### Analyzing Past New Orleans Budgets to Guide Funding Priorities

**OCTOBER 2019**

#### Past New Orleans Budgets

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*Note: Figures are in thousands.*
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Report Photography by Kevin Rabalais
A LOOK BACK TO PLAN AHEAD
ANALYZING PAST NEW ORLEANS BUDGETS TO GUIDE FUNDING PRIORITIES

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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.

**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.
EXECUTIVE SUMMARY

The City of New Orleans is preparing its 2020 budget at a time when it is seeking additional funding to address major municipal needs, such as improvements to drainage, streets, and public services. So far this year, the City secured legislative approval for a package of recurring and one-time revenues for infrastructure improvements. This includes restoration of a long-suspended 1% hotel tax, which took effect July 1 and will generate about $12.3 million in its first year.

Additional funding proposals are works in progress. They include three tax propositions on the November 16 ballot, a full or partial roll-forward of property tax rates to capture the growth in New Orleans’ assessments, and a citywide review of tax dedications for possible reallocation.

Regardless of the outcomes of these initiatives, the magnitude of the City’s needs makes it important to cast a wide net in considering funding options. This includes examining potential opportunities to redirect revenue within the City’s own General Fund, which has experienced strong growth during the past decade.

This report takes the necessary first step toward that goal by reviewing a decade’s worth of the City’s General Fund budgets from 2010 to 2019. It tracks growth in revenues 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.

General Fund Revenues

Overview. The General Fund is the City’s primary operating fund. It contains all City revenues, except those that it places in a separate fund for accounting purposes, such as federal grants. The General Fund includes the vast majority of the City’s tax revenues and all revenue from service charges, permits, licenses and fines. It provides operating revenue for all City departments and services.

In 2010, the first budgetary year analyzed in this report, the City’s General Fund was under pressure from both the ongoing Hurricane Katrina recovery and the Great Recession, which began in late 2007. The City ended 2010 with a $32 million operating deficit and a negative General Fund reserve, or fund balance. Despite this position, it was the first year after Katrina that the City did not rely on federal loans to prop up its budget.

The City’s financial situation steadily improved in subsequent years, aided by the economic recovery and the City’s efforts to generate new revenues. General Fund revenues grew from $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. The amount of revenue per resident also increased 18% from $1,546 to $1,830 during the decade.

Revenue Sources. As the chart on the next page indicates, five of the City’s six revenue categories – taxes, service charges, licenses and permits, fines and State of Louisiana (State) funding – increased after adjusting for inflation. The report’s findings on where the revenue growth occurred and the factors driving it include the following:

- **Taxes:** Tax revenues increased by $117.5 million, accounting for two-thirds of the $178 million increase in total revenue. The vast majority of the additional tax revenue is from growth in existing tax bases as opposed to new taxes or increases in existing tax rates. For example, while the City’s sales tax rate remained steady at 2.5%, tax receipts increased by $57.6 million, or 36%. The only new General Fund tax imposed during the past decade was a 2.5-mill property tax that yields about $10 million to help the City fund legal settlements with firefighters and their pension system.

- **Service charges:** Service charges increased by 68% or $39.6 million during the past decade. This is the second largest increase among the
six revenue categories. It included sizable increases from fees for curbside garbage pickup (up $20.7 million due to a fee increase and better collection efforts), the City’s ambulance service (up $6.2 million due to expanded services) and parking meters (up $5.8 million from extended hours and increased rates).

- **Licenses and Permits**: The City charges more than a dozen types of fees for licenses and permits, including occupational licenses, franchise fees, building permits and taxicab licenses. The revenue from these fees has grown by $8 million or 12% during the past decade, the second lowest growth rate among the six revenue categories. About $6 million of the additional revenue resulted from the City’s restructuring of taxicab licensing requirements and new fees for ride-sharing services.

- **Fines**: The City expects to receive $42.2 million in fines in 2019, an increase of $6 million or 17% from 2010. Essentially all of this growth is attributable to traffic camera fines, which increased nearly 50% to $27 million during the past decade as the City added traffic cameras at more locations. The traffic cameras were part of a strategy to reassign police officers from traffic patrol to neighborhood policing. Consequently, revenues from traffic citations that police officers issue decreased substantially. Those revenues are projected to total $2.7 million in 2019, less than half the amount in 2010.

- **State Funding**: The State will provide the City’s General Fund with an estimated $31.7 million in 2019. That is more than three times the amount the City received in 2010. A large portion of the increase is from Medicaid payments to reimburse the City for the costs of its ambulance service. The City will receive about $13.5 million in 2019 compared to just $200,000 in 2010.

- **Other Sources**: The City expects to receive $57.9 million from a variety of other sources in 2019. That is $14.8 million or 20% less than what it received in 2010. These sources and the amounts of revenue they generate tend to vary significantly from year to year. For instance,
the City received $23.6 million in one-time insurance proceeds in 2010. In 2019, the City will receive an estimated $14.1 million from the new Harrah’s Casino deal approved by the State Legislature this spring.

Recurring vs. Non-Recurring Revenues. The vast majority of General Fund revenues are recurring, meaning there is a reasonable expectation that they will continue from year to year, with some degree of predictability. Property taxes are an example of recurring revenues, while a lawsuit settlement is an example of non-recurring or one-time revenue.

The level of recurring revenues is an important consideration for budgeting purposes. Nearly all of the City’s General Fund expenditures are for recurring costs, such as employee salaries and benefits. Ideally, the City should have enough recurring revenues to cover these recurring expenditures. Otherwise it might have difficulty covering the expenditures in subsequent years.

Non-recurring revenues should typically be used to bolster reserve funds or pay for non-recurring or one-time expenditures, such as capital improvements.

The City has significantly increased its reliance upon one-time or non-recurring revenues to cover General Fund expenditures in recent years. Non-recurring revenues have averaged $48.6 million since 2015, accounting for 7.5% of total General Fund revenues. By comparison, they averaged just $4.7 million from 2010 to 2014, or less than 1% of total revenues.

The City’s budgets indicate it used these non-

recurring revenues for recurring expenditures. So far, the City’s use of non-recurring revenues for recurring expenditures has not resulted in budget shortfalls in subsequent years. This is because strong growth in recurring revenues has enabled the City to continue meeting those costs. However, if future revenue growth diminishes, the City could have difficulty meeting recurring expenses.

The more immediate impact of using these one-time revenues is a reduction in General Fund reserves. As the chart below indicates, the City had a fund balance of $69.1 million in 2015. This exceeded the City’s reserve target of 10% of recurring General Fund revenues. By contrast, the City ended 2018 with a fund balance of $46.7 million, about $18 million less than the targeted amount. The City projects the fund balance to grow in 2019. It is noteworthy that the 10% fund balance target is below the level of at least 17% (the equivalent of two months of operating expenses) that government finance experts recommend for general funds.

CITY OF NEW ORLEANS YEAR-END GENERAL FUND RESERVES COMPARED TO THE CITY’S TARGET LEVEL, 2010 TO 2019
($ in millions, unadjusted for inflation)

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<td>2019*</td>
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*projected
General Fund Expenditures

Overview: General Fund expenditures grew from $575 million in 2010 to a budgeted $702 million in 2019, an increase of $127 million, or 22%. During the first half of the decade, expenditures actually decreased slightly as the City sought to overcome the $32 million operating deficit from 2010 and rebuild its reserves. Since 2014, expenditures have grown significantly faster, increasing by an average of $31 million per year, or 5.1%.

The budget lines with the three largest increases in expenditures – the Police Department ($32 million), the Orleans Parish Sheriff’s Office ($26.5 million for jail operations) and the Fire Department ($16.9 million) – all concern public safety. These increases were driven by court-ordered police and jail reforms and legal judgments owed to firefighters and their pension system.

In fact, spending on public safety was by far the City’s top funding priority in terms of dollars spent, as shown in the chart below. However, because public safety accounts for more than half of all General Fund expenditures, the increase on a percentage basis was lower than that for most other purposes. 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.

Other findings from the report’s analysis of expenditures include the following:

- Recreation and homeland security received two of the largest discretionary funding increases

CHANGES IN CITY OF NEW ORLEANS GENERAL FUND EXPENDITURES BY PURPOSE, 2010 TO 2019
($ in millions and adjusted for inflation. The orange dots show the percentage change for each category.)

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<th>Category</th>
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<td>Public Safety</td>
<td>$84.3</td>
<td>$16.9</td>
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<td>Central administration*</td>
<td>$55.0</td>
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<td>$45.0</td>
<td>$12.0</td>
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<td>$11.9</td>
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<td>$10.0</td>
<td>$3.0</td>
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* Includes Mayor’s Office, Chief Administrative Office and Finance Department.
** This is a catch-all category for basic municipal functions and purposes, including the law department, safety and permits department, City Planning Commission, property management, utilities, vehicles and fuel.

that were not driven by external factors, such as a consent decree. Funding for the New Orleans Recreation Development Commission more than doubled from $6 million in 2010 to $13.5 million in 2019. Similarly, funding for Office of Homeland Security and Emergency Preparedness increased from $1 million to $8.6 million. The department grew from five employees to 38, with many of the additional employees staffing a new command center to monitor live feeds from a citywide network of surveillance cameras.

- Expenditures for the Mayor’s Office and mayoral initiatives more than doubled from $6.7 million to $14.2 million during the decade. 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.

- Costs for City ambulance services rose by 66% as the City expanded service. However, service charges and State reimbursements more than offset them, resulting in a net revenue gain.

- Expenditures for parking and traffic camera enforcement are consuming a growing portion of the revenue the City receives from adding traffic cameras and increasing parking meter rates in recent years. In 2010, enforcement costs consumed 26% of the $36.9 million in gross parking and traffic camera revenues, leaving $27.4 million in net revenue. In 2019, budgeted enforcement costs will consume 44% of the anticipated $52.5 million in gross revenues, leaving $29.6 million in net revenue.

- Funding for 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.

- The City’s funding for the Orleans Parish court system will total an estimated $39 million in 2019, an increase of $12 million or 44% from 2010. Funding doubled for five of the eight court system entities and decreased for the other three.

- The City realized substantial savings in two areas: sanitation and debt service costs. Expenditures on garbage collection and disposal decreased $7.1 million since 2010. The City achieved these savings primarily by twice renegotiating sanitation contracts. In addition, General Fund debt service costs dropped $26.4 million as the City used its improved financial position to avoid new debt.

Looking Ahead

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. It is important to give citizens a clear perspective on the City’s service and infrastructure priorities and create a funding strategy to address them. Government finance experts indicate that a long-term financial plan is particularly important when a community faces multibillion-dollar needs that cannot be practically met without a 20- to 30-year horizon.

- Cutting Costs. This report’s breakdown of expenditures by departments and budget line items can help the City identify opportunities to cut costs or slow their growth. Focusing first on areas with the highest growth both in terms of dollars and percentage increases, the City could evaluate the factors driving the growth and assess whether the expenditure levels are appropriate.

- Harnessing Revenue Growth. When pressed to do so by external factors, the City has demonstrated its ability to use the strong growth in General Fund revenues to meet major new costs for the Police Department, Fire Department and the parish jail. Once those expenses were built into the budget, the recurring nature of the vast majority of General Fund revenues helped ensure the City could cover the costs in subsequent years. If strong revenue growth continues, the City could allocate some of it to emerging needs. In subsequent years, the recurring nature of most General Fund revenues could help the City maintain and even increase these allocations.
Rolling Millage Rates Forward. Taxing entities must rely on some growth in property tax revenue in order to keep pace with rising costs. The question is how much of an increase is necessary. This entails carefully evaluating any proposal to roll forward property tax rates this fall and demonstrating to citizens that the higher tax rate is necessary and appropriately sized. The proposal should also include a clear spending plan directing the revenue to high-priority needs, provide accountability measures and support effective outcomes.

Reducing the Use of One-Time Revenues. The City’s use of one-time revenues to pay for recurring expenses increases the risk of budget shortfalls. It has also interrupted steady progress the City had made in growing its General Fund reserves to help it respond to financial emergencies. Government finance experts indicate that one-time revenues should generally be used to bolster reserves and to cover one-time expenses, such as capital projects.

Maintaining a Healthy General Fund Balance. The City’s declining General Fund reserves puts at risk recent improvements in the City’s financial position. The reserves have fallen well below the City’s target of 10% of recurring reserves – a figure that is itself significantly lower than the best practices level of 17%, the equivalent of two months of operating expenses.

Conclusion and Recommendations

The City’s needs are so great that it might not be possible to adequately address them all. This means that every General Fund dollar that is not well spent represents a dollar’s worth of high-priority needs that will go unmet. For this reason, it is important for the City to re-evaluate current expenditures with an eye toward optimal deployment of existing resources to critical needs.

BGR’s review of the last 10 years of City budgets found that City leaders took advantage of strong growth in General Fund revenue streams to meet significant new mandated costs for the police and fire departments and parish jail. Those instances illustrate how the City could use future growth in General Fund revenue as a potential source of funding for unmet needs today. However, the focus should not just be on growing revenue. City spending also grew considerably. The City has opportunities to reevaluate spending and identify cost savings, which could free up existing revenue for pressing needs.

It is also important for the City to strengthen its budgeting practices to rebuild its fund balance and eliminate its reliance on one-time revenues for recurring expenses. The City has made significant progress during the past 10 years, but it must act now to sustain and strengthen its fiscal health.

