

A LOOK BACK TO PLAN AHEAD

Analyzing Past New Orleans Budgets to Guide Funding Priorities

October 2019

WHY THIS REPORT MATTERS

Earlier this year, BGR published a comprehensive analysis of where \$1.25 billion in local tax dedications go in Orleans Parish. *The \$1 Billion Question Revisited* called for reevaluating tax allocations to identify funding for high-priority needs, including those of City government. Now, BGR follows that report with one focusing on the City's own General Fund to highlight its funding priorities and lay a foundation for citizens and policymakers to explore potential opportunities to redirect revenue to critical needs.

A Look Back to Plan Ahead reviews a decade's worth of the City's General Fund budgets from 2010 to 2019. It tracks the strong growth in revenues during that period and analyzes the sources of the growth. The report also examines changes in expenditures to identify shifting priorities and the factors driving them. It does so by looking specifically at departments and purposes with notable funding changes, including police, jail operations, recreation and sanitation. It then reviews how the key findings from this analysis can help the City make better use of its existing resources. Finally, BGR makes recommendations informed by this report and BGR's other recent research on taxes and government finance in New Orleans.

KEY FINDINGS

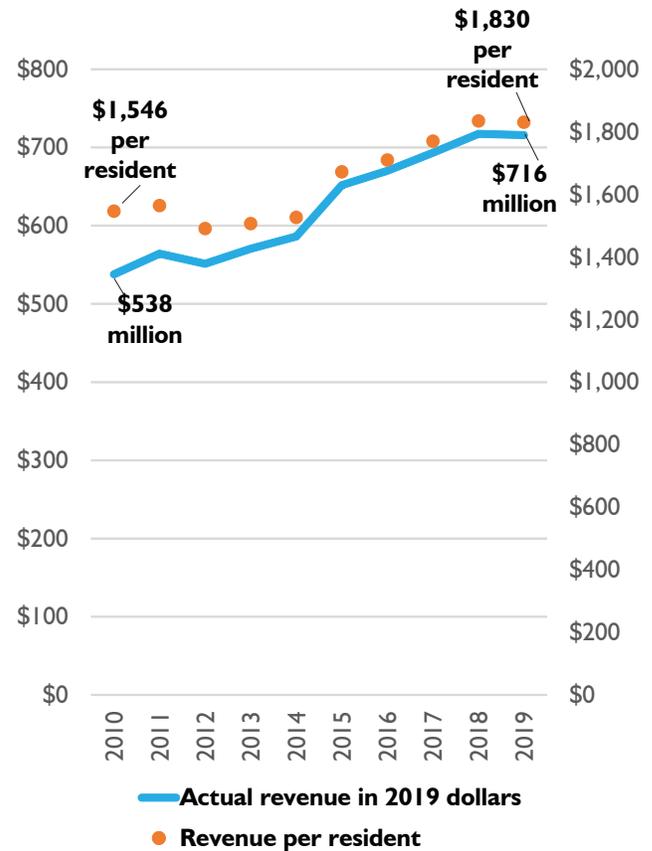
- The City's financial situation steadily improved in the past 10 years. General Fund revenues grew from an inflation-adjusted \$538 million in 2010 to \$716 million in 2019, an increase of \$178 million. All dollar figures in the report are adjusted for inflation in 2019 dollars, unless noted. The average nominal growth rate of 5% per year was nearly three times the 1.7% inflation rate. As the chart shows, the amount of revenue per resident also increased.
- Tax revenues increased by \$117.5 million, accounting for two-thirds of the \$178 million increase in total revenue. All but \$10 million of the additional tax revenue is from growth in existing tax bases as opposed to new taxes.
- Spending on public safety grew by \$84 million, the largest increase among a dozen expenditure categories. However, because public safety accounts for more than half of all General Fund expenditures, the increase on a percentage basis was only slightly higher than average. The City initially struggled to meet these public safety costs, most of which were mandated by federal consent decrees for police and jail reforms as well as legal judgments owed to firefighters and their pension system. But once the costs stabilized, the growth in recurring revenues helped the City cover them in subsequent years.
- Funding for preventive street maintenance has remained at levels far below what the City estimates is necessary to keep streets from deteriorating prematurely. Annual expenditures on maintenance averaged \$4.6 million during the past decade. This is about one-sixth of the \$30 million to \$35 million that the City estimates it needs annually to properly maintain the street network.
- Rapid growth in expenditures for parking and traffic camera enforcement has consumed a larger portion of the additional revenue the City receives from adding traffic cameras and increasing parking meter rates in recent years.
- Funding for the Mayor's Office and mayoral initiatives more than doubled from \$6.7 million to \$14.2 million. This increase was largely driven by the creation of six special offices since 2010 to

focus on specific issues or initiatives, including services for children and families, public engagement and innovation. The City now has a dozen such offices.

- The City realized substantial savings in two areas: sanitation and debt service costs. Expenditures on garbage collection and disposal decreased \$7.1 million as the City twice renegotiated sanitation contracts. In addition, annual General Fund debt service costs dropped \$26.4 million as the City used its improved financial position to avoid new debt.
- The City has significantly increased its reliance upon one-time or non-recurring revenues to cover recurring General Fund expenditures in recent years. This increases the risk that the City will not have sufficient revenues to cover the expenditures in subsequent years. So far, strong growth in recurring revenues has enabled the City to continue meeting those costs. However, the use of one-time revenues has reduced its General Fund reserves, putting the City's improved financial position at risk.

CITY OF NEW ORLEANS GENERAL FUND REVENUE GROWTH AND REVENUE PER RESIDENT, 2010 TO 2019

(\$ in millions and adjusted for inflation)



BGR analysis of actual revenues for 2010 to 2018, adjusted for inflation using U.S. Bureau of Labor Statistics data on the Consumer Price Index, and budgeted revenues for 2019.

SUMMARY OF RECOMMENDATIONS

The report's findings on General Fund revenues and expenditures point to a number of ways in which the City can make better use of its existing resources. These include developing a long-term financial plan that includes a funding strategy to address high-priority needs and conducting a comprehensive review of the budget for opportunities to cut costs or slow their growth. In pursuing future revenue sources, the City should carefully evaluate and justify any proposal for new taxes, renewals or roll-forward of property tax rates. Finally, BGR calls on the City to continue its efforts to eliminate or reduce its reliance on one-time revenue to pay for recurring expenses, and focus one-time revenue instead on capital projects or rebuilding its General Fund reserves to a healthier level.