

MANAGING THE WINDFALL

*Tracking the City of New Orleans' Use
of Federal Pandemic Relief Funds*

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Table of CONTENTS

4 INBRIEF

5 EXECUTIVE SUMMARY

8 INTRODUCTION

9 BACKGROUND

Overview of ARPA Funds for Local Governments

The City's General Fund and Budget Process

The City's Initial Approach to ARPA Spending

14 ANALYSIS

Tracking \$77.3 Million in 2021 ARPA Appropriations

Tracking \$110 million in 2022 ARPA Appropriations

Looking Ahead: 2023 and Beyond

In Search of Full Transparency

29 CONCLUSION AND RECOMMENDATIONS

30 ENDNOTES



MANAGING THE WINDFALL

Tracking the City of New Orleans' Use of Federal Pandemic Relief Funds

December 2022

IN BRIEF

BGR's report shows how the City of New Orleans has used federal relief funds to weather the budgetary uncertainty of the COVID-19 pandemic and improve its finances. Specifically, those expenditures have let the City save a significant amount of revenue from its own discretionary funding streams and build its financial reserves with the surplus. The report finds:

- The City, facing revenue losses because of the pandemic's impacts on tourism and local spending, used more than 95% of the first half (\$194 million) of its federal American Rescue Plan Act (ARPA) allocation for the police and fire departments. This made General Fund revenue from those departments available to fill projected General Fund gaps in 2021 and 2022. However, the projected funding gaps didn't materialize, primarily due to below-budget expenditures in 2021 and better-than-expected revenues in 2022.
- In 2021, General Fund expenditures totaled just \$532 million – \$101.4 million (16%) under budget. Even if the City had not used any of the \$77.3 million in ARPA funds it appropriated in 2021, its General Fund revenue would have covered all expenditures and generated a \$25 million surplus.
- The City has estimated that General Fund savings during the past two years has boosted the fund balance above \$200 million – about four times the pre-pandemic level. This allows the City to bolster its emergency financial cushion, while allowing it to direct the rest of the reserve growth to address high-priority needs. However, any future expenditures the City finances with those reserves will be heavily attributable to its ARPA funds – and the public should watch closely how their elected leaders spend this one-time windfall.
- With stronger finances, the City has pivoted its strategy for spending remaining ARPA funds. The City's 2023 General Fund budget does not rely on relief dollars to fill projected gaps. Although it has budgeted \$14 million from its fund balance for this purpose, this is much less than the projected gaps the City filled with ARPA in 2021 and 2022. Instead, the City allocated \$124.2 million from ARPA and \$51.1 million from reserves in 2023 to multiple departments to carry out specific initiatives. It has also set aside \$100 million for emergencies.
- The City has sometimes fallen short of providing sufficient information on its use of ARPA funds, limiting public accountability.
- For both ARPA and General Fund reserve appropriations, BGR recommends that the City should:
 - Provide the public with sufficient details on the components and objectives of spending plans and regular updates on actual spending and outcomes.
 - Clearly identify any impacts of these one-time funds on the City's General Fund budget (including initiatives adopted in the 2023 budget), such as creating recurring expenses that will eventually require additional revenue or enabling further fund balance growth.
 - Compile this information in easily accessible reports so the public does not have to review multiple documents or presentations to assemble the complete picture of the City's ARPA use and its results.

Explore BGR's online dashboard that supplements this report with interactive data on ARPA-influenced budget trends for the City and its departments.

[CLICK HERE TO VIEW THE DASHBOARD](#)



EXECUTIVE SUMMARY

WHY THIS REPORT MATTERS

In response to the COVID-19 pandemic, the federal government provided the City of New Orleans (City) with \$388 million of relief funds through the American Rescue Plan Act (ARPA). It is substantial by any measure. It equates to 59% of the City's pre-pandemic recurring General Fund revenue and about \$1,000 per resident. Furthermore, ARPA gives recipient governments considerable flexibility to decide how to spend the money, creating a rare opportunity for the City to weather the pandemic's budgetary impacts and address local public service, infrastructure and community needs without burdening its taxpayers or depleting financial reserves.

The City's ARPA expenditures during the past two years have had far-reaching impacts on its finances. Specifically, the expenditures have allowed the City to save a significant amount of revenue from its own discretionary funding streams and build its financial reserves with the surplus. The City maintains these reserves, also called

its General Fund balance, to address budget uncertainty and emergencies. Building General Fund reserves while spending relief dollars is not prohibited under ARPA rules.

However, federally required public reporting on ARPA use and the City's own reporting focus only on direct ARPA expenditures. Therefore, they do not capture the important broader financial effects of the ARPA funds.

BGR's report enhances public oversight of the relief funds by providing a more comprehensive picture of ARPA's impacts on the City's finances and budget priorities. In addition, the report identifies gaps in reporting that make it difficult for the public to follow the money and hold City officials accountable for their funding decisions.

BGR has also launched an online dashboard that supplements this report with interactive data on ARPA-influenced budget trends for the City and its departments. [Click here to view the dashboard.](#)