To support this outcome, BGR makes the following recommendations:

- The City should develop a long-term financial plan to identify revenue sources, forecast expenditures and set funding priorities. The plan should include a strategy for directing a portion of future revenue growth to high-priority needs.
- The City should conduct a comprehensive review of its budget to identify areas where it can cut costs or slow their growth. Starting with the areas of highest growth, the City should evaluate the cost drivers and determine whether the current expenditure levels are appropriate. The City should supplement this review with a long-term expenditure forecast to help identify potential efficiencies and guide future spending priorities.
- The City administration and the City Council should carefully demonstrate that any tax proposal, including new taxes, renewals or roll-forwards, is (1) necessary in the context of budget efficiencies and funding alternatives, (2) appropriately sized to the identified need, and (3) likely to advance strategic priorities, assure good financial stewardship and produce effective public outcomes.
- The City should continue its efforts to eliminate or reduce the problematic reliance upon one-time revenues for recurring expenses, limiting these revenues instead for capital projects or building reserves for emergencies. The City also should rebuild and maintain a General Fund balance to a minimum of 10% of recurring General Fund revenue. It should further establish a long-term plan to increase that target to 17% to align with best practices.
INTRODUCTION

The City of New Orleans (City) is preparing its 2020 budget at a time when it is seeking additional funding to address major municipal needs, such as improvements to drainage, streets and various public services. So far this year, the City secured legislative approval for a package of recurring and one-time revenues for infrastructure improvements. This includes restoration of a long-suspended 1% hotel tax, which took effect July 1 and will generate about $12.3 million in its first year.

Additional funding proposals are works in progress. They include the following:

- The City Council, at the request of the City administration, has placed three tax propositions on the November 16 ballot. One seeks authorization to issue up to $500 million in general obligation bonds, supported by a property tax, to pay for streets, drainage, public safety, affordable housing, parks and public facilities. Another proposition is for a 3-mill tax that would generate about $12 million a year for infrastructure maintenance, vehicles and equipment. The third proposition is a 6.75% tax on short-term rentals of residences that would yield about $10.5 million annually for infrastructure improvements and tourism promotion. BGR plans to release a report analyzing the tax propositions in advance of the election.

- The administration plans to ask the City Council to fully or partially roll forward property tax rates in November to capture new revenue from an increase in property values as a result of the 2020 reassessment. The administration told the council that it is considering the roll forward, in part, because it needs approximately $13 million to continue police raises initially funded with one-time revenue in 2018 and 2019.

- The council has formed a special committee to review Orleans Parish tax dedications and develop a strategy for funding high-priority needs. BGR called for such a review in a report that presented a comprehensive picture of local tax dedications and raised questions about how well they align with the community’s needs.

Regardless of the outcome of the tax propositions and the roll-forward proposal, one thing is clear: The magnitude of the City’s service and infrastructure needs makes it important to cast a wide net in considering funding options. That is why the City should also examine its existing revenue streams in its search for funding. This should include reevaluating spending priorities in its operating budget to identify options for redirecting revenue to critical needs.

The City’s General Fund has grown significantly during the past decade, after taking both inflation and post-Katrina population recovery into account. Certainly, major new expenses have consumed much of this revenue growth. These expenses included tens of millions of dollars to address court-ordered reforms at the parish jail and New Orleans Police Department and to settle legal judgments owed to firefighters and their pension system. However, options to redirect revenues may still exist. A deeper analysis of General Fund revenues and expenditures is a necessary first step to clarify current funding priorities and aid policymakers and citizens in identifying potential reallocation options.

This report provides such an analysis by examining a decade’s worth of the City’s General Fund budgets from 2010 to 2019. It tracks growth in revenues 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.

This prior research includes a pair of reports BGR released in 2015 and 2019 on the uses of all local taxes in Orleans Parish. Entitled The $1 Billion Question and The $1 Billion Question Revisited, the reports analyzed parishwide funding priorities for the now $1.25 billion in local tax revenues. They provided information to
help policymakers and citizens identify options to redirect tax revenues to high-priority needs, many of which fall under the City’s responsibilities. However, implementing the vast majority of potential tax rededications would typically require action by the State Legislature, which is out of the City’s hands. In this report, the focus narrows to the pool of General Fund revenues that are under the City’s direct control.

BGR’s other recent reports on government finance in Orleans Parish reviewed the parish’s hotel tax structure and funding options for drainage improvements and street maintenance. See the sidebar on the next page for more information on these reports.

**GENERAL FUND REVENUES**

### Overview

The General Fund is the City’s primary operating fund. It contains all City revenues, except those that it places in separate funds for accounting purposes, such as federal grants and bond proceeds for capital improvements. The General Fund includes the vast majority of the City’s tax revenues and all revenue from service charges, permits, licenses and fines. It provides operating revenue for all City departments and services.

In 2010, the first budgetary year analyzed in this report, the City’s General Fund was under pressure from both the ongoing Hurricane Katrina recovery and the Great Recession, which began in late 2007. The City ended 2010 with a $32 million operating deficit and a negative General Fund reserve or fund balance. Despite this position, it was the first year after Katrina that the City did not rely on federal loans to prop up its budget. Thus, 2010 is a good starting point for evaluating the City’s progress toward improving its fiscal health.

The City’s financial position steadily improved in subsequent years, aided by the economic recovery and the City’s efforts to generate new revenues. General Fund revenues grew from an inflation-adjusted $538 million in 2010 to $716 million in 2019, an increase of $178 million. The average nominal growth rate of 5% per year was nearly three times the 1.7% inflation rate. All dollar figures in this report are adjusted for inflation in 2019 dollars, unless noted.

Viewing General Fund revenue growth in the context of inflation is necessary to make apples-to-apples comparisons between the value of a dollar at different times during the past decade. BGR also accounted for population growth as New Orleans continued to recover from Hurricane Katrina. The City’s population has grown by about 44,000, or 12%, since 2010. However, the City’s revenues have grown by 33%, nearly three times the rate of population growth. As a result, the amount of revenue per resident increased 18% from $1,546 to $1,830 during the decade as indicated in Chart A on page 14. In the first half of the decade, the amount of revenue per resident decreased slightly as the post-Katrina repopulation outpaced growth in revenues. But that situation reversed during the second half of the decade as the population remained flat and revenues grew.

After taking both inflation and post-Katrina population recovery into account, the General Fund experienced strong revenue growth during the past decade. Current and former City officials stated that the revenue level in the baseline year of 2010 was insufficient, citing the deficit, the City’s delay in rolling forward its property tax millages until 2011 and concerns at the time that the City might be heading toward municipal bankruptcy. BGR did not analyze the sufficiency of General Fund revenues to provide necessary services and infrastructure in 2010 or the other years.

### Adjusting for Inflation

A dollar in 2010 was worth 16.2% more than a dollar in 2019, according to the U.S. Bureau of Labor Statistics’ Consumer Price Index. To account for this, BGR increased all 2010 revenue and expenditure figures in this report by 16.2%. The table below illustrates the inflation adjustment for General Fund revenues. See the appendix for detailed tables showing unadjusted General Fund revenues and expenditures.

**General Fund Revenues, 2010 Compared to 2019**

<table>
<thead>
<tr>
<th></th>
<th>2010 actual</th>
<th>2019 budgeted</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unadjusted for inflation (nominal)</td>
<td>$462.9</td>
<td>$715.7</td>
<td>$252.8</td>
<td>55%</td>
</tr>
<tr>
<td>Adjusted for inflation</td>
<td>$537.7</td>
<td>$715.7</td>
<td>$178.0</td>
<td>33%</td>
</tr>
</tbody>
</table>
The report found that property taxes, the primary source of local funding for streets, generally have a weak nexus to street use. Also, exemptions shield many properties from taxation, even though some of them impose significant burdens on the street network. The report identified several new funding options that have a strong nexus to streets. Among the most suitable are a local gas tax and a Transportation Utility Fee, in which property occupants pay street charges based upon estimates of how many vehicle trips the property generates.

The Lost Penny: An Analysis of the Orleans Parish Hotel Tax Structure, January 2019. The report presented a comprehensive picture of where $200 million in hotel tax dollars are going in Orleans Parish. It focused primarily on the share for the City, which had a 1% hotel tax suspended by state law for more than 50 years. This “lost penny” of hotel tax deprived the City of $12.3 million a year that it could have used to address pressing needs. The report explained the largely ad hoc development of the local hotel tax structure and compared it to best practices for taxation as well as state and national norms. One of the report’s recommendations called for restoring the City’s suspended tax. The Legislature did so effective July 1, 2019.

The $1 Billion Question Revisited: Updating BGR’s 2015 Analysis of Orleans Parish Tax Revenues, April 2019. This report reset the local tax revenue picture by updating key figures from The $1 Billion Question. Local tax revenue will total an estimated $1.25 billion in 2019, an increase of 14% since 2015. This parish-wide increase largely resulted from growth in revenue from existing taxes that increased at an average annual rate of 3.4% since 2015. Given the strong growth, the report recommends that policymakers seek to deploy existing revenues to high-priority needs before asking the public for more money.
For the purposes of this report, the key question is not whether the City has received too little or too much revenue. Instead, the focus is on where the revenue came from and how the City spent it. The ultimate goal is helping policymakers and citizens gain a better understanding of current funding priorities to identify potential opportunities to reallocate revenue to critical needs.

**Where Did the Money Come From?**

Chart B shows the breakdown of General Fund revenues by source for 2019. Taxes – primarily property, sales and hotel taxes – are by far the largest funding source. They will generate an estimated $413.1 million in 2019, accounting for 58% of the General Fund. Service charges, such as garbage collection fees, are the second largest revenue source at $98 million or 14%. Next are fees for licenses and permits, which will yield about $72.5 million or 10% of General Fund revenues.

As Chart C indicates, five of the six revenue categories increased since 2010. The one category that declined is the catch-all “other” category for revenue from sources that tend to fluctuate significantly from year to year. The following discussion provides an overview of the revenue sources and an analysis of their growth during the past decade.

**Taxes.** As shown in Table 1 on page 16, General Fund tax revenues have grown by $117.5 million or 40% since 2010. This accounts for two-thirds of the $178 million increase in total revenue. The vast majority of the additional tax revenue is from growth in existing tax bases as opposed to new taxes or increases in existing tax rates. For example, while the City’s sales tax rate remained steady at 2.5%, tax receipts increased by $57.6
METHODOLOGY FOR ANALYZING CITY GENERAL FUND REVENUES

The report uses actual General Fund revenues for all years except 2019, for which BGR used budgeted figures.* All revenue figures are adjusted for inflation in 2019 dollars. In breaking down revenues into six categories, BGR used the same categories as the City’s budget with two exceptions. First, BGR combined the City’s “miscellaneous revenue” and “other funding sources” categories into a single “other sources” category. Second, BGR renamed the City’s “intergovernmental funding” category as “State funding” to reflect that all of this revenue comes from the State.

In a few cases, BGR adjusted revenues for consistency or assigned revenues to different categories than the budget does. Here are the most notable examples:

- The budget includes insurance taxes in the licenses and permits category; the report assigns them to the taxes category.

- From 2010 to 2013, City General Fund budgets included State supplemental pay for police officers and firefighters as pass-through revenues in the State funding category. It did so even though the State paid police and firefighters directly. The City changed its practice after 2013 to account for the State supplemental pay in a separate pass-through fund. For consistency, BGR removed the supplemental pay from the budgets that included it, both on the revenue and expenditure sides.

- In 2012, the City sold $196 million in bonds to refinance existing debt for the firefighters’ pension system. For accounting purposes, the City’s budget treated the pass-through bond proceeds as both revenue and an expenditure. To avoid skewing comparisons to budgets for other years, BGR removed the bond revenue from both the revenue and expenditure sides.

* The 2018 revenue figures are unaudited actuals, and the 2019 figures are updated projections that the City’s Revenue Estimating Conference adopted in August 2019. BGR obtained additional data where necessary to clarify prior-year actual figures.
million or 36%. City officials attributed this strong growth to multiple factors, including a strengthening economy, the post-Katrina repopulation, the City’s efforts to expand retail stores, its enhanced collection efforts and the application of sales taxes to some online sales and short-term rentals of residences.8

The only new General Fund tax imposed during the past decade was a 2.5-mill property tax that voters approved in 2016 to help the City fund legal settlements with firefighters and their pension fund.9 This tax, which expires in 2028, accounts for $10 million of a $52.5 million increase in General Fund property tax receipts during the past decade, as shown in Chart D. Another factor contributing to the property tax growth was the City Council’s 2011 decision to roll forward a total of 9 mills of General Fund taxes that the council had rolled back for 2008, 2009 and 2010. This accounted for another $21.3 million of the increase in property taxes. The remaining $21.2 million in property tax revenue growth was due to an increase in citywide assessed valuation.

The City’s hotel tax receipts grew at an even faster rate than sales taxes, increasing 55% or $7.1 million. These figures include only a small portion of the revenue from the previously discussed restoration of the City’s suspended 1% hotel tax. The vast majority of the revenue goes to a special infrastructure fund. See the sidebar for details.

### TABLE 1: TAXES FOR CITY OF NEW ORLEANS GENERAL FUND, 2010 COMPARED TO 2019

<table>
<thead>
<tr>
<th>Type of tax</th>
<th>2010 actual (in 2019 dollars)</th>
<th>2019 budgeted</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales tax</td>
<td>$158.3</td>
<td>$215.9</td>
<td>$57.6</td>
<td>36%</td>
</tr>
<tr>
<td>Property tax</td>
<td>$97.8</td>
<td>$150.3</td>
<td>$52.5</td>
<td>54%</td>
</tr>
<tr>
<td>Hotel tax</td>
<td>$12.8</td>
<td>$19.9</td>
<td>$7.1</td>
<td>55%</td>
</tr>
<tr>
<td>Other taxes</td>
<td>$26.7</td>
<td>$27.0</td>
<td>$0.3</td>
<td>1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$295.6</strong></td>
<td><strong>$413.1</strong></td>
<td><strong>$117.5</strong></td>
<td><strong>40%</strong></td>
</tr>
</tbody>
</table>

*Other taxes include taxes on utilities, parking, insurance, video poker, slot machines and alcohol. BGR calculations. Numbers may not add up due to rounding.

### CHART D: SOURCES OF THE $52.5 MILLION INCREASE IN GENERAL FUND PROPERTY TAX RECEIPTS, 2010 TO 2019

<table>
<thead>
<tr>
<th>Source of Increase</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in citywide assessed valuation</td>
<td>$21.2</td>
<td>40%</td>
</tr>
<tr>
<td>New 2.5-mill tax for fire protection</td>
<td>$10</td>
<td>19%</td>
</tr>
<tr>
<td>2011 millage roll-forward</td>
<td>$21.3</td>
<td>41%</td>
</tr>
</tbody>
</table>

BGR calculations

### RESTORATION OF THE ‘LOST PENNY’

The Legislature increased the City’s tax on hotel room rentals from 1.5% to 2.5%, effective July 1, 2019. BGR had called for such an increase to restore a long-suspended 1% City tax on hotels and to bring the City’s share of hotel taxes more in line with norms and best practices.* The City’s share of hotel taxes is now 0.3 of a percentage point (about $3.6 million in 2019) lower than the median for a dozen peer cities that BGR analyzed.

Most of the estimated $12.3 million in revenue from restoring the City’s “lost penny” of hotel tax will not go to the General Fund. Instead, the City must place it in a special fund designated for infrastructure improvements. However, tax receipts from establishments with fewer than 10 rooms, including short-term rentals of residences, do go to the General Fund. The restoration of the suspended tax means that hotel rooms are now subject to the same 2.5% municipal sales tax rate as other goods and services.

Service Charges. Service charges have increased by 68% or $39.6 million during the past decade. This is the second largest increase among the six revenue categories. Unlike the increase in tax receipts, much of the growth in service charges is the result of higher fees, including those for curbside garbage pickup and parking meters.

Table 2 shows that receipts from garbage collection fees have more than doubled from $20.1 million to $40.8 million. Fueling this growth was a 2011 increase in the sanitation fee that appears on monthly Sewerage & Water Board bills. In addition, the City now receives a pro-rata share of partial bill payments, resulting in a $6 million increase in projected sanitation fee receipts for 2019. Prior to the 2011 sanitation fee increase, the fees covered just 43% of Sanitation Department costs, with other General Fund revenues covering the rest. The fees now cover all sanitation costs.

Revenue from the fees the City charges for its emergency medical services has increased by $6.2 million, or nearly 60%, to $17 million. This is the result of an expansion of those services, which has included a 40% increase in staffing from about 100 employees to 140.

Meanwhile, revenue from parking meters more than doubled, increasing from $4.5 million to $10.3 million. This is largely the result of an increase in parking rates and longer enforcement hours that the City imposed in 2016.

Finally, the revenue from fees that the City charges other tax recipients as the parish’s tax collector has increased from $11.2 million to $15.1 million. These fees have increased commensurate with the growth in property tax revenues. The report compares these fees to the City’s actual tax collection costs in the section on expenditures.

Licenses and Permits. The City charges more than a dozen types of fees for licenses and permits, including occupational licenses, franchise fees, building permits and taxicab licenses. The City expects these fees will generate $72.5 million in 2019, an increase of $8 million or 12% since 2010, as shown in Table 3.

<table>
<thead>
<tr>
<th>License/permit</th>
<th>2010 actual (in 2019 dollars)</th>
<th>2019 budgeted</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxi and tour guide licenses</td>
<td>$0.8</td>
<td>$6.8</td>
<td>$6.0</td>
<td>756%</td>
</tr>
<tr>
<td>Alcoholic beverage license</td>
<td>$1.7</td>
<td>$3.1</td>
<td>$1.5</td>
<td>86%</td>
</tr>
<tr>
<td>Miscellaneous franchise fee</td>
<td>$0.3</td>
<td>$1.4</td>
<td>$1.2</td>
<td>429%</td>
</tr>
<tr>
<td>Occupational licenses</td>
<td>$7.0</td>
<td>$8.0</td>
<td>$1.0</td>
<td>14%</td>
</tr>
<tr>
<td>Cable TV franchise fee</td>
<td>$4.4</td>
<td>$5.0</td>
<td>$0.6</td>
<td>14%</td>
</tr>
<tr>
<td>Building, safety, electrical permits</td>
<td>$10.5</td>
<td>$9.9</td>
<td>-$0.6</td>
<td>-6%</td>
</tr>
<tr>
<td>Entergy franchise fee</td>
<td>$35.0</td>
<td>$31.9</td>
<td>-$3.0</td>
<td>-9%</td>
</tr>
<tr>
<td>Other license and permits</td>
<td>$4.8</td>
<td>$6.25</td>
<td>$1.5</td>
<td>31%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$64.5</strong></td>
<td><strong>$72.5</strong></td>
<td><strong>$8.0</strong></td>
<td><strong>12%</strong></td>
</tr>
</tbody>
</table>

BGR calculations. Numbers may not add up due to rounding.
Revenue from taxi and tour guide licenses has increased eightfold from $800,000 to $6.8 million. This is largely the result of a restructuring of taxi-cab ordinances and licensing requirements in 2016. It also reflects new revenue from ride-sharing services, which will pay an estimated $1 million in 2019 in fees of $0.50 per ride.

The City also pursued a strategy of maximizing license and permit fees in several areas. For example, it doubled fees on alcoholic beverage licenses. It also increased collections of fees on private property owners’ use of City-owned rights-of-way, such as porches and balconies that encroach on the City’s sidewalks and air space.

Entergy’s franchise fee of $31.9 million for 2019 is by far the largest contributor to this category. However, the fee has lagged behind inflation and is $3 million less than what the City received in 2010 adjusted for inflation.

**Fines.** Fines will yield about $42 million in 2019, an increase of $6 million or 17% from 2010, as shown in Table 4. Essentially all of this growth is attributable to traffic camera fines, which increased nearly 50% to $27 million during the past decade as the City added traffic cameras at more locations. The traffic cameras were part of a strategy to reassign police officers from traffic patrol to neighborhood policing. Consequently, revenues from traffic citations that police officers issue when they observe traffic violations decreased substantially. Those revenues are projected to total $2.7 million in 2019, less than half the amount in 2010.

As discussed in the section on expenditures, higher costs to collect traffic camera and parking fines are consuming a greater portion of the additional revenue the City receives.

**State Funding.** Table 5 indicates that the State of Louisiana (State) will provide the City’s General Fund with a budgeted $31.7 million in 2019. That is more than three times the amount the City received in 2010. A large portion of the increase is from Medicaid payments to reimburse the City for the costs of its ambulance service. The City will receive about $13.5 million in 2019 compared to just $200,000 in 2010. As previously noted, the City expects to receive $17 million in fees for the ambulance service. As discussed in

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### TABLE 4: FINES FOR CITY OF NEW ORLEANS GENERAL FUND, 2010 COMPARED TO 2019

($ in millions and adjusted for inflation)

<table>
<thead>
<tr>
<th>Fine</th>
<th>2010 actual (in 2019 dollars)</th>
<th>2019 budgeted</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic camera tickets</td>
<td>$18.3</td>
<td>$27.0</td>
<td>$8.7</td>
<td>48%</td>
</tr>
<tr>
<td>Parking tickets</td>
<td>$11.7</td>
<td>$12.4</td>
<td>$0.7</td>
<td>6%</td>
</tr>
<tr>
<td>Traffic citations</td>
<td>$6.0</td>
<td>$2.7</td>
<td>-$3.3</td>
<td>-55%</td>
</tr>
<tr>
<td>Other fines</td>
<td>$0.2</td>
<td>$0.1</td>
<td>-$0.1</td>
<td>-53%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$36.2</strong></td>
<td><strong>$42.2</strong></td>
<td><strong>$6.1</strong></td>
<td><strong>17%</strong></td>
</tr>
</tbody>
</table>

BGR calculations. Numbers may not add up due to rounding.

### TABLE 5: STATE FUNDING FOR CITY OF NEW ORLEANS GENERAL FUND, 2010 COMPARED TO 2019

($ in millions and adjusted for inflation)

<table>
<thead>
<tr>
<th>State funding</th>
<th>2010 actual (in 2019 dollars)</th>
<th>2019 budgeted</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>$0.2</td>
<td>$13.5</td>
<td>$13.3</td>
<td>8792%</td>
</tr>
<tr>
<td>Short-term rental tax dedication</td>
<td>$0.0</td>
<td>$4.3</td>
<td>$4.3</td>
<td>N/A</td>
</tr>
<tr>
<td>Revenue sharing program</td>
<td>$2.1</td>
<td>$2.1</td>
<td>$0.0</td>
<td>-1%</td>
</tr>
<tr>
<td>Streets (gas tax dedication)</td>
<td>$2.4</td>
<td>$2.3</td>
<td>-$0.1</td>
<td>-6%</td>
</tr>
<tr>
<td>Video poker tax dedication</td>
<td>$3.4</td>
<td>$1.8</td>
<td>-$1.6</td>
<td>-46%</td>
</tr>
<tr>
<td>Other State funding*</td>
<td>$2.0</td>
<td>$7.7</td>
<td>$5.8</td>
<td>292%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$10.1</strong></td>
<td><strong>$31.7</strong></td>
<td><strong>$21.7</strong></td>
<td>215%</td>
</tr>
</tbody>
</table>

* Includes $1.6 million in pass-through funding in 2019 for the Regional Transit Authority.

BGR calculations. Numbers may not add up due to rounding.
the section on expenditures, these fees combined with the Medicaid reimbursements are more than enough to cover the City’s costs, leaving it with a sizable net gain in revenue.

Another factor in the growth in State funding is a $4.3 million dedication of the short-term rental tax that the State collects in New Orleans. The City must use the revenue to enforce short-term rental regulations, with any excess available for any General Fund expenditure.

The State funding also includes a $2.3 million gas tax dedication for streets and $2.1 million from the State’s revenue sharing program. BGR notes that both are flat amounts established in State law, without annual adjustment to offset the impact of inflation. Finally, the increase in other State funding reflects new revenue, such as the City’s share of Louisiana’s portion of certain offshore oil revenue.

**Other Sources.** The City expects to receive about $58 million from a variety of other sources in 2019, nearly $15 million less than it received in this category in 2010. These sources and the amounts of revenue they generate tend to vary significantly from year to year. For instance, the City received $23.6 million from one-time insurance proceeds in 2010. In 2019, the City will receive an estimated $14.1 million under the new Harrah’s Casino deal approved by the State Legislature this spring. The Harrah’s revenue is included in the “Contributions” line item in Table 6.

The City recently stepped up its efforts to earn interest income on its cash reserves and unspent bond proceeds for capital projects. This has resulted in a sharp increase in interest income, which has quintupled from $900,000 in 2010 to $4.5 million. The City’s interest income had averaged less than $200,000 annually during a five-year period beginning in 2011.

Much of the revenue from these miscellaneous sources is non-recurring or one-time revenue that the City cannot count on receiving in subsequent years. This has important budgetary implications as discussed in the next section.

### TABLE 6: OTHER SOURCES OF REVENUE FOR CITY OF NEW ORLEANS GENERAL FUND, 2010 COMPARED TO 2019

($ in millions and adjusted for inflation)

<table>
<thead>
<tr>
<th>Other sources</th>
<th>2010 actual (in 2019 dollars)</th>
<th>2019 budgeted</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$34.5</td>
<td>$14.5</td>
<td>-$20.0</td>
<td>-58%</td>
</tr>
<tr>
<td>Interest</td>
<td>$0.9</td>
<td>$4.5</td>
<td>$3.6</td>
<td>420%</td>
</tr>
<tr>
<td>Rents and royalties</td>
<td>$1.4</td>
<td>$1.0</td>
<td>-$0.4</td>
<td>-31%</td>
</tr>
<tr>
<td>Transfers from other funds</td>
<td>$30.4</td>
<td>$14.1</td>
<td>-$16.4</td>
<td>-54%</td>
</tr>
<tr>
<td>Other</td>
<td>$5.5</td>
<td>$23.9</td>
<td>$18.4</td>
<td>332%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$72.8</strong></td>
<td><strong>$57.9</strong></td>
<td><strong>-$14.8</strong></td>
<td><strong>-20%</strong></td>
</tr>
</tbody>
</table>

BGR calculations. Numbers may not add up due to rounding.

**Recurring vs. Non-Recurring Revenues**

The vast majority of General Fund revenues are recurring, meaning there is a reasonable expectation that they will continue from year to year, with some degree of predictability. Property taxes are an example of recurring revenues, while a lawsuit settlement is an example of non-recurring or one-time revenue.

The level of recurring revenues is an important consideration for budgeting purposes. Nearly all of the City’s General Fund expenditures are recurring costs, such as employee salaries and benefits. Ideally, the City should have enough recurring revenues to cover these recurring expenditures. Otherwise it might have difficulty covering the expenditures in subsequent years. To guard against this risk, government finance experts recommend maintaining structurally balanced budgets in which recurring revenues equal or exceed recurring expenditures. They further recommend that non-recurring revenues should typically be used to bolster reserve funds or pay for non-recurring or one-time expenditures, such as capital improvements.

As Chart E indicates, the City has significantly increased its reliance upon one-time or non-recurring revenues to cover General Fund expenditures in recent years. Non-recurring revenues have averaged $48.6 million since
2015, accounting for 7.5% of total General Fund revenues. By comparison, non-recurring revenues averaged just $4.7 million from 2010 to 2014, or less than 1% of total revenues.

The non-recurring revenues include appropriations from the General Fund’s reserves, or fund balance. Other sources include $36 million that the City received in 2015 from the BP oil spill settlement and $33 million from a 2018 upfront payment on the redevelopment of the former World Trade Center building for a Four Seasons Hotel.15

The City’s budgets indicate it used these non-recurring revenues for recurring expenditures. For example, a portion of the upfront payment from the Four Seasons development covered the costs of police raises in 2018 and 2019. So far, the City’s use of non-recurring revenues for recurring expenditures has not resulted in budget shortfalls in subsequent years. This is because strong growth in recurring revenues has enabled the City to continue meeting those costs as City officials had planned. However, using one-time revenues as a financial crutch in this way is something the City should avoid. This is because the City could have difficulty covering expenses if the strong growth in recurring revenues does not continue.

The more immediate impact of using these one-time revenues is a reduction in General Fund reserves. As Chart F indicates, the City had a fund balance of $69.1 million in 2015. This exceeded the City’s reserve target of 10% of recurring General Fund revenues. By contrast, the City ended 2018 with a fund balance of $46.7 million, about $18 million less than the targeted amount. The City projects the fund balance to grow in 2019. It is noteworthy that the 10% fund balance target is below the 17% level (the equivalent of two months of operating expenses) that government finance experts recommend for general funds.16

As the chart indicates, the City had a negative fund balance as recently as 2012. During the next three years, the City added $89.1 million to its reserves. This turnaround provided the City with greater financial security and an improved credit rating. However, the fund balance’s drop below the 10% target puts that progress at risk.

City administrators said they are working to limit the use of one-time revenues for recurring expenses with the help of a new budgeting process discussed later in this report. They indicated that the City is attempting to avoid making a fund balance appropriation in 2019 for the first time in several years. They described the 2020 General Fund budget as a potential turning point at which the City can solidify these gains and continue rebuilding the fund balance. However, they indicated that recurring revenues at their current levels are insufficient to achieve this goal, and the City would need some additional recurring revenue, such as a millage roll-forward.

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Recurring Revenues ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$2.6</td>
</tr>
<tr>
<td>2011</td>
<td>$0.6</td>
</tr>
<tr>
<td>2012</td>
<td>$0.1</td>
</tr>
<tr>
<td>2013</td>
<td>$9.2</td>
</tr>
<tr>
<td>2014</td>
<td>$10.8</td>
</tr>
<tr>
<td>2015</td>
<td>$50.8</td>
</tr>
<tr>
<td>2016</td>
<td>$26.8</td>
</tr>
<tr>
<td>2017</td>
<td>$50.5</td>
</tr>
<tr>
<td>2018</td>
<td>$64.8</td>
</tr>
<tr>
<td>2019</td>
<td>$50.3</td>
</tr>
</tbody>
</table>

Source: City of New Orleans

### Chart E: Non-Recurring Revenues of the City of New Orleans General Fund Expended 2010 to 2019

($ in millions)
**Key Findings on General Fund Revenues**

Since 2010, an improving economy in New Orleans, new City revenue initiatives, and stronger budgeting practices helped the City’s General Fund to experience strong revenue growth. Multiple factors contributed to the $178 million in additional General Fund revenues. Sales taxes and hotel taxes increased by a combined $110 million, accounting for 60% of the overall growth in General Fund revenues. Other notable contributors include garbage collection fees (up $20.7 million), Medicaid reimbursements of ambulance service costs ($13.3 million), traffic camera fines (up $8.7 million) and parking meter receipts (up $5.8 million).

New taxes played a relatively minor role in the General Fund’s growth. Just one new General Fund tax took effect in the past decade – the voter-approved property tax that yields about $10 million annually for fire protection. This accounts for less than 6% of the total revenue growth.

The steady growth in revenues has helped the City absorb costs that it initially covered with non-recurring revenues. However, the City’s reliance upon those one-time revenues has reduced its fund balance below the targeted level. This puts at risk recent improvements in the City’s financial position.

**CHART F: CITY OF NEW ORLEANS YEAR-END GENERAL FUND RESERVES COMPARED TO THE CITY’S TARGET LEVEL, 2010 TO 2019**

($ in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>City’s fund balance target (10% of recurring revenues)</th>
<th>Best practices fund balance target (17% of recurring revenues)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>-$25.1</td>
<td>$69.1</td>
</tr>
<tr>
<td>2011</td>
<td>-$16.8</td>
<td>$61.6</td>
</tr>
<tr>
<td>2012</td>
<td>-$20.0</td>
<td>$54.4</td>
</tr>
<tr>
<td>2013</td>
<td>$33.3</td>
<td>$46.7</td>
</tr>
<tr>
<td>2014</td>
<td>$8.3</td>
<td>$55.0</td>
</tr>
<tr>
<td>2015</td>
<td>$69.1</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$61.6</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$54.4</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>$46.7</td>
<td></td>
</tr>
<tr>
<td>2019*</td>
<td>$55.0</td>
<td></td>
</tr>
</tbody>
</table>

*projected

GENERAL FUND EXPENDITURES

Overview

As Chart G indicates, General Fund expenditures grew from $575 million in 2010 to a budgeted $702 million in 2019, an increase of $127 million, or 22%. As was the case in the section on revenues, all expenditure figures are adjusted for inflation in 2019 dollars, unless noted. During the first half of the decade, expenditures actually decreased slightly as the City sought to overcome the $32 million operating deficit from 2010. Since 2015, expenditures have grown significantly faster, increasing by an average of 5.1% per year. As discussed later in the report, a significant portion of this growth was driven by costs outside of the City’s direct control, including court-mandated reforms at the parish jail and Police Department, as well as legal settlement costs owed to firefighters.

The $127 million increase in expenditures during the past decade is less than the $178 million increase in General Fund revenues. The $51 million difference is the result of two factors. First, offsetting the $32 million operating deficit from 2010 consumed $38 million of the revenue growth in 2019 dollars. Second, the City projects it will end 2019 with $13 million in surplus revenues that will add to its fund balance.

Where Did the Money Go?

Table 7 provides a breakdown comparing the City’s actual 2010 General Fund expenditures to its 2019 budgeted expenditures. It shows that funding for some City departments and purposes increased significantly while others decreased. This resulted in the previously discussed net increase of $127 million, or 22%.

The table is organized based on the size of the funding change in dollars, starting with the largest expenditure increases and ending with decreases in expenditures. It is important to also consider the percentage change in funding levels to put the dollar amounts in context. For example, the Police Department had the largest expenditure increase in terms of dollars at $32 million. But because it is by far the City’s largest department, the additional funding amounted to a 22% increase that matches the average increase for all departments.

In the table, percentage changes that are shaded light green and light red indicate a change of 0 to 19%, plus or minus. Those shaded medium green and medium red indicate a change of 20% to 49%, plus or minus. And those shaded dark green and dark red indicate a change of 50% and above, plus or minus.

The budget lines with the three largest increases in expenditures – the Police Department ($32 million) the Orleans Parish Sheriff’s Office ($26.5 million for jail operations) and the Fire Department ($16.9 million) – all concern public safety. They collectively received $75.4 million in additional funding since 2010. Federal consent decrees, court judgments and other external factors largely drove those increases.

Chart H shows the wide margin by which public safety led the City’s funding priorities. Its total $84.3 million increase – the sum of fire, police, jail, homeland securi-
### TABLE 7: CITY OF NEW ORLEANS GROWTH IN GENERAL FUND EXPENDITURES, 2010 TO 2019
($ in millions and adjusted for inflation)

<table>
<thead>
<tr>
<th>Department/budget line item</th>
<th>2010 Expenditures (in 2019 dollars)</th>
<th>2019 Expenditures (budgeted)</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Orleans Police Department</td>
<td>$147.0</td>
<td>$179.0</td>
<td>$32.0</td>
<td>22%</td>
</tr>
<tr>
<td>Orleans Parish Sheriff’s Office</td>
<td>$26.7</td>
<td>$53.2</td>
<td>$26.5</td>
<td>99%</td>
</tr>
<tr>
<td>Fire Department</td>
<td>$99.7</td>
<td>$116.6</td>
<td>$16.9</td>
<td>17%</td>
</tr>
<tr>
<td>Parking and traffic camera enforcement</td>
<td>$9.5</td>
<td>$22.9</td>
<td>$13.4</td>
<td>142%</td>
</tr>
<tr>
<td>Finance Department (Excludes debt service and TIFs)</td>
<td>$12.9</td>
<td>$22.1</td>
<td>$9.2</td>
<td>71%</td>
</tr>
<tr>
<td>Emergency Medical Services</td>
<td>$11.6</td>
<td>$19.3</td>
<td>$7.6</td>
<td>66%</td>
</tr>
<tr>
<td>Office of Homeland Security and Emergency Preparedness</td>
<td>$1.0</td>
<td>$8.6</td>
<td>$7.6</td>
<td>788%</td>
</tr>
<tr>
<td>New Orleans Recreation Development Commission</td>
<td>$6.0</td>
<td>$13.5</td>
<td>$7.5</td>
<td>126%</td>
</tr>
<tr>
<td>Mayor’s Office and Initiatives (Excludes Department of Public Safety and Homeland Security and the Office of Criminal Justice Coordination)</td>
<td>$6.7</td>
<td>$14.2</td>
<td>$7.5</td>
<td>113%</td>
</tr>
<tr>
<td>Municipal and Traffic Court</td>
<td>$3.8</td>
<td>$7.9</td>
<td>$4.1</td>
<td>110%</td>
</tr>
<tr>
<td>Juvenile Justice Intervention Center (Juvenile detention; formerly called the Youth Study Center)</td>
<td>$2.7</td>
<td>$6.4</td>
<td>$3.7</td>
<td>136%</td>
</tr>
<tr>
<td>Criminal District Court</td>
<td>$3.5</td>
<td>$6.9</td>
<td>$3.4</td>
<td>96%</td>
</tr>
<tr>
<td>Tax Increment Financing (TIF)</td>
<td>$2.9</td>
<td>$5.9</td>
<td>$3.0</td>
<td>103%</td>
</tr>
<tr>
<td>Chief Administrative Office (Excludes information technology, utilities, vehicles and fuel)</td>
<td>$11.4</td>
<td>$14.4</td>
<td>$3.0</td>
<td>26%</td>
</tr>
<tr>
<td>Office of Criminal Justice Coordination</td>
<td>$0.04</td>
<td>$2.8</td>
<td>$2.7</td>
<td>7017%</td>
</tr>
<tr>
<td>City Council</td>
<td>$8.4</td>
<td>$11.0</td>
<td>$2.6</td>
<td>30%</td>
</tr>
<tr>
<td>Parks and Parkways</td>
<td>$7.9</td>
<td>$10.4</td>
<td>$2.5</td>
<td>32%</td>
</tr>
<tr>
<td>Street maintenance</td>
<td>$2.9</td>
<td>$5.1</td>
<td>$2.2</td>
<td>78%</td>
</tr>
<tr>
<td>Inspector General, Independent Police Monitor, Ethics Review Board</td>
<td>$3.3</td>
<td>$5.3</td>
<td>$2.0</td>
<td>61%</td>
</tr>
<tr>
<td>Safety and Permits</td>
<td>$6.3</td>
<td>$8.0</td>
<td>$1.6</td>
<td>26%</td>
</tr>
<tr>
<td>Coroner’s Office</td>
<td>$1.9</td>
<td>$3.3</td>
<td>$1.3</td>
<td>69%</td>
</tr>
<tr>
<td>Property Management</td>
<td>$8.9</td>
<td>$10.2</td>
<td>$1.3</td>
<td>15%</td>
</tr>
<tr>
<td>Civil Service</td>
<td>$2.1</td>
<td>$3.4</td>
<td>$1.3</td>
<td>63%</td>
</tr>
<tr>
<td>Planning Commission, HDLC and VCC</td>
<td>$2.9</td>
<td>$3.9</td>
<td>$1.1</td>
<td>37%</td>
</tr>
<tr>
<td>Public Defender</td>
<td>$0.9</td>
<td>$1.8</td>
<td>$0.9</td>
<td>108%</td>
</tr>
<tr>
<td>Information, Technology and Innovation</td>
<td>$11.1</td>
<td>$11.5</td>
<td>$0.5</td>
<td>4%</td>
</tr>
<tr>
<td>Law Department</td>
<td>$6.1</td>
<td>$6.1</td>
<td>-$0.1</td>
<td>-1%</td>
</tr>
<tr>
<td>District Attorney</td>
<td>$6.8</td>
<td>$6.7</td>
<td>-$0.2</td>
<td>-2%</td>
</tr>
<tr>
<td>Clerk of Criminal District Court</td>
<td>$4.8</td>
<td>$3.7</td>
<td>-$1.0</td>
<td>-22%</td>
</tr>
<tr>
<td>Public Works (Excludes street maintenance and parking enforcement)</td>
<td>$4.5</td>
<td>$3.3</td>
<td>-$1.2</td>
<td>-27%</td>
</tr>
<tr>
<td>Juvenile Court</td>
<td>$4.5</td>
<td>$2.8</td>
<td>-$1.6</td>
<td>-36%</td>
</tr>
<tr>
<td>Vehicle maintenance, fuel, electricity and natural gas</td>
<td>$24.6</td>
<td>$21.5</td>
<td>-$3.2</td>
<td>-13%</td>
</tr>
<tr>
<td>Sanitation</td>
<td>$46.9</td>
<td>$39.7</td>
<td>-$7.1</td>
<td>-15%</td>
</tr>
<tr>
<td>Debt service</td>
<td>$52.4</td>
<td>$26.0</td>
<td>-$26.4</td>
<td>-50%</td>
</tr>
<tr>
<td>Other departments and line items</td>
<td>$22.7</td>
<td>$24.7</td>
<td>$2.0</td>
<td>9%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$575</strong></td>
<td><strong>$702</strong></td>
<td><strong>$126.7</strong></td>
<td><strong>22%</strong></td>
</tr>
</tbody>
</table>

BGR calculations. The 2010 figures are adjusted for inflation using the U.S Bureau of Labor Statistics’ Consumer Price Index calculator: [https://data.bls.gov/cgi-bin/cpicalc.pl](https://data.bls.gov/cgi-bin/cpicalc.pl). Numbers may not add up due to rounding.
Public Safety and coroner costs – was five times the second largest increase of $16.9 million for central administrative offices, including the Mayor’s Office, the Chief Administrative Office and the Finance Department. One reason public safety had the largest funding increase is that it is by far the largest category, accounting for more than half of all General Fund expenditures. On a percentage basis, funding for public safety increased by 31%. While this is above the 22% average, it is lower than the percentage increases for most other purposes as Chart H indicates.

The third highest funding increase was for other municipal purposes at $15.3 million. This is a catch-all category for basic municipal functions and purposes, including the Law Department, Safety and Permits Department, City Planning Commission, property management, utilities, vehicles and fuel. Next is the court system with a $12 million increase. This category includes Orleans Parish courts, the District Attorney’s Office, the Public Defender’s Office and the City’s juvenile detention facility, which incurred court-ordered costs to comply with a consent decree. These are followed by health and human services at $11.9 million and parks and recreation with a $10 million increase.

Two categories had substantial decreases in expenditures. The $7.1 million reduction for the Sanitation Department resulted from the City renegotiating garbage contracts twice since 2010. In addition, General Fund debt service costs are down $26.4 million as the City used its improved financial position to reduce the amount of new debt it issued.

See the sidebar for a discussion of how New Orleans’ relative lack of revenue dedications to specific purposes gives it greater flexibility in making General Fund budget decisions.

**CHART H: CHANGES IN CITY OF NEW ORLEANS GENERAL FUND EXPENDITURES BY PURPOSE, 2010 TO 2019**

($ in millions and adjusted for inflation. The orange dots show the percentage change for each category.)

*Includes Mayor’s Office, Chief Administrative Office and Finance Department.

**This is a catch-all category for basic municipal functions and purposes, including the law department, safety and permits department, City Planning Commission, property management, utilities, vehicles and fuel.

DEDICATIONS AND DISCRETION

Statutes, ordinances and voter-approved ballot propositions in Louisiana often dedicate taxes and other public revenues to specific purposes. Such dedications help assure the public that the revenue will go to the intended purpose. They also provide a stable and predictable revenue stream. However, dedications have a downside. They can limit the flexibility and discretion to redeploy revenues to address changing circumstances and community priorities. This can lead to expenditures of tax revenues that are not aligned with the community’s most pressing needs.

In New Orleans, about $98.5 million, or 14%, of the City’s projected $716 million in General Fund revenue is dedicated to specific purposes, such as police and fire protection services. This is a relatively low figure that contrasts with the tax landscape for Orleans Parish as a whole, which includes other tax recipient bodies such as the public schools and levee districts. Those entities tend to have significant tax dedications.* Furthermore, comparisons to other general government entities indicate that the City has greater flexibility in setting funding priorities. For instance, approximately 85% of Jefferson Parish’s $505 million operating budget is dedicated to specific purposes. Jefferson’s dedications have created surpluses for some departments while its General Fund struggles to meet its reserve target.

The types of dedications that exist in the City’s General Fund tend to align with budget priorities and, therefore, have little or no practical effect on funding decisions. For example, the General Fund includes $73.6 million in property taxes dedicated to police and fire protection services. These dedicated revenues account for just a quarter of the City’s nearly $300 million in total budgeted expenditures for the police and fire departments. In theory, this means the City could slash the budgets for these departments by 75% or $226.4 million before it violated the dedication requirements in the police and fire taxes. Cuts of that magnitude are not plausible. Thus, the police and fire dedications – which account for three-quarters of all General Fund dedications – do not in practice limit the City’s flexibility in setting budget priorities. The remaining $24.9 million in dedicated taxes are for streets, parks, NORDC and regulating short-term rentals.

* For more information, see BGR’s The $1 Billion Question and The $1 Billion Question Revisited.

METHODOLOGY FOR ANALYZING CITY GENERAL FUND EXPENDITURES

BGR developed a database of annual expenditures by department from 2010 to 2019, as presented in the City’s budgets. The data covers actual expenditures for all years except 2019, for which BGR used budgeted expenditures. All dollar figures are adjusted for inflation in 2019 dollars. As was the case with the analysis of revenues, BGR removed the State supplemental pay for police officers and firefighters from the analysis of expenditures for consistency.

In some cases, BGR subdivided expenditures for a particular department based on the purpose of the expenditures. The following are the most notable instances of this:

- For the Public Works Department, BGR separated expenditures for parking and traffic camera enforcement from expenditures for infrastructure, such as maintaining streets, traffic signals and street lights.
- BGR separated debt service costs from the Finance Department’s other expenditures because the debt supports a variety of departments and purposes. For example, $17 million of the debt service costs in 2019 – nearly two-thirds of the $26 million total – relates to bonds that the City issued in 2012 to refinance outstanding firefighter pension debt. In addition, the Finance Department included certain costs related to the Medicaid reimbursement process for ambulance services that BGR also removed.
- For the Chief Administrator’s Office, BGR separated expenditures for vehicle maintenance, fuel, electricity and natural gas because they benefit all City departments.
- The budget has a miscellaneous category for expenditures that do not involve a City department. Most notably, it includes annual expenditures, under the chief administrative officer’s control, to implement the police department reforms arising from the consent decree. BGR grouped those costs with the Police Department’s expenditures. The miscellaneous category also includes, among other things, funding for NORDC and various City grants. The report separates these expenditures into individual budget line items.

Finally, the City is self-insured for employee health care and workers’ compensation. In preparing the General Fund budget, the City estimates the total costs of these self-insurance programs and assigns them on a pro-rata basis to the personnel costs for each department. At the end of the year, the City adds a line to the budget to account for the difference between the actual costs and budgeted costs for each of these programs. BGR assigned these “true-up” costs to the various departments on a pro-rata basis.
A Closer Look at Expenditures. The following analysis details the most notable changes in expenditure levels for the various departments and budget line items since 2010. BGR selected this baseline year as a point of reference to enable comparisons. In doing so, BGR made no determination of whether the baseline expenditures represent efficient and effective uses of taxpayer dollars. Nor has it analyzed the sufficiency of 2010 expenditure levels. Instead, the focus is on how the City used the resources it received. The analysis is designed to show where expenditure increases and decreases occurred and the factors driving them. While a detailed assessment of the efficiency and effectiveness of City spending during the period is beyond the scope of this report, BGR does discuss certain budget areas where the City achieved efficiencies, and others it should review for possible improvement. This will help policymakers and citizens evaluate the City’s funding priorities and identify potential opportunities to reallocate revenue to high-priority needs. This section focuses on areas that had the largest funding changes in dollars or on a percentage basis. The order of the discussion follows that in Table 7.

Police Department. As Chart I shows, Police Department funding gradually declined for the first half of the decade. The City imposed a police hiring freeze in 2010 when it faced a substantial operating deficit and a negative fund balance. It lifted the hiring freeze in 2013, but the downward trend in police funding continued.

Funding began increasing in 2015 for several reasons. From 2013 to 2018, the City spent a total of $55 million to implement police reforms mandated by a federal consent decree. The decree remains in effect, and the City has budgeted $5.5 million to cover its costs in 2019. During the full decade, the City’s contributions to the statewide pension plan for municipal police accounted for $10.6 million of the $32 million in increased funding. As growth in pension costs slowed in the past few years, the City implemented a series of police salary increases to improve officer recruitment and retention. This caused Police Department expenditures to grow significantly faster. As previously noted, overall police funding for the decade increased by 22%, the average rate for all departments.

Even with the raises and enhanced recruitment efforts, the department remains below its employment level from 10 years ago. The number of sworn officers and civilian employees whose salary and benefits are included in the General Fund has decreased 17% from 1,752 in 2010 to 1,455 in 2019.

Sheriff’s Office. State law requires the City to cover certain costs for the Orleans Parish Sheriff’s Office to operate the parish jail, including medical care for inmates. The City’s funding for the Sheriff’s Office has doubled from $26.7 million to $53.2 million during the past decade. As Chart J shows, the expenditures spiked in 2015 when the City addressed the cost of court-ordered reforms at the parish jail. The 2015 budget as adopted included $28.6 million for jail operations, but actual expenditures totaled $54.1 million. The City was able to cover the $25.5 million difference because General Fund revenues grew significantly more than expected.\(^{17}\)
The $26.5 million in increased funding during the past decade includes $10.8 million for jail operations and $15.7 million for inmate medical care. To help pay for the jail reforms, voters in 2014 approved a 10-year property tax in the parishwide Orleans Parish Law Enforcement District that will generate about $5.5 million for the Sheriff’s Office jail operations in 2019. The sheriff runs the district as the sole member of its governing board. This tax revenue exists outside of the City’s General Fund budget.

The City’s jail expenditures have stabilized during the last several years and are currently built into the budget.

Fire Department. As shown in Chart K, the Fire Department’s funding increased $16.9 million, or 17% since 2010. While this is the third largest funding increase in dollars for any department, the increase on a percentage basis is below the 22% average. The funding increase was largely the result of the firefighters’ pension crisis and legal judgments that the City owes firefighters. The City and firefighters reached a settlement in 2016 that requires the City to increase pension contributions and give back pay to firefighters who did not receive State mandated raises decades ago. The $16.9 million funding increase includes $11.5 million in higher pension contributions and $5 million in back pay. The $0.4 million balance consisted of an increase in operating costs. Fire Department staffing declined 14% from the equivalent of 725 full-time employees in 2010 to 627 in 2019.

As was the case with the increased jail costs, the legally required pension and back pay expenditures have now stabilized and are built into the budget, with the help of the previously discussed 2.5-mill property tax.
Finance Department. Expenditures for the Finance Department increased 71% from $12.9 million in 2010 to $22.1 million in 2019. This excludes costs for tax increment financing (TIF) expenditures and General Fund debt service. The City’s budget assigns these expenditures to the Finance Department, but this report places them in separate categories. The department’s expenditures include pass-through payments connected to the City’s reimbursement for its Emergency Medical Services expenditures. BGR sought to exclude these payments from the department’s expenditures as it did for the TIF expenditures. However, the City did not provide the annual amounts of the pass-through payments as BGR requested. See Chart L for the 10-year trend.

The Finance Department handles accounting, payroll, purchasing, budgeting and tax-collection responsibilities. About $5.7 million of the $9.2 million in increased expenditures covered personnel costs as the department expanded from 92 positions in 2010 to 133 budgeted positions in 2019, a 45% increase which City officials largely attribute to increased tax auditing and collection efforts. City officials attribute the balance of the increase to the previously discussed EMS pass-through expenditures.

The City charges other tax recipients fees to cover the department’s costs to collect all local property, sales and hotel taxes. There are questions about how well these fees align with the collection costs. In addition, the Orleans Parish School Board is suing the City over these fees. See the sidebar for details.

Parking and Traffic Camera Enforcement. As Chart M shows, the City’s parking and traffic camera enforcement costs have increased significantly as the City expanded its traffic camera network. Overall, expenditures more than doubled from $9.5 million in 2010 to...
$22.9 million in 2019. This includes costs for writing parking tickets, towing and booting vehicles, adjudicating contested tickets and making payments to parking and traffic camera contractors.

The growth in these enforcement costs has outpaced the growth in revenues the City receives from parking meter increases and the traffic camera expansion. In 2010, enforcement costs consumed 26% of the $36.9 million in gross parking and traffic camera revenues. This left the City with $27.4 million in net revenue. In 2019, budgeted enforcement costs will consume 44% of the anticipated $52.5 million in gross revenues. This would result in net revenue of $29.6 million. That is just $2.2 million more than in 2010, despite the significantly higher gross revenues in 2019.

This indicates a need for further analysis to determine whether the City could achieve greater efficiencies in parking and traffic camera enforcement. To further analyze these costs, BGR requested data on payments to parking and traffic camera contractors, but the City did not provide it.

### A TAXING SITUATION

State law establishes the City as the parish’s tax collector and authorizes it to charge fees to cover collection costs. For example, the law requires property tax recipients to reimburse the City for the cost of collecting the taxes, with the fee not to exceed 2%. The City charges the maximum 2% fee for all property taxes it collects, including the taxes that the City itself levies.

Property tax collection fees totaled $12.1 million in 2018, an amount that appears to far exceed the City’s actual collection costs. The Finance Department budget line items that involve property tax collections totaled $2.5 million. Subtracting that from the collection fees leaves $9.6 million. A portion of this could reasonably be assigned to oversight functions performed by the finance director, Chief Administrative Office, Mayor’s Office and the City Council, which reviews assessment appeals. But doing so would still appear to leave a significant gap between the collection fees and the City’s actual collection costs.

In addition, the City receives other revenues from its duties as property tax collector that could defray its collection costs. These include interest and penalties on delinquent property taxes that totaled $3.6 million in 2018.

The revenue from the City’s 1.6% collection fee for sales and hotel taxes is more closely aligned with its actual collection costs. The fees totaled $3.7 million in 2018. That is $1.2 million less than the City’s direct collection costs of $4.9 million. The City effectively absorbed the additional costs with other General Fund revenues. However, the City does not charge itself a collection fee for its own sales and hotel taxes, as it does with property taxes. If it did, the 1.6% fee would have yielded about $3.5 million in 2018. That is significantly more than the $1.3 million in collection costs that the City absorbed.

In the 2019 legislative session, City administrators supported a bill that would have doubled the City’s property tax collection fee to 4% of tax collections. The School Board opposed the bill, which did not become law.* In May 2019, the School Board filed a lawsuit challenging the constitutionality of all of the collection fees that the City withholds from remitted taxes. The board argues that the fees are not among the permissible uses for the tax revenues as set forth in voter-approved tax propositions.

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* La. Senate Bill 110, 2019 Reg. Sess. The bill passed the Senate and a House committee but did not receive a vote by the full House.

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### Emergency Medical Services

The cost of the City’s ambulance service increased by $7.7 million, or 66%, as the City improved and expanded the service during the past decade, as shown in Chart N. However, these costs are more than offset by service charges and State reimbursements. This results in a net revenue gain for the City. In 2018, for example, the City spent $17.3 million to provide emergency medical services. It received $15.3 million in service charges and $10.4 in Medicaid reimbursements. This left the City with a net gain of $8.4 million that was available for any purpose.

### Homeland Security

Residing in the mayor’s office, the Office of Homeland Security and Emergency Preparedness coordinates planning to provide security at public facilities and respond to hazardous incidents and natural disasters. As Chart O indicates, the office’s funding increased sharply during the last three years. Overall, the department’s expenditures grew from $1 million in 2010 to a budgeted $8.6 million in 2019. This amounts to one of the City’s largest discretionary or policy-based funding increases that was not driven by an external factor, such as a federal consent decree or court judgment. Staffing for the department increased from five
employees to 38 during the same time period. Many of the additional employees staff a new command center to monitor live feeds from a citywide network of surveillance cameras. The office has also relied on the General Fund to offset reductions in federal grant funds. Other new initiatives have included increased municipal building and facility security and the replacement of radio communications equipment.

New Orleans Recreation Development Commission. NORDC is another entity that received a large funding increase based on a policy decision. Chart P shows how funding for NORDC more than doubled during the past decade. Voters created NORDC in 2010 to replace the City’s struggling recreation department. Following the reorganization, the City increased General Fund appropriations for recreation. In addition, it realized revenue gains from an existing 1.5-mill tax. NORDC’s

property tax receipts are set to increase by 0.45 mills or about $1.8 million in 2022. The increase is the result of a proposition voters approved in May 2019 to consolidate three millages for parks and recreation into a single tax and change the allocations.

Mayor’s Office and Initiatives. This category has two components. The first is core funding for the mayor’s office, including the executive office, communications and intergovernmental relations. The second component is funding for mayoral initiatives. These initiatives typically take the form of a special office to address a particular issue, such as economic development, public engagement and social services.

As Chart Q indicates, funding for the mayor’s office and initiatives more than doubled from $6.7 million in 2010 to $14.2 million in 2019. Of this $7.5 million in-

### CHART N: EMERGENCY MEDICAL SERVICES GENERAL FUND EXPENDITURES, 2010 TO 2019
($ in millions and adjusted for inflation)

- **All costs covered by service charges and Medicaid reimbursements**: $19.3
- **City steadily expands ambulance service**: $11.6

Note: The figures for 2009 to 2012 include funding for the former Office of Emergency Preparedness, which was part of the Chief Administrative Office.

### CHART O: OFFICE OF HOMELAND SECURITY AND EMERGENCY PREPAREDNESS GENERAL FUND EXPENDITURES, 2010 TO 2019
($ in millions and adjusted for inflation)

- **Expanded responsibilities include staffing 24-hour video surveillance command center**: $8.6

Note: The figures for 2009 to 2012 include funding for the former Office of Emergency Preparedness, which was part of the Chief Administrative Office.

crease, $1.2 million was for core mayoral funding while the remaining $6.3 million went to mayoral initiatives. Funding for initiatives more than tripled from $2.4 million to $8.7 million.

The creation of six special offices during the past decade fueled the growth in expenditures on mayoral initiatives. The 2019 budget allocates a total of $5.4 million to these offices. The previous mayor and the current mayor each created three offices early in their tenures. The current mayor created the following offices in 2019 by executive order:

- The **Office of Youth and Families** has a $2.7 million budget allocation to coordinate efforts to improve the economic, health and education outcomes for children and families. Its funding includes $300,000 for four staff members and $2.4 million for programs and services.

- The **Office of Transportation** has a $380,000 allocation and two staff positions to facilitate projects and initiatives to improve transportation infrastructure. The office also serves as the City’s liaison to other local entities involved in transportation, including the New Orleans Regional Planning Commission, the New Orleans Regional Transit Authority and the Port of New Orleans.

- The **Office of Utilities** has a $213,000 allocation and one staff position to assist the Finance Department in setting franchise fees and to enforce franchise agreements with electric, gas, cable and telecommunications providers. In creating the office, the mayor noted that the City Council’s Utilities Regulatory Office does not enforce utility franchise agreements.

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**CHART P: NEW ORLEANS RECREATION DEVELOPMENT COMMISSION GENERAL FUND EXPENDITURES, 2010 TO 2019**

($ in millions and adjusted for inflation)

- **City steadily increases funding**
- **$6.0 in 2010**
- **$13.5 in 2019**

**CHART Q: MAYOR’S OFFICE AND INITIATIVES GENERAL FUND EXPENDITURES, 2010 TO 2019**

($ in millions and adjusted for inflation)

- **Previous mayor creates three new special offices**
- **$6.7 in 2010**
- **$14.2 in 2019**

The previous mayor created the following offices in 2011, though they were not fully funded and operational until 2012. The current mayor has retained these offices.

- **The Service and Innovation Team** has an $840,000 allocation and six budgeted staff positions in 2019 to coordinate and lead cross-departmental strategies to improve City operations while also seeking to reduce costs and increase revenues.

- **The Office of Neighborhood Engagement** has a $730,000 allocation and eight staff positions to develop, implement and evaluate strategies to foster public participation on issues and initiatives throughout City government.

- **The Office of Performance and Accountability** has a $546,000 allocation and five staff positions to set goals for all city departments and track their performance. It also analyzes performance data to identify ways to improve decision-making and promote accountability.

As Table 8 indicates, the City has several other special offices that were created prior to 2010. They include the **Office of Cultural Economy** to promote economic activity related to music, the arts and film; the **Office of Supplier Diversity** to aid small and disadvantaged businesses in securing City contracts through the procurement process; the **Office of Economic Development** to attract, retain and help grow business in New Orleans; and the **Office of Resilience and Sustainability**, formerly the Office of Coastal and Environmental Affairs. The table does not include the previously discussed Office of Criminal Justice Coordination and of the Office of Homeland Security and Emergency Preparedness because the report allocates their expenditures to the court system and public safety.

- **The City’s funding for Municipal and Traffic Courts**, which merged in 2017, more than doubled from $3.8 million to $7.9 million. The increase is the result of a new funding mechanism and a decline in police-issued traffic citations. Previously, the courts retained the fees and fines they generated to cover operating costs, with the City making up the difference. Currently, the City pays the operating costs up front and receives the fees and fines. These revenues, particularly traffic ticket fines, have been declining in recent years, driving up the City’s net expenditures for the courts. As previously discussed, revenue from traffic citations is down $3.3 million since 2010. Overall, total expenditures for the courts decreased about $800,000 since 2010.

It is beyond the scope of this report to analyze the effectiveness and efficiency of the City’s increasing use of special offices to handle certain administrative functions and address particular issues or initiatives.

**Court System.** State law requires the City to cover certain costs for various elements of the Orleans Parish justice system, including, among others, the criminal courts, the District Attorney’s Office and the Public Defender’s Office. As shown in Chart R, the City’s total expenditures for eight justice system entities increased $12 million, or 45% during the past decade. Expenditures for five entities doubled or nearly doubled, with most of the increases coming in the last several years:

<table>
<thead>
<tr>
<th>Office</th>
<th>Year created</th>
<th>2019 General Fund allocation</th>
<th>Staff (budgeted positions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth and Families</td>
<td>2019</td>
<td>$2,730,000</td>
<td>4</td>
</tr>
<tr>
<td>Transportation</td>
<td>2019</td>
<td>$380,000</td>
<td>2</td>
</tr>
<tr>
<td>Utilities</td>
<td>2019</td>
<td>$210,000</td>
<td>1</td>
</tr>
<tr>
<td>Service and Innovation</td>
<td>2011*</td>
<td>$840,000</td>
<td>6</td>
</tr>
<tr>
<td>Neighborhood Engagement</td>
<td>2011*</td>
<td>$730,000</td>
<td>8</td>
</tr>
<tr>
<td>Performance and Accountability</td>
<td>2011*</td>
<td>$550,000</td>
<td>5</td>
</tr>
<tr>
<td>Cultural Economy</td>
<td>pre-2010</td>
<td>$900,000</td>
<td>8</td>
</tr>
<tr>
<td>Supplier Diversity</td>
<td>pre-2010</td>
<td>$890,000</td>
<td>6.3</td>
</tr>
<tr>
<td>Economic Development</td>
<td>pre-2010</td>
<td>$620,000</td>
<td>4.6</td>
</tr>
<tr>
<td>Resilience and Sustainability</td>
<td>pre-2010</td>
<td>$220,000</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$8,070,000</strong></td>
<td><strong>46.9</strong></td>
</tr>
</tbody>
</table>

*These offices were not fully funded and operational until 2012.*
The Juvenile Justice Intervention Center, the City’s juvenile detention facility formerly known as the Youth Study Center, is subject to a federal consent decree mandating reforms that the City must fund. The City’s expenditures increased $3.7 million, or 136%, during the past decade. The City also used capital revenues outside the General Fund to build a new detention facility.

The City’s expenditures for Criminal District Court nearly doubled from $3.5 million to $6.9 million. City budgets attributed part of the increase to a drop in court fines and fees, which cover some of the court’s operating costs. Ongoing litigation challenging the constitutionality of these fines and fees could further reduce the amount of revenue they generate.

Funding for the Mayor’s Office of Criminal Justice Coordination grew from just $40,000 in 2010 to $2.8 million in 2019. The office coordinates public and private efforts to reduce crime, assist victims and improve accountability, effectiveness and efficiency within the justice system. It also administers, monitors and evaluates the effectiveness of State and federal grants for criminal justice purposes in Orleans Parish. Its budget growth has resulted from an expansion of responsibilities, including the NOLA for Life murder reduction strategy.

The City’s funding for the Orleans Parish Public Defender’s Office doubled from about $900,000 in 2010 to $1.8 million in 2019. Despite this increase, the office has faced budget shortfalls as a result of insufficient State funding.

Meanwhile, three other justice system entities have seen their City funding decrease:

• The City’s expenditures for the Clerk of Criminal District Court declined $700,000, dropping from an inflation-adjusted $4.4 million in 2010 to $3.7 million in 2019. This amounts to a 16% decrease. Under State law, the City must provide nearly all of the clerk’s funding. The City and clerk have long disagreed over the appropriate funding level, with the clerk filing lawsuits seeking to compel the City to pay more. See the sidebar on page 34 for a discussion of how Orleans Parish’s fragmented court system affects the costs that the City must cover for the clerk’s office.

• Orleans Parish Juvenile Court has seen its City funding drop $1.4 million or 33%. One contributing factor was the Legislature’s elimination of one of the court’s six judgeships in 2014. In a 2013 report analyzing the number of judges at Orleans Parish’s courts and judicial workloads, BGR found that Juvenile Court appeared to have more judges than necessary.21

• Finally, funding for the Orleans Parish District Attorney’s Office dropped about $165,000, or 2%, during the past decade.

<table>
<thead>
<tr>
<th>CHART R: COURT SYSTEM* GENERAL FUND EXPENDITURES, 2010 TO 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>($) in millions and adjusted for inflation</td>
</tr>
<tr>
<td>$27.0 $28.0 $28.0 $28.0 $28.0 $28.0 $27.0 $27.0 $27.0 $39.0</td>
</tr>
</tbody>
</table>

* Includes Criminal District Court, Municipal and Traffic Court, Juvenile Court, the Clerk of Criminal District Court, the District Attorney’s Office, the Public Defender’s Office, the Juvenile Justice Intervention Center and the Office of Criminal Justice Coordination.

City Council. As Chart S indicates, the City Council’s annual expenditures remained steady and even declined in some years, hovering around $8 million to $9 million for most of the decade. The $11 million in budgeted expenditures for 2019 would exceed this range. However, the council’s budget includes additional funding for contingencies that the council often does not spend. For example, the budget for the council’s responsibilities to hear property tax appeals as the Board of Review typically is higher than what the council actually expects to spend. This is because the council incurs these expenses late in the year, when there is little or no time to offset an unexpected increase in costs. As a result of this contingency budgeting, the council’s actual expenditures have been an average of $1.9 million lower than budgeted since 2012. If this trend continues in 2019, the council’s actual expenditures would be in line with those in prior years.

Street Maintenance. As Chart T illustrates, General Fund expenditures for street maintenance have varied widely during the past decade. Overall, funding increased from $2.9 million in 2010 to a budgeted $5.1 million in 2019. However, the funding amounts for all years fall far short of the $30 million to $35 million a year that the City estimates it needs to spend on maintenance to keep streets from deteriorating prematurely.

A DIVIDED COURT SYSTEM DRIVES UP CITY’S COSTS

Orleans Parish is the only parish in the state with separate district courts for criminal and civil cases. Each court also has its own clerk’s office. The fragmented court system plays a role in the costs that the City, as the parish’s governing authority, must cover for the Clerk of Criminal District Court under State law.

The Clerk of Civil District Court receives virtually all of its $13.9 million in operating revenues from filing fees for court documents as well as mortgage and conveyance records. These fees typically exceed the clerk’s annual operating expenses. The clerk reported a fund balance of $23 million at the end of fiscal 2018. By contrast, the Clerk of Criminal District Court receives little revenue from self-generated fees and relies on the City for the vast majority of its $4.8 million budget. The clerk reported a fund balance of just $472,000 at the end of 2018.

In other parishes with unified courts and clerk’s offices, the surpluses from filing fees for civil cases and mortgage and conveyance records help to offset deficits from clerical duties for criminal cases. In Jefferson Parish, for example, a single clerk’s office handles filings for criminal and civil cases as well as land records. The office’s criminal division runs a deficit each year that is typically offset by surpluses for the civil and mortgage and conveyance divisions. As a result, the clerk’s office receives just $700,000 in annual funding from Jefferson Parish government.*

Policymakers should consider whether a potential revenue-sharing arrangement could defray some of the City’s funding for the criminal court clerk’s office. The consideration should additionally include a review of current and projected surplus revenues generated by civil court filing fees and land records to determine whether those fees are higher than necessary.

* Jefferson Parish, 2019 Annual Budget, p. 79.
Annual General Fund spending on street maintenance averaged $4.6 million. This is less than one-sixth of the amount the City estimates is necessary. This reinforces previous BGR research that found the City has chronically underfunded maintenance.

Office of Inspector General, Independent Police Monitor and Ethics Review Board. The City charter requires the council to appropriate 0.75% of General Fund revenues to these entities each year. The fixed funding mechanism is designed to protect their independence by preventing individuals or entities under their purview from withholding or reducing their funding. The revenue is divided as follows: The Inspector General receives 0.55% of the General Fund or $3.9 million in 2019, the Independent Police Monitor receives 0.16% or $1 million, and the Ethics Review Board receives 0.04% or $281,000. See Chart U for the 10-year trend.

The total allocation of $5.3 million for 2019 is $2 million, or 61%, more than actual expenditures in 2010. However, the entities typically do not spend all of the money the City appropriates for them. In 2018, for example, the Inspector General did not spend $630,000 of its $3.3 million appropriation, and the Police Monitor did not spend $80,000 of that office’s $960,000 appropriation. Any unspent appropriations at the end of each year remain available to the City in the General Fund.

The departments and budget line items discussed below had funding decreases during the past decade.

Vehicle maintenance, fuel and utilities. As Chart V indicates, the City’s expenditures on vehicle maintenance, fuel, natural gas and electricity decreased during the past decade. These overhead costs dropped $3.2 million, or 13%. The City’s electric and gas bill alone dropped $2.5 million. City officials attributed some of the savings to the installation of energy efficient lighting in City buildings and street lamps.
Sanitation. The City’s expenditures on garbage collection and disposal decreased $7.1 million, or 15%, since 2010. This is one of the most significant examples of General Fund cost-cutting in the past decade. The City achieved these savings primarily by renegotiating sanitation contracts twice since 2010, as noted in Chart W.

The $7.1 million reduction in costs combined with the previously discussed 2011 sanitation fee hike – which increased revenues by $20.7 million – means that the fees will cover all of the Sanitation Department’s $39.7 million budget for 2019. In 2010, the fees covered just 43% of the department’s budget, which was heavily subsidized by other General Fund revenues. Thus, the renegotiated contracts and higher service charges have freed up General Fund revenue to address other needs.

Debt Service. Most of the City’s debt is in the form of general obligation bonds that the Board of Liquidation, City Debt, services with a property tax that is separate from the General Fund. However, the City’s Finance Department uses General Fund revenues to service other debt. In 2019, these General Fund debt service payments will total $26 million. This includes, among other things, $17 million for firefighter pension bonds and $4.9 million to pay back the State for a post-Hurricane Katrina loan to help cover debt service costs on general obligation bonds.

The City has used its improved financial position to reduce its reliance on debt within the General Fund. As a result, it cut General Fund debt service costs in half since 2010, when those costs totaled $52.4 million. Chart X illustrates this savings. As was the case with the reduction in sanitation costs, the decreased debt service expenditures have freed up substantial recurring revenues that the City can use to address other needs.
**Key Findings on General Fund Expenditures**

Public safety was by far the top priority during the past decade for increased General Fund spending as measured in dollars, though not on a percentage basis. This included major new expenditures for a legal settlement with firefighters and court-mandated jail and police reforms. These costs addressed problems in City government that previous administrations neglected. This required today’s taxpayers to shoulder the burden of paying for inherited problems. The City initially struggled to meet these new costs. But once the costs stabilized, the growth in recurring revenues helped the City cover them in subsequent years.

While these public safety spending increases were largely driven by external factors, the City also tapped its growing General Fund revenues to increase funding in areas it deemed to be high priorities. These included recreation and homeland security, which received some of the largest funding increases on a percentage basis. It is also noteworthy that the 31% increase in spending on public safety was lower than the percentage increase for seven of the 11 other purposes.

On the other hand, some needs remained unmet. For example, funding for street maintenance remains woefully inadequate. General Fund spending on street maintenance has averaged just $4.6 million a year since 2009. That is less than one-sixth of the $30 million to $35 million a year the City estimates it needs to prevent streets from deteriorating prematurely. While the City has received substantial federal funding since Katrina to make capital improvements to streets, maintaining those streets is a local responsibility. Moreover, City officials said FEMA has indicated that if the streets are not properly maintained, it might not cover future storm damage.

The City has demonstrated some success at cutting costs as evidenced by the renegotiated sanitation contracts and reduction in debt service expenditures. These reduced costs have freed up $33.5 million in recurring annual revenues that the City directed to other purposes. Still, there may be other areas, such as parking enforcement, in which the City could cut costs or control their growth.
LOOKING AHEAD

This section reviews how the key findings from the preceding analysis can help the City make better use of its existing resources. It discusses the following issues:

- Developing a long-term financial plan
- Cutting costs
- Harnessing future revenue growth to address high-priority needs
- Deciding whether to roll millage rates forward
- Reducing the use of one-time revenues
- Maintaining a healthy General Fund balance

Developing a Long-Term Financial Plan

To give citizens a clear perspective on the City’s service and infrastructure needs and possible funding sources to address them, it is important for the City to continue to identify its future spending priorities and develop a strategy for funding them. Furthermore, government finance experts indicate that a long-term financial plan is particularly important when a community faces multi-billion-dollar needs that cannot be practically met without a 20- to 30-year horizon.

In an April 2019 report on Orleans Parish tax dedications, BGR recommended that the City develop a long-term plan that includes the following elements based on government finance best practices:

- **Identify resources.** The plan should include long-term financial projections based on economic factors and future spending scenarios. The projections should account for all available revenue sources, including rededicated taxes, growth in existing taxes, debt capacity, and potential new taxes and fees that may be necessary.

- **Set priorities.** The plan should identify public service and infrastructure objectives and estimate the costs of achieving them. It should further analyze these costs in the context of the financial projections and develop a strategy for funding high-priority objectives.

- **Collaboration and communication.** Long-term financial planning should be a highly collaborative process that involves elected officials, relevant City employees and the public. It is important that officials clearly communicate the plan’s objectives and the strategy for achieving them.

- **Regular updates.** It is important to update the plan periodically to account for changes in needs and financial circumstances.

It is not possible to complete a long-term financial plan before City officials and voters make decisions on a number of funding proposals in the coming months. These include the three tax propositions on the November 16 ballot, the potential millage roll-forward in November and completion of the 2020 General Fund budget, which the council must adopt by December 1 under the City’s charter. These decisions will require long-term commitments of taxpayer dollars. Because of this, the City should provide citizens with an interim plan that demonstrates the necessity of these revenue proposals. The City also should inform citizens of any other revenue-generating initiatives it may pursue in the near future. This includes a potential stormwater fee that the mayor has discussed as an option to help fund drainage improvements.

Cutting Costs

Keeping expenditures in check is an important part of any long-term financial plan. Governments should plan to achieve long-run efficiencies and cost savings through various means, including new technology, more effective personnel management, and life-cycle budgeting for preventive maintenance and investment in vehicles, equipment and infrastructure. The long-term expenditure plan can also help set priorities to guide whatever method the City chooses to prepare its annual balanced budget, as discussed in the sidebar.

As this report has demonstrated, the City achieved substantial savings in certain areas during the past decade, including costs for sanitation and General Fund debt service. However, these savings have been fairly isolated as the vast majority of expenditure line items have increased, with an average growth rate of 22% during the past decade. This suggests a need to take a more comprehensive
and systematic approach to identifying areas where the City can redirect revenues to high-priority needs.

This report’s breakdown of expenditures by departments and budget line items can help the City identify areas that warrant further scrutiny. Focusing first on areas with the highest growth both in terms of dollars and percentage increases, the City should evaluate the factors driving the growth and assess whether the expenditure levels are appropriate.

Harnessing Revenue Growth

When pressed to do so by external factors, the City has demonstrated its ability to use the growth in General Fund revenues to meet major new costs for the Police Department, Fire Department and the parish jail. Once those expenses were built into the budget, the recurring nature of the vast majority of General Fund revenues helped ensure the City could cover the costs in subsequent years. Going forward, the City could harness a portion of future revenue growth and direct it to high-priority needs.

Of course, there is no guarantee that the strong revenue growth of the past decade will continue in the future. The City’s Revenue Estimating Conference projects that 2020 recurring General Fund revenues will grow by $16.6 million or 2.5%, far less than the average growth since 2010. However, this is a preliminary figure for planning purposes that does not include any revenue from a potential millage roll-forward. In addition, the City’s General Fund revenue projections have proven to be conservative during the past decade. Conservative

"Once those expenses were built into the budget, the recurring nature of the vast majority of General Fund revenues helped ensure the City could cover the costs in subsequent years. Going forward, the City could harness a portion of future revenue growth and direct it to high-priority needs."
revenue projections reflect a prudent approach to budgeting that is generally desirable. This approach also increases the likelihood of actual revenues exceeding projections going forward.

The power of building new expenditures for high-priority needs into the budget is illustrated by a missed opportunity to do so for street maintenance. See the sidebar for details.

**Rolling Millage Rates Forward**

City administrators said they plan to ask the City Council to roll forward millage rates to capture new property tax revenue from an increase in property values as a result of the 2020 reassessment. They have yet to propose a specific amount for the roll-forward, which would be included in the 2020 budget.

The Louisiana Constitution requires assessors to revalue all property in a parish at least every four years. After a reassessment, local taxing authorities such as the City must adjust their millage rates so that tax collections associated with the reassessment remain revenue-neutral. Since reassessments usually result in an increase in the parish’s assessed value, property tax rates are typically reduced or “rolled back.” Taxing authorities then have the option of rolling their millage rates forward as high as the pre-assessment level, but only after a public hearing and with a two-thirds vote of the taxing authority.

City administrators emphasized that without a roll forward, the City could actually see a drop in tax revenue at the rolled-back millage rates. This is because of a 2018 amendment to the State constitution that phases in over four years the tax increase for homeowners whose properties had a 50% or greater increase in assessed value through reappraisal. Thus, while the full assessed value of these properties is used in the rollback calculation in the first year, the City does not receive the full tax for them until the fourth year. This could result in a drop in tax revenue for the first three years. City officials said they do not have sufficient data about the 2020 reassessment to estimate how much revenue the City could lose at the rolled-back rates.

**STREETS COULD HAVE HELPED PAY FOR THEIR OWN MAINTENANCE**

New Orleans’ street network generates about $50 million a year in net revenue for the General Fund, primarily from traffic camera tickets, parking tickets, parking meters and auto sales taxes. In a 2008 report, BGR recommended that the City direct a portion of these street-related revenues to address the chronic underfunding of preventive street maintenance. If the City had allocated just the future increases in these revenues as BGR suggested, it would now have an additional $20 million for maintenance. That is more than five times the City’s average annual expenditures on street maintenance during the past decade. Former City administrators cited the mounting consent decree costs and the City’s fragile budget condition as reasons why they did not direct those revenues to streets.

BGR again urged the City to responsibly fund street maintenance in a 2017 report. The report emphasized that funding for maintenance and minor repairs tends to pay for itself, and then some, in savings on major capital repairs. By the City’s own estimates, every dollar invested in preventive maintenance can save four or five dollars in repair costs down the road.

Currently, the City is in the midst of a massive road repair project that includes nearly $2 billion in FEMA funding from Hurricane Katrina. It is imperative that the City find a recurring source of revenue to fully cover preventive maintenance costs for all of those miles of newly repaved streets. Failure to do so would risk squandering the enormous capital investment the City is making. Moreover, City officials indicated that FEMA might not cover any 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.

• **Is the tax necessary?** The City should demonstrate (1) there is a clear, high-priority need for the additional revenue from the roll forward, (2) it sought efficiencies in current spending, and (3) the roll forward is the best way to meet the need.

• **Is the tax appropriately sized?** The City should demonstrate that the size of the roll forward is aligned with the identified needs.

• **Will the tax revenue be well spent?** The City should provide (1) a clear plan for directing the additional tax revenue to high-priority needs, (2) assurance of appropriate financial stewardship and accountability for taxpayer dollars, and (3) evidence demonstrating the likelihood of effective outcomes.

**Reducing the Use of One-Time Revenues**

The City’s use of one-time revenues to pay for recurring expenses increases the risk of budget shortfalls. It has also interrupted the steady progress the City had made in growing its General Fund reserves to help it respond to financial emergencies.

Best practices indicate the City should take steps to end its reliance on one-time revenues for recurring expenses. Government finance experts indicate that one-time revenues should generally be used to bolster reserves and to cover one-time expenses, such as capital projects. As such, the City should use future one-time revenues to replenish its reserves and allocate any remaining revenue to one-time expenditures. One option is to place the revenue in the Infrastructure Maintenance Fund, which the City Council established to receive new hotel tax revenue and other funding for major infrastructure repairs and upgrades. Another option is to use one-time revenues to rebuild the General Fund balance.

**Maintaining a Healthy General Fund Balance**

The City’s declining General Fund reserves puts at risk recent improvements in the City’s financial position. The reserves have fallen well below the City’s target of 10% of recurring reserves – a figure that is itself significantly lower than the best practices level of 17%, the equivalent of two months of operating expenses.

City officials indicated that they expect the fund balance to grow in 2019 for the first time since 2015. They stated they will work to solidify these gains in 2020 by continuing to curtail the use of one-time revenues. However, the officials emphasized that the success of this approach hinges on a number of unknown variables, including the fates of the various tax propositions this fall and the potential roll-forward of millage rates.
CONCLUSION AND RECOMMENDATIONS

The City’s needs are so great that it might not be possible to adequately address them all. This means that every General Fund dollar that is not well spent represents a dollar’s worth of high-priority needs that will go unmet. For this reason, it is important for the City to re-evaluate current expenditures with an eye toward optimal deployment of existing resources to critical needs.

BGR’s review of the last 10 years of City budgets found that City leaders took advantage of strong growth in General Fund revenue streams to meet significant new mandated costs for the police and fire departments and parish jail. Those instances illustrate how the City could use future growth in General Fund revenue as a potential source of funding for unmet needs today. However, the focus should not just be on growing revenue. City spending also grew considerably. The City has opportunities to reevaluate spending and identify cost savings, which could free up existing revenue for pressing needs.

It is also important for the City to strengthen its budgeting practices to rebuild its fund balance and eliminate its reliance on one-time revenues for recurring expenses. The City has made significant progress during the past 10 years, but it must act now to sustain and strengthen its fiscal health.

To support this outcome, BGR makes the following recommendations:

- The City administration and the City Council should carefully demonstrate that any tax proposal, including new taxes, renewals or roll-forwards, is (1) necessary in the context of budget efficiencies and funding alternatives, (2) appropriately sized to the identified need, and (3) likely to advance strategic priorities, assure good financial stewardship and produce effective public outcomes.

- The City should continue its efforts to eliminate or reduce the problematic reliance upon one-time revenues for recurring expenses, limiting these revenues instead for capital projects or building reserves for emergencies. The City also should rebuild and maintain a General Fund balance to a minimum of 10% of recurring General Fund revenue. It should further establish a long-term plan to increase that target to 17% to align with best practices.

- The City should develop a long-term financial plan to identify revenue sources, forecast expenditures and set funding priorities. The plan should include a strategy for directing a portion of future revenue growth to high-priority needs.

- The City should conduct a comprehensive review of its budget to identify areas where it can cut costs or slow their growth. Starting with the areas of highest growth, the City should evaluate the cost drivers and determine whether the current expenditure levels are appropriate. The City should supplement this review with a long-term expenditure forecast to help identify potential efficiencies and guide future spending priorities.
APPENDIX: UNADJUSTED GROWTH IN REVENUE AND EXPENDITURES

The following chart and table show the nominal, or unadjusted for inflation, changes in General Fund revenues and expenditures from 2010 to 2019. The revenue and expenditure figures in the body of this report have been adjusted for inflation.

CITY OF NEW ORLEANS GENERAL FUND REVENUE BY SOURCE, 2010 COMPARED TO 2019
($ in millions and unadjusted for inflation)
## City of New Orleans Growth in General Fund Expenditures, 2010 to 2019

($ in millions and unadjusted for inflation)

<table>
<thead>
<tr>
<th>Department/budget line item</th>
<th>2010 Expenditures (actual)</th>
<th>2019 Expenditures (budgeted)</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Orleans Police Department</td>
<td>$126.5</td>
<td>$179.0</td>
<td>$52.5</td>
<td>41%</td>
</tr>
<tr>
<td>Fire Department</td>
<td>$85.8</td>
<td>$116.6</td>
<td>$30.8</td>
<td>36%</td>
</tr>
<tr>
<td>Orleans Parish Sheriff’s Office</td>
<td>$23.0</td>
<td>$53.2</td>
<td>$30.2</td>
<td>131%</td>
</tr>
<tr>
<td>Parking and traffic camera enforcement</td>
<td>$8.2</td>
<td>$22.9</td>
<td>$14.7</td>
<td>181%</td>
</tr>
<tr>
<td>Finance Department (Excludes debt service and TIFs)</td>
<td>$11.1</td>
<td>$22.1</td>
<td>$11.0</td>
<td>99%</td>
</tr>
<tr>
<td>Emergency Medical Services</td>
<td>$10.0</td>
<td>$19.3</td>
<td>$9.3</td>
<td>93%</td>
</tr>
<tr>
<td>Mayor’s Office and Initiatives (Excludes Department of Public Safety and Homeland Security and the Office of Criminal Justice Coordination)</td>
<td>$5.7</td>
<td>$14.2</td>
<td>$8.4</td>
<td>147%</td>
</tr>
<tr>
<td>New Orleans Recreation Development Commission</td>
<td>$5.1</td>
<td>$13.5</td>
<td>$8.3</td>
<td>162%</td>
</tr>
<tr>
<td>Office of Homeland Security and Emergency Preparedness</td>
<td>$0.8</td>
<td>$8.6</td>
<td>$7.7</td>
<td>932%</td>
</tr>
<tr>
<td>Municipal and Traffic Court</td>
<td>$3.3</td>
<td>$7.9</td>
<td>$4.7</td>
<td>144%</td>
</tr>
<tr>
<td>Chief Administrative Office (Excludes information technology, utilities, vehicles and fuel)</td>
<td>$9.8</td>
<td>$14.4</td>
<td>$4.6</td>
<td>46%</td>
</tr>
<tr>
<td>Juvenile Justice Intervention Center (juvenile detention; formerly called the Youth Study Center)</td>
<td>$2.3</td>
<td>$6.4</td>
<td>$4.1</td>
<td>174%</td>
</tr>
<tr>
<td>Criminal District Court</td>
<td>$3.0</td>
<td>$6.9</td>
<td>$3.9</td>
<td>128%</td>
</tr>
<tr>
<td>City Council</td>
<td>$7.3</td>
<td>$11.0</td>
<td>$3.7</td>
<td>52%</td>
</tr>
<tr>
<td>Parks and Parkways</td>
<td>$6.8</td>
<td>$10.4</td>
<td>$3.6</td>
<td>53%</td>
</tr>
<tr>
<td>Tax Increment Financing (TIF)</td>
<td>$2.5</td>
<td>$5.9</td>
<td>$3.4</td>
<td>135%</td>
</tr>
<tr>
<td>Office of Criminal Justice Coordination</td>
<td>$0.03</td>
<td>$2.8</td>
<td>$2.7</td>
<td>8167%</td>
</tr>
<tr>
<td>Street maintenance</td>
<td>$2.5</td>
<td>$5.1</td>
<td>$2.6</td>
<td>107%</td>
</tr>
<tr>
<td>Property Management</td>
<td>$7.7</td>
<td>$10.2</td>
<td>$2.6</td>
<td>33%</td>
</tr>
<tr>
<td>Safety and Permits</td>
<td>$5.4</td>
<td>$8.0</td>
<td>$2.5</td>
<td>46%</td>
</tr>
<tr>
<td>Inspector General, Independent Police Monitor, Ethics Review Board</td>
<td>$2.8</td>
<td>$5.3</td>
<td>$2.4</td>
<td>86%</td>
</tr>
<tr>
<td>Information, Technology and Innovation</td>
<td>$9.5</td>
<td>$11.5</td>
<td>$2.0</td>
<td>21%</td>
</tr>
<tr>
<td>Coroner’s Office</td>
<td>$1.7</td>
<td>$3.3</td>
<td>$1.6</td>
<td>96%</td>
</tr>
<tr>
<td>Civil Service</td>
<td>$1.8</td>
<td>$3.4</td>
<td>$1.6</td>
<td>90%</td>
</tr>
<tr>
<td>Planning Commission, HDLC and VCC</td>
<td>$2.5</td>
<td>$3.9</td>
<td>$1.5</td>
<td>59%</td>
</tr>
<tr>
<td>Public Defender</td>
<td>$0.8</td>
<td>$1.8</td>
<td>$1.1</td>
<td>142%</td>
</tr>
<tr>
<td>Law Department</td>
<td>$5.3</td>
<td>$6.1</td>
<td>$0.8</td>
<td>15%</td>
</tr>
<tr>
<td>District Attorney</td>
<td>$5.9</td>
<td>$6.7</td>
<td>$0.8</td>
<td>13%</td>
</tr>
<tr>
<td>Vehicle maintenance, fuel, electricity and natural gas</td>
<td>$21.2</td>
<td>$21.5</td>
<td>$0.3</td>
<td>1%</td>
</tr>
<tr>
<td>Clerk of Criminal District Court</td>
<td>$4.1</td>
<td>$3.7</td>
<td>-$0.4</td>
<td>-9%</td>
</tr>
<tr>
<td>Sanitation</td>
<td>$40.4</td>
<td>$39.7</td>
<td>-$0.6</td>
<td>-2%</td>
</tr>
<tr>
<td>Public Works (Excludes street maintenance and parking enforcement)</td>
<td>$3.9</td>
<td>$3.3</td>
<td>-$0.6</td>
<td>-15%</td>
</tr>
<tr>
<td>Juvenile Court</td>
<td>$3.8</td>
<td>$2.8</td>
<td>-$1.0</td>
<td>-26%</td>
</tr>
<tr>
<td>Debt service</td>
<td>$45.1</td>
<td>$26.0</td>
<td>-$19.1</td>
<td>-42%</td>
</tr>
<tr>
<td>Other departments and line items</td>
<td>$19.6</td>
<td>$24.7</td>
<td>$5.2</td>
<td>26%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$495</strong></td>
<td><strong>$702</strong></td>
<td><strong>$206.7</strong></td>
<td><strong>42%</strong></td>
</tr>
</tbody>
</table>
ENDNOTES

1 The revenue estimate in the ballot proposition is $10.2 million. It is based on this year’s taxable assessed value. However, the actual figure is likely to be higher than that because of the 2020 property reassessment, which was conducted in 2019 for the 2020 tax bills.

2 Three-quarters of the tax receipts would be placed in a special City fund for infrastructure improvements. The rest would go to New Orleans & Company, a private nonprofit organization that promotes tourism and conventions.

3 City of New Orleans, Chief Administrative Office, presentation to New Orleans City Council Budget, Audit and Board of Review Committee, September 26, 2019.


6 The City’s General Fund includes a handful of dedicated property taxes for police, fire, parks and other purposes. Generally accepted accounting principles allow a government to account for dedicated tax revenue either in its general fund or in a special revenue fund. Ruppel, Warren, GAAP for Governments 2013 (Hoboken, N.J.: John Wiley & Sons, Inc., 2013), p. 64.


10 According to the Chief Administrative Office, $2 million of the projected $27 million are amnesty payments that are not expected to recur.

11 BGR counted a $4.3 million 2019 dedication from the State sales tax on short-term rentals of residences as sales tax receipts for the City to ensure consistency with previous BGR reports on Orleans Parish tax revenues. Those reports treated all State tax dedications as tax receipts for the entities receiving the dedications.

12 For more information about the revenue sharing program, see BGR, Forgotten Promises: The Lost Connection Between the Homestead Exemption and the Revenue Sharing Fund, June 2010.

13 Revenue from New Orleans’ share of Gulf of Mexico Energy Security Act (GOMESA) funds in 2019 totaled $1.3 million.


15 The BP Settlement Fund is part of the General Fund balance but some appropriations go directly to other City funds outside of the General Fund, including $3 million for right-of-way management in the Department of Public Works and $507,000 for the public libraries.

16 The Government Finance Officers Association (GFOA) recommends that government entities establish formal policies specifying the level of reserves they will maintain to mitigate the risks of revenue shortfalls and emergency expenditures. The proper reserve level varies depending on each government’s circumstances. For example, GFOA notes that governments vulnerable to natural disasters, or dependent on a volatile revenue source, may need to maintain a higher level of reserves. GFOA recommends that, at a minimum, general-purpose governments maintain a fund balance equal to two months of general fund operating revenues or expenditures. This amounts to 16.7% of annual revenues or expenditures. Government Finance Officers Association, Fund Balance Guidelines for the General Fund, October 2009.

17 Actual revenues exceeded budgeted revenues by $68.4 million.

18 The Board of Liquidation, City Debt separately pays debt service costs for the City’s general obligation bonds to fund capital improvements.


21 BGR, Benchmarking the Bench: Are Public Dollars Being Wasted on Excess Judgeships in Orleans Parish? September 2013. Act 466 of the 2014 Regular Session eliminated the judgeship and provides that another judgeship will be eliminated the next time a vacancy occurs.

22 BGR, Paying for Streets: Options for Funding Road Maintenance in New Orleans May 2017, p. 2.


