs have grown at a faster rate than the additional revenue the City has received from expanding the traffic camera network and increasing parking meter fees. In 2010, enforcement costs consumed 26% of revenues from parking and traffic camera citations. That figure had climbed to 44% by 2019, and it would increase further to 46% in the proposed 2020 budget. If enforcement costs had remained at 26% of revenues, the City would have an additional \$11 million in the 2020 budget.

BGR attempted to analyze what is driving these enforcement costs higher, but the City did not provide information that we requested on payments to parking and traffic camera contractors. The City Council could explore this issue as it reviews the proposed budget.

Street and drainage system maintenance. *A Look Back to Plan Ahead* reinforced previous BGR research showing that the City has chronically underfunded preventive maintenance of its streets and drainage system. It spent an average of \$4.6 million per year during the past decade, far below the \$30 million to \$35 million per year that the City estimates is necessary (page 34). The proposed 2020 budget would provide \$5.8 million

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for streets and drainage maintenance. This is close to the minimum amount that the City must spend to exhaust revenues dedicated to this purpose. In other words, the General Fund budget includes little discretionary funding for streets and drainage.

This is unfortunate because spending on maintenance tends to pay for itself and then some. By the City's own estimates, every dollar invested in preventive maintenance can save four or five dollars in future capital repair costs. It would also help safeguard FEMA's major investment in restoring New Orleans streets damaged as a result of the Hurricane Katrina disaster. Moreover, City officials indicated that FEMA might not cover future damage to the City's streets if it does not properly maintain them. This is because it might not be possible to determine whether the damage was caused by a storm or neglect.

Two taxes on the November 16 ballot could generate another \$8 million for street and drainage maintenance.⁴ This would still leave the City well short of the amount needed to responsibly maintain its infrastructure. In supporting the taxes, BGR called on the City to continue to assess options to reallocate existing revenues to maintenance and other high-priority needs.

One-time revenues and reserves. The City has made major strides in shoring up its finances since 2010, when it had a \$32 million operating deficit and a negative General Fund reserve or fund balance. However, the City's use of one-time revenues (such as legal settlements) for recurring expenses (such as employee salary increases) in recent years has put that progress at risk. The practice goes against government finance best practices and can hinder the City's ability to respond to a financial emergency (pages 19-21).

The proposed 2020 budget includes \$30.2 million in one-time revenues. This is down from \$47.6 million in 2019.⁵ Still, the City projects it will appropriate \$6.8 million from its fund balance in 2020 and end the year with \$58.7 million in reserves, below its targeted level of 10% of recurring revenues or \$69.2 million.

Rolling forward? The proposed budget would partially roll forward property tax rates to capture about \$6.9 million in new revenue from higher property valuations as a result of the 2020 reassessment. BGR has not taken a position on the proposed roll forward. However, our recent report called on the City to demonstrate the necessity of any roll-forward, just as would be expected for any other

proposal to generate new tax revenue. This should include demonstrating to citizens that the higher tax rate is necessary and appropriately sized. The proposed roll-forward should also tie to a clear spending plan directing the revenue to high-priority needs, provide accountability measures and support effective outcomes (page 40).

Finally, BGR reiterates its recommendation for the City, upon completion of the 2020 budget, to develop a long-term financial plan that identifies critical needs and sets forth a comprehensive strategy for funding them (page 38). Such a road map is essential to give citizens a clear understanding of the City's priorities and any future revenue-generating proposals it may pursue.

ENDNOTES

- 1 The proposed budget increases core funding for the Police Department by \$2 million. However, funding for compliance with a federal consent decree would decrease by \$1 million, resulting in a net increase of \$1 million for the department.
- 2 They include: the Fire Department (page 27), the Police Department (page 26), the Office of Homeland Security and Emergency Preparedness (page 29), the Mayor's Office (page 31) and the New Orleans Recreation Development Commission (page 31).
- 3 The department that would not see a funding increase is the Alcoholic Beverage Control Board, which would remain at \$1,500. See page 96 of the proposed 2020 Annual Operating Budget for the amounts it would allocate to the various City departments and other government entities that receive City funding. The Orleans Parish Public Defender's Office is not listed separately, but it would receive a \$500,000 increase to \$2.3 million.
- 4 The proposed 3-mill property tax would generate about \$12 million annually for maintenance and vehicles. If voters approve the tax, the City plans to use half (\$6 million) for street and drainage maintenance. The proposed short-term rental tax could generate \$10.5 million annually, based on the City's estimates earlier this year. The proposition would direct 75% of the tax revenue to City and S&WB infrastructure, of which the City would retain a quarter, or about \$2 million per year based on the estimate.
- 5 City of New Orleans, Proposed 2020 Operating Budget, p. 50.



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