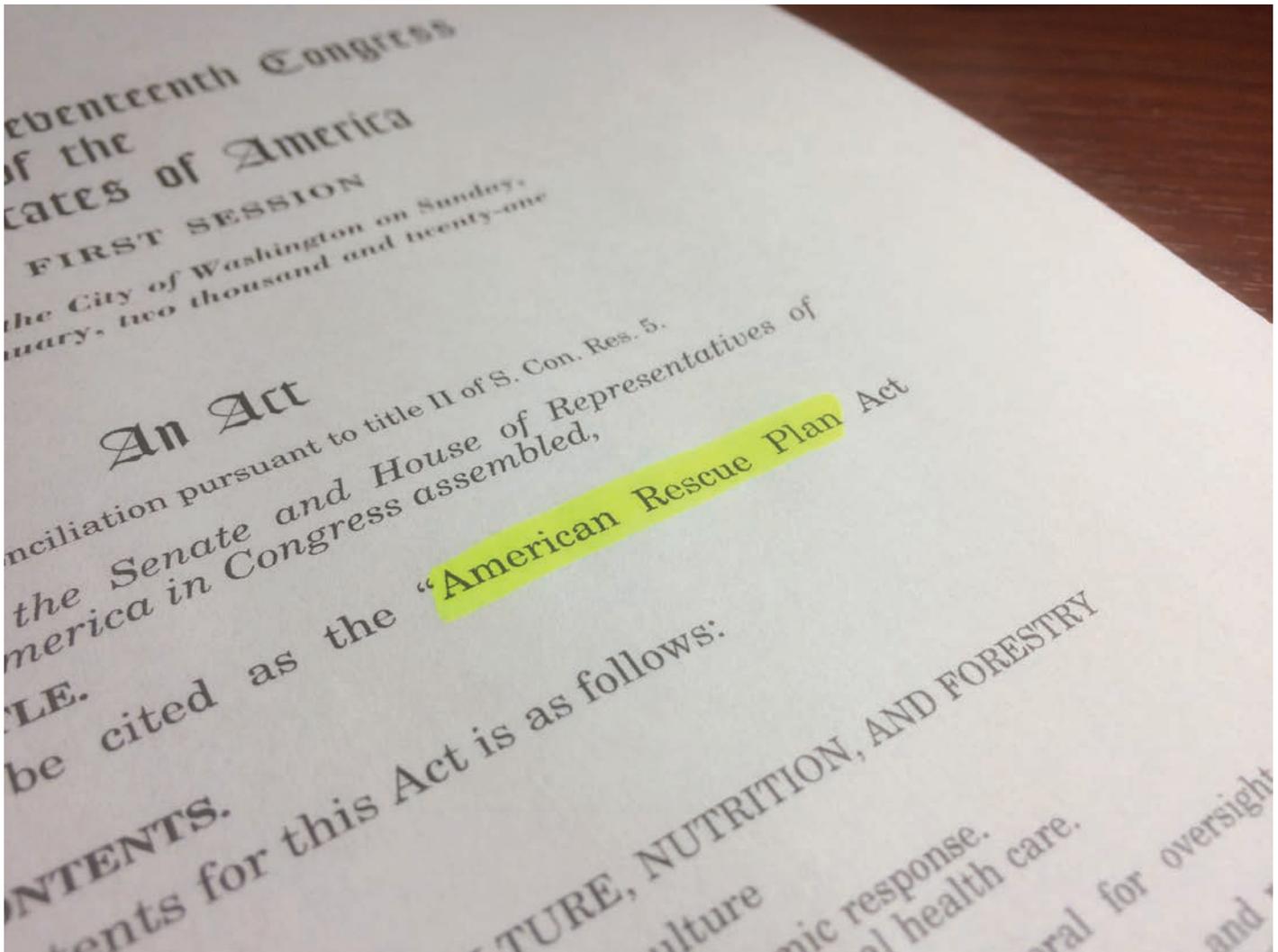
KEY FINDINGS AND RECOMMENDATIONS

The City, facing revenue losses because of the pandemic's impacts on tourism and local spending, used more than 95% of the first half of its ARPA allocation (\$194 million) to fill projected General Fund gaps in 2021 and 2022. The General Fund provides operating revenue for most City departments and services, as well as a handful of agencies that are outside of City control. It contains all City revenues, except those restricted to specific uses – such as federal grants and bond proceeds for capital improvements. The City sought to simplify its administration of the federal funds by appropriating the money to the fire and police departments' budgets. It then took General Fund revenue that otherwise would have gone to those departments and redirected it to other departments and agencies.

The City appropriated the relief funds under ARPA's most flexible expenditure category – revenue replacement. Federal rules limit the amount of ARPA dollars a government can spend under this category to the total amount of revenue the government loses between 2020 and 2024

due to the pandemic. The rules specify how governments should calculate their annual pandemic-related revenue loss during the four-year period. Because the calculation allows governments to assume that revenues would have grown fairly rapidly – at least 5.2% annually – without the pandemic, even governments that did not experience actual year-over-year declines can show revenue loss. Using the federal method, the City determined it lost a total of \$228 million in 2020 and 2021.

The City spent the ARPA dollars it appropriated to the police and fire departments. However, the projected General Fund gaps didn't materialize, primarily due to below-budget expenditures in 2021 and better-than-expected revenues in 2022. Therefore, the City ultimately did not need to spend the General Fund dollars it had redirected to other departments and agencies. Notably, in 2021, General Fund expenditures totaled just \$532 million – \$101.4 million (16%) under budget. Even if the City had not used any of the \$77.3 million in ARPA funds it appropriated in 2021, its General Fund revenue would have covered all expenditures and generated a \$25 million surplus.



It's too soon to determine if 2022 expenditures will be similarly under budget. However, based on collections thus far, the City recently increased its projection for sales tax revenue, raising total projected General Fund revenue to \$714 million – \$62 million higher than budgeted expenditures. Thus, even if the City spent every dollar it budgeted, it would still be able to put \$62 million toward increasing the General Fund balance under the current revenue projection. Or alternatively, it could have reduced its ARPA expenditures from \$110 million to \$48 million. This illustrates the challenges of forecasting revenue during a pandemic, paired with the conservative nature of municipal budgeting.

The City has estimated that the General Fund savings during the past two years has boosted the fund balance above \$200 million – about four times the pre-pandemic level. On December 1, the City Council approved the administration's request to designate \$100 million in the fund balance for emergencies. This increases the City's emergency financial cushion to about 19% of recurring General Fund revenues, which is in line with recommended guidelines. This places the City in a significantly stronger position to face future emergencies, while allowing it to direct the rest of the reserve growth to address high-priority needs.

However, any future expenditures the City finances with those reserves will be heavily attributable to its ARPA funds – and the public should watch closely how their elected leaders spend this one-time windfall.

The City sometimes fell short of providing sufficient information on its use of ARPA funds during the last two years, limiting public accountability. It did not always identify the specific expenditures – or fund balance increases – it planned to implement with the General Fund revenue made available by ARPA appropriations to the fire and police departments. This information would have let the public assess the City's priorities upfront, and the trade-offs it was making with the available revenue. The City has also not yet produced an accounting of the redirected General Fund revenue essential for understanding the true impact the ARPA dollars had on government operations, municipal services and reserve growth.

With its finances now in a stronger position, the City has pivoted its strategy for spending remaining ARPA funds. The City's 2023 General Fund budget does not rely on relief dollars to fill projected gaps. Although it has budgeted \$14 million from its fund balance for this purpose in 2023, this is much less than the projected gaps the City filled with ARPA in 2021 and 2022.

And instead of routing ARPA dollars through the fire and police departments as it did in 2021 and 2022, the City allocated a total of \$124.2 million to multiple departments to administer specific initiatives. This should make the funds' ultimate use easier to track in the City's operating budget. However, the City's process for approving the appropriations raises transparency concerns. Policymakers did not provide the public with the full details of the spending plan or advance notice of their decision to adopt the appropriations along with the rest of the 2023 budget.

Regardless of the method the City uses to appropriate ARPA funds, it should take steps to ensure transparency and accountability for the funds' use as BGR urged in its 2021 report [*Handle with Care: Public Planning and Accountability Must Guide Spending of Federal Relief Funds*](#). The City should:

- Provide the public with sufficient details on the components and objectives of spending plans and regular updates on actual spending and outcomes.
- Clearly identify any impacts of these one-time funds on the City's General Fund budget (including initiatives adopted in the 2023 budget), such as creating recurring expenses that will eventually require additional revenue or enabling further fund balance growth.
- Compile this information in easily accessible reports so the public does not have to review multiple documents or presentations to assemble the complete picture of the City's ARPA use and its results.

The City Council recently adopted a 2023 budget that deploys \$51 million from the General Fund balance to new initiatives, and the administration has outlined plans for using another approximately \$100 million for specific expenditures during the next three years. ARPA played a crucial role in building the fund balance, and the same recommendations for ensuring transparency and accountability apply to these one-time dollars. As with the ARPA funds, the City should provide the public with the full details of the components of all fund balance use plans, including the objectives of individual initiatives, before it begins spending. It should report regularly to the public on actual fund balance usage during the three-year period and the outcomes of those investments. And if it intends to use money for recurring expenses, it should identify how it plans to cover those costs in future years.



INTRODUCTION

The \$1.9 trillion American Rescue Plan Act (ARPA) that Congress approved in March 2021 has delivered unprecedented federal funding to spur state and local recovery from the COVID-19 pandemic’s economic, fiscal and health effects. The act includes more than \$300 billion in direct relief to states, parishes, counties and municipalities.¹ ARPA allocated \$388 million to the City of New Orleans (City) – nearly \$1,000 per resident. ARPA gives recipient governments substantial flexibility to decide how to spend the money, creating a rare opportunity for the City to weather the pandemic’s budgetary impacts and address local public service, infrastructure and community needs without burdening its taxpayers or depleting financial reserves. BGR released a report entitled [Handle With Care](#) a few months after ARPA’s passage to provide policymakers with guidance on planning and oversight to realize the full potential of this one-time money.²

The City’s ARPA expenditures during the past two years have had far-reaching impacts on its finances. Specifically, the expenditures have allowed the City to save a significant amount of revenue from its own discretionary funding streams and build its financial reserves with

the surplus. The City maintains these reserves, also called its General Fund balance, to address budget uncertainty and emergencies. Building General Fund reserves while spending relief dollars is not prohibited under ARPA rules.

However, federally required public reporting on ARPA use and the City’s own reporting focus only on direct ARPA expenditures. Therefore, they do not capture the important broader financial effects of the ARPA funds.

BGR’s report enhances public oversight of the relief funds by providing a more comprehensive picture of ARPA’s impacts on the City’s finances and budget priorities. In addition, the report identifies gaps in reporting that make it difficult for the public to follow the money and hold City officials accountable for their funding decisions.

BGR has also launched an online dashboard that supplements this report with interactive data on ARPA-influenced budget trends for the City and its departments. [Click here to view the dashboard.](#)

BACKGROUND

OVERVIEW OF ARPA FUNDS FOR LOCAL GOVERNMENTS

The federal government determined ARPA allocations for urban parishes, counties and larger municipalities based on population and various measures of poverty used to calculate allocations for the Community Development Block Grant program. The City’s \$388 million allocation was by far the largest ARPA allocation to a local government in Louisiana.³

Local governments can use the funds to:

- Respond to the public health emergency or its negative economic impacts, which may involve assistance to households, small businesses and non-profits, or aid to impacted industries
- Provide supplemental pay for employees (public or private sector) who performed essential work during the pandemic
- Replace revenue to provide government services to the extent that the pandemic reduced their revenue
- Invest in water, sewer, stormwater management and broadband infrastructure⁴

Federal rules establish seven ARPA expenditure categories, shown in Table 1, that align with the allowed

uses. These rules detail criteria and definitions that governments must apply when determining the eligibility of individual expenditures under each category. Local governments are prohibited from using ARPA funding to repay debt, shore up underfunded employee pension plans, replenish reserve funds or pay legal settlements.

ARPA’s revenue replacement category is the most flexible, with few restrictions beyond those just mentioned. Under this category, local governments can use ARPA funds for programs, services, salaries, equipment, technology and any type of infrastructure or capital project. Federal rules limit the amount of ARPA dollars a government can spend under this category to the total amount of revenue the government loses between 2020 and 2024 due to the pandemic. The rules specify how governments should calculate their annual pandemic-related revenue loss during the four-year period. Because the calculation allows governments to assume that revenues would have grown fairly rapidly – at least 5.2% annually – without the pandemic, even governments that did not experience actual year-over-year declines can show revenue loss.⁵

As Table 1 shows, revenue replacement accounted for almost half of the \$31.7 billion of ARPA funds that larger cities and counties had budgeted through March 2022.

TABLE 1. BREAKDOWN OF BUDGETED ARPA FUNDS FOR CITIES AND COUNTIES WITH POPULATIONS GREATER THAN 250,000 (\$ in billions)

| Federal ARPA Expenditure Category | Budgeted ARPA Funds | Percent of Total |
|--|---------------------|------------------|
| Revenue Replacement | \$14.7 | 46.6% |
| Negative Economic Impacts - Community Support | \$7.3 | 23.1% |
| Public Health - Community Support | \$5.1 | 16.0% |
| Water, Sewer and Broadband Infrastructure | \$1.7 | 5.3% |
| Public Health and Negative Economic Impacts - Public Sector Capacity Support | \$1.3 | 4.1% |
| Administrative | \$0.8 | 2.5% |
| Supplemental Pay for Essential Workers | \$0.8 | 2.4% |
| Total | \$31.7 | 100% |

BGR analysis of federal ARPA expenditure report data for the quarter ending March 31, 2022.

Governments received their ARPA allocation in two installments: half in May or June 2021 and half approximately one year later. They have until the end of 2024 to obligate the money, and two more years after that to finish spending it.

Federal rules require cities and counties with a population greater than 250,000, such as New Orleans, to submit quarterly ARPA expenditure reports and annual performance reports. These updates include details on ARPA-funded project plans, outcomes and measures taken to ensure outcomes are achieved in an effective, efficient and equitable manner.⁶ The local governments also must post the performance reports on their website. The federal government may require repayment of funds if it determines they were used in violation of ARPA's specifications.

THE CITY'S GENERAL FUND AND BUDGET PROCESS

The General Fund is the City's primary operating fund. It accounts for all general government functions, except those which the City manages in separate funds for accounting purposes, such as federal grants and capital improvements.⁷ The General Fund receives the bulk of the City's property and sales tax revenues and all revenue from service charges, permits, licenses and fines. It provides operating revenue for most City departments and services, as well as a handful of agencies that are outside of City control, such as the offices of the Orleans Parish Sheriff (for the jail), the District Attorney and Public Defender.

The City's economist develops projections for annual General Fund revenue, which must be adopted by a committee of City officials and an outside expert.⁸ The mayor's administration proposes each department's and agency's budget for personnel and other operating expenditures of General Fund revenue as well as revenue from other sources. But the City Council ultimately must approve them.

Both the administration and council play key roles in the City budget process, as shown in Chart A. The administration presents the proposed budget to the council by November 1.⁹ The council can amend the proposal but must adopt a budget by December 1.¹⁰ The City's budget year starts on January 1 and runs through December 31. The administration and council members may propose changes to the budget throughout the year, but the council must approve all amendments. General Fund appropriations expire at the end of the year and any revenues not spent, or not encumbered to be spent by a purchase order, contract or other commitment, roll into a centralized reserve fund, also called the General Fund balance.¹¹

The City maintains this reserve to address budget uncertainty and emergencies. For example, the City typically must pay for disaster-related expenses before seeking FEMA reimbursement. The reserve also gives financial markets an indicator of the soundness of the City's financial practices. This affects the City's credit rating and, in turn, borrowing costs for taxpayers.

CHART A. KEY POINTS IN THE CITY'S GENERAL FUND BUDGETING PROCESS

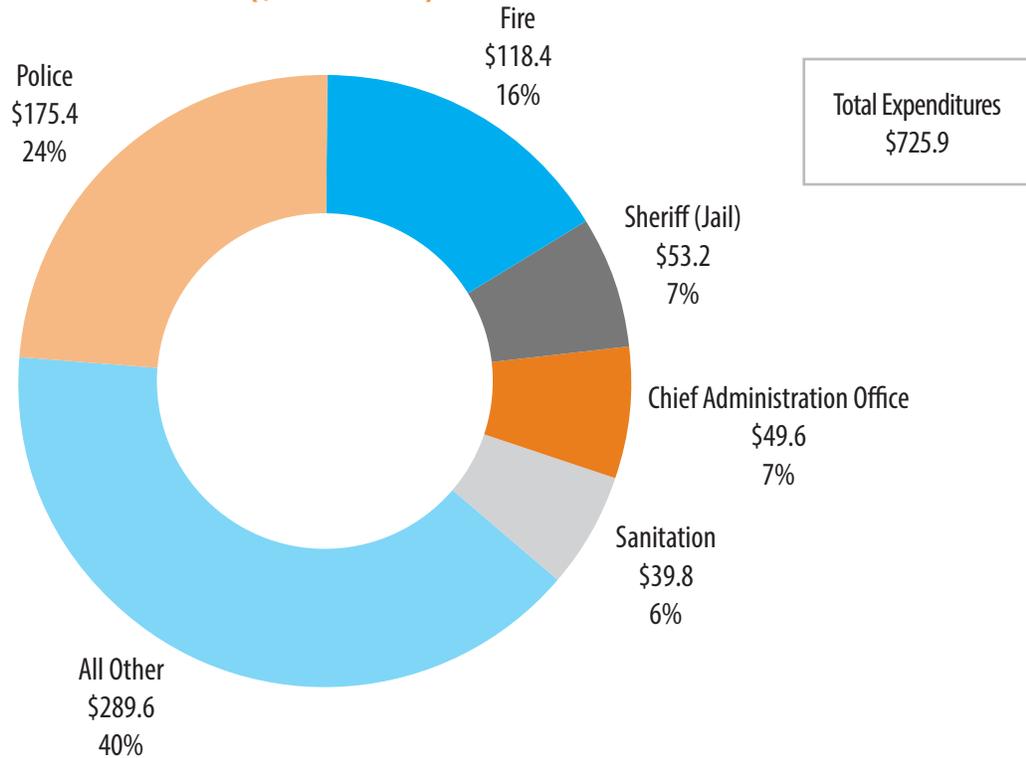


Source: City of New Orleans Home Rule Charter Secs. 3-115, 6-102, 6-103 and 6-105.

Chart B summarizes the City’s adopted 2020 General Fund budget – the last budget it adopted before the onset of the pandemic. The chart shows the departments and agencies that accounted for the five largest General Fund allocations.¹² For a more detailed analysis of the

City’s budget and pre-pandemic revenue and expenditure trends, see BGR’s 2019 report, [A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities](#).

CHART B. ADOPTED 2020 CITY GENERAL FUND BUDGET EXPENDITURES (\$ in millions)



BGR analysis of the City of New Orleans’ 2020 adopted budget.

THE CITY’S INITIAL APPROACH TO ARPA SPENDING

Since ARPA’s passage, City administration officials have stressed the need to use the first \$194 million of New Orleans’ allocation to make up for pandemic-related declines in sales tax revenue and other revenue streams. Using the revenue loss calculation methodology specified in federal rules, the City determined it lost \$114 million in 2020 and the same amount in 2021 – the first two of four years for which ARPA measures recipients’ fiscal losses.¹³ And while the City recently revised its revenue forecast upward, it has consistently projected that General Fund revenue will not reach pre-pandemic expectations until 2025.

City officials said it was necessary to supplement the City’s General Fund revenue with ARPA funds to deliver appropriate levels of critical services. In addition, they said using ARPA funds for municipal services will allow the City to reserve more General Fund revenue for navigating future economic uncertainties and maintaining a satisfactory credit rating. While federal rules do not allow governments to put ARPA dollars directly into reserve funds, they also do not expressly prohibit recipients from using ARPA to free up other revenue sources that can build reserves. This could occur if a government used ARPA funds even when it had sufficient revenue from other sources to cover the expenditures.¹⁴

However, the City’s primary method for appropriating the first half of its ARPA funds has made it difficult to

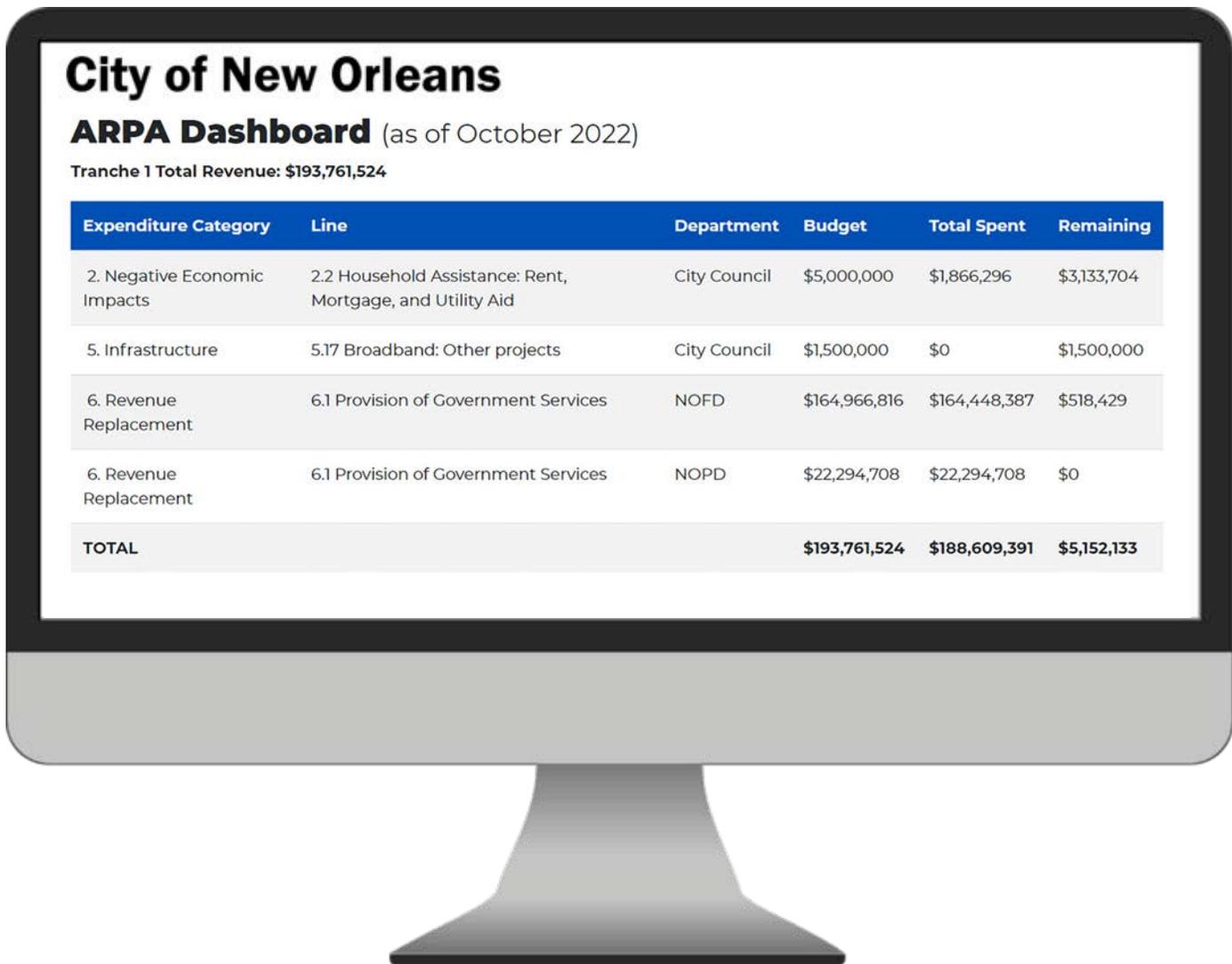
see how the relief dollars enabled the City to fill projected General Fund budget gaps and bolster financial reserves. The City’s method treats the ARPA money as grant funding – which is separate from the General Fund. Under the revenue replacement category, the City allocated most ARPA dollars to the departments that account for the two largest shares of General Fund expenditures: police and fire. The \$165 million of ARPA funds appropriated to the fire department during the last two years allowed the City to reduce the department’s General Fund allocations by a similar amount and use the revenue for other departments and agencies – or for building the City’s financial reserves. Thus, the ARPA appropriations to the fire department indirectly supported expenditures across City government, yet the federal dollars do not appear in these departments’ budgets. Similarly, the \$22.3 million ARPA appropriation to the police department freed up General Fund revenue that the City eventually redirected to other purposes.

Administration officials say this method for budgeting the ARPA money provides important administrative advantages. It allows for clear tracking of expenditures and easy monitoring to ensure expenditures comply with federal regulations. In addition, spreading ARPA funds across more departments could consume considerably more time for preparing federal reports, which require individual plans for distinct ARPA-supported projects. The City took this approach after reviewing it with its law department and outside counsel. However, the City’s budgeting

process for ARPA funds may confuse residents who want to know what the City prioritized with the federal relief funds it designated for revenue replacement.

Further, the City’s method, coupled with the federal government’s public reporting requirements, makes it difficult for residents to see the full picture of the City’s ARPA use. That is because the federal government only requires reports for expenditures directly funded with ARPA dollars. Therefore, in New Orleans’ case, the reports discuss using ARPA to support police and fire department operations, but not other departments’ operations and programs that ARPA indirectly supported by freeing up General Fund revenue from the fire and police departments.¹⁵

In an attempt to increase transparency and accountability, the City Council passed an ordinance in May 2022 directing the administration to create an online dashboard that tracks ARPA expenditures, including the federal category under which each expenditure falls, the department or agency overseeing the expenditures, and outcomes.¹⁶ But, just as with the federal reporting, the City’s dashboard – shown on page 13 – presents only the direct appropriations to the fire and police departments and two City Council programs. Therefore, it does not provide the public with the information necessary to understand ARPA’s real impact on funding for other departments or the City’s finances. Nor does it include actual outcomes, such as improved service levels, driven by the funding.



The illustration includes a screenshot of the City of New Orleans’ ARPA Dashboard, taken by BGR on December 13, 2022. It provides only the direct appropriations of the federal relief funds received in 2021, and not the ultimate distribution of General Fund revenue freed up from the fire department. The dashboard is available [here on the City’s website](#).

ANALYSIS

Given the absence of comprehensive reporting on the first \$194 million of ARPA funds, BGR analyzed the City budget to identify more clearly how the City used the dollars to supplement its General Fund and the ultimate fiscal outcomes. BGR examined budgets, budget amendments, City presentations and other documents related to the ARPA funds, and it sought explanations from City administrators. After providing an overview of the City’s direct ARPA appropriations in 2021 and 2022, this section explains how the appropriations affected budgeted General Fund expenditures and why their effects on actual spending were different. It then provides an overview of the City’s plans for using the second half of its ARPA allocation and the General Fund reserves the City built by spending the first half of its ARPA dollars. The analysis concludes with a discussion of concerns related to public transparency.

Table 2 breaks down the City’s ARPA dashboard data by budget year. The City has appropriated all \$193.8 million of the ARPA funds it received in 2021. It directed 85% to the fire department, with the rest split among the police department and two City Council programs, one for residential utility bill relief and another for a public Wi-Fi internet initiative. As of October 2022, the City has spent almost all the \$187.3 million it appropriated to the fire and police departments, but less than half of the appropriation for the utilities fund and none of the funding allocated to the Wi-Fi program. Because the council programs are not part of the City’s General Fund budget and the City has not categorized them under ARPA’s revenue replacement provision, BGR did not include them in its further analysis.¹⁷ See the sidebar on page 15 for an overview of the appropriations for the programs.

TABLE 2. CITY OF NEW ORLEANS ARPA APPROPRIATIONS AND EXPENDITURES (\$ millions)

| | Appropriated | Spent | Remaining |
|--|----------------|----------------|--------------|
| Fire Department, 2021 | \$77.3 | \$77.3 | \$0.0 |
| Subtotal - 2021 Budget | \$77.3 | \$77.3 | \$0.0 |
| Fire Department, 2022 | \$87.7 | \$87.2 | \$0.5 |
| Police Department, 2022 | \$22.3 | \$22.3 | \$0.0 |
| City Council Utilities Fund* | \$5.0 | \$1.9 | \$3.1 |
| City Wi-Fi Program | \$1.5 | \$0.0 | \$1.5 |
| Subtotal - 2022 Budget | \$116.5 | \$111.3 | \$5.2 |
| Total - ARPA Funding Received in 2021 | \$193.8 | \$188.6 | \$5.2 |

* The City Council initially adopted the appropriation for the Utilities Fund in an amendment to the City’s 2021 operating budget, but subsequently amended it into the 2022 budget.

Source: City of New Orleans’ ARPA Dashboard as of October 2022 and 2022 adopted operating budget.

ARPA Appropriations for Public Wi-Fi Program and Utility Bill Relief

City Council members added two ARPA appropriations to the administration's 2022 budget proposal: \$5 million for a special fund that supports gas utility bill assistance programs and other initiatives aimed at reducing residents' gas utility costs and \$1.5 million for a public Wi-Fi internet program. The City did not classify either appropriation under ARPA's revenue replacement category. Instead, it included utility fund expenditures in the category for projects that address the pandemic's negative economic impacts, and Wi-Fi program expenditures in the infrastructure category.

The council seeded the Utility Support Fund, which it had created at the end of 2021, with the \$5 million ARPA appropriation. To date, the City has used \$1.9 million to help eligible residents pay past-due gas bills.* The council has not yet identified specific expenditures for the remaining \$3.1 million. It hopes to identify other revenue sources so the

Utility Support Fund can continue assisting households after the ARPA appropriation is exhausted.

The council member who sought the ARPA appropriation for Wi-Fi intended for it to spur a citywide public Wi-Fi program that would help close the City's digital divide.** However, voters did not re-elect that council member, and the current council members have not decided whether to pursue the program or reappropriate the funding to another purpose.

* New Orleans City Council Resolution No. R-22-144, adopted March 24, 2022

** New Orleans City Council Press Release, "[Councilmember Brossett Passes Funding for Public WiFi and Proposes \\$5 Million Allocation to Relocate Gordon Plaza Residents](#)," December 1, 2021.

TRACKING \$77.3 MILLION IN 2021 ARPA APPROPRIATIONS

Just a few months before the onset of the pandemic in March 2020, the City Council adopted a General Fund expenditure budget for that year totaling \$725.9 million. BGR refers to the 2020 adopted budget as the "pre-pandemic baseline" for this report's analysis of ARPA's impacts on the City's finances.

In response to pandemic-driven revenue declines, the City began furloughing all employees with salaries above \$35,000 in October 2020 for one day each two-week pay period. This meant that the employees worked approximately two fewer days each month, and their pay was reduced accordingly. The City continued this cost-saving measure in the 2021 General Fund budget to offset projected revenue shortfalls by about \$26 million. Additional cuts reduced budgeted General Fund expenditures to \$633.8 million – approximately \$92 million (13%) less than the pre-pandemic baseline. The 2021 budget also relied on \$10.8 million from the General Fund balance to close the gap between the reduced expenditure level and \$623 million in projected revenue.

The City ended furloughs for public safety workers in January 2021 and, buoyed by the promise of federal relief, ended them for all other employees immediately after Congress passed ARPA two months later. This move

increased personnel costs. Then in June, the City paid employees retroactively for the six days they were furloughed in 2020 and the days they had been furloughed during the first months of 2021, further adding to unbudgeted expenses.¹⁸

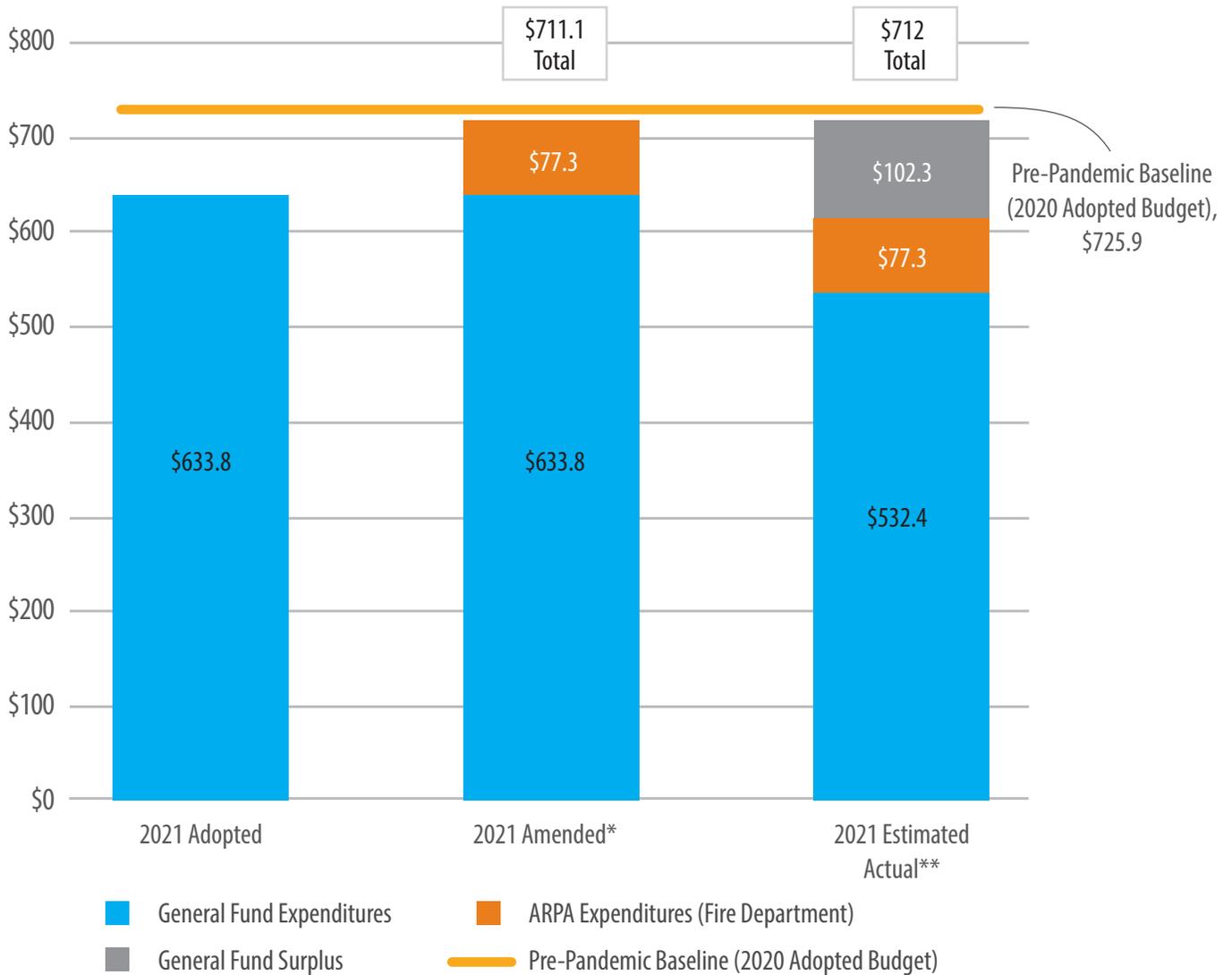
The City administration proposed budget amendments in September 2021 that appropriated ARPA funds to the fire department and redirected the department's General Fund revenue to pay for the furlough costs and additional expenditures the City deemed necessary to restore or improve municipal service levels. The City Council adopted the amendments, with limited revisions, in November 2021.

Chart C shows how the City appropriated \$77.3 million in ARPA funds to the fire department in 2021 budget amendments while reducing the department's General Fund allocation by \$66.6 million. Overall, the fire department's 2021 amended budget wound up about \$1 million above its pre-pandemic baseline.

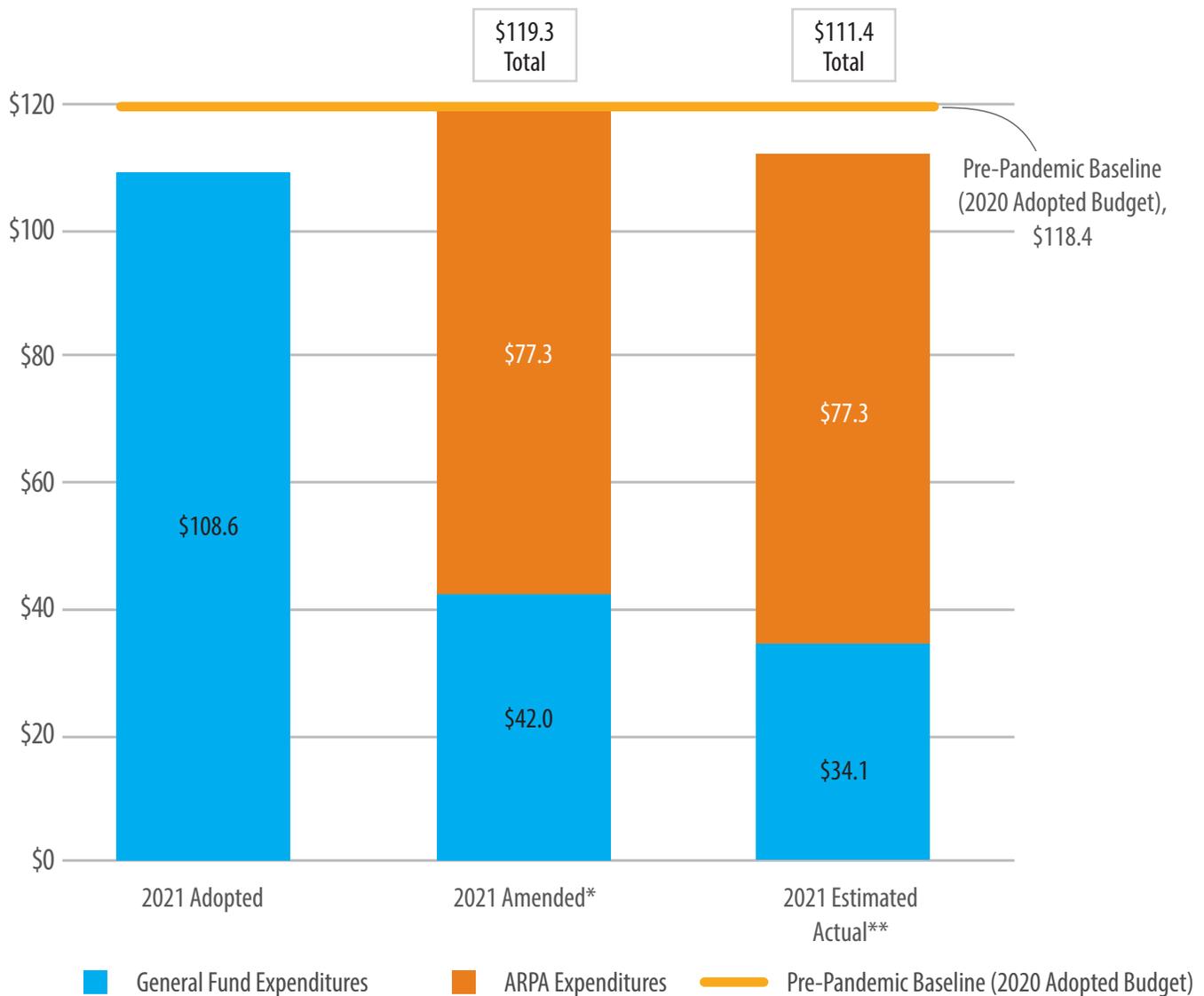
The City then increased General Fund allocations to other departments and agencies using the dollars cut from the fire department, offsetting most of their initial 2021 budget cuts.¹⁹ All told, the addition of ARPA funds allowed the City to budget \$711.1 million for expenditures typically covered by the General Fund, about \$14.8 million (2%) shy of the pre-pandemic level.

CHART C. GENERAL FUND AND ARPA BUDGETED EXPENDITURES FOR 2021, COMPARED TO PRE-PANDEMIC BASELINE

CITY OF NEW ORLEANS GENERAL FUND
(\$ in millions)



NEW ORLEANS FIRE DEPARTMENT (\$ in millions)



* The 2021 amended budget does not reflect isolated amendments that the City Council passed outside of the comprehensive November budget adjustment.

** Estimated and unaudited

BGR analysis of City of New Orleans adopted budgets, 2020-2021, City of New Orleans proposed 2023 budget, and New Orleans City Council, Ord. 28,823 M.C.S. and 28,824 M.C.S., adopted November 4, 2021.

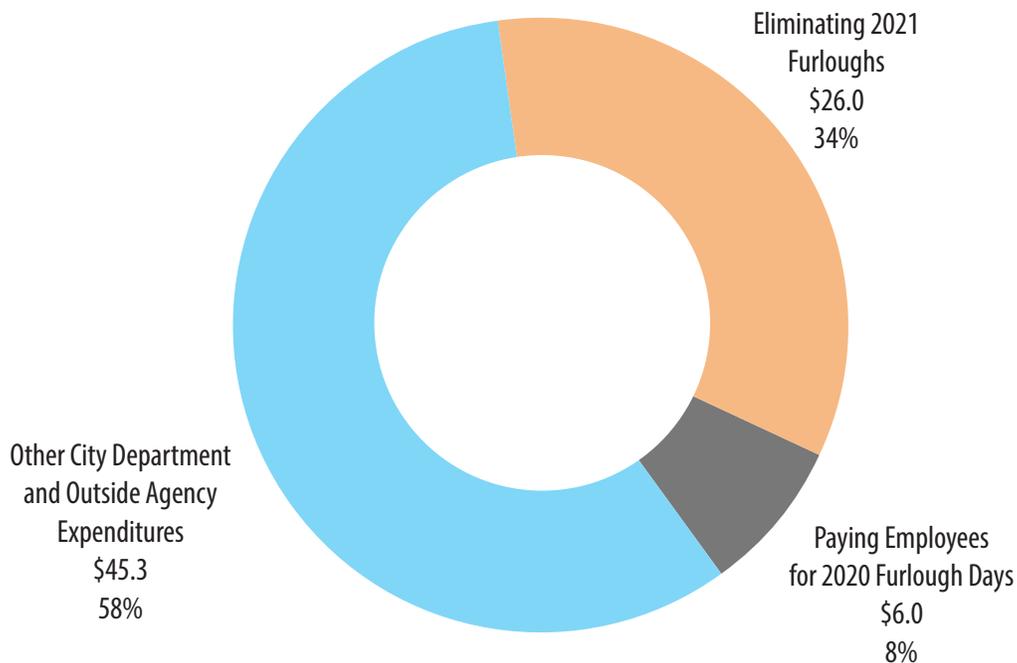
However, as Chart C also shows, the City ultimately spent significantly less in 2021 than it budgeted. Its actual combined General Fund and ARPA expenditures of \$609.7 million were even less than it had budgeted for the General Fund alone. While it spent the entirety of the fire department’s ARPA appropriation, General Fund expenditures totaled only \$532.4 million – \$101.4 million (16%) under budget. This indicates that some of the expenditures planned with the revenue redirected from the fire department, as well as some of the expenditures planned in the initial 2021 budget, did not happen.

On the other hand, actual General Fund revenue for 2021 was \$634.7 million – \$11.7 million higher than initially budgeted. This made the \$10.8 million budgeted use of fund balance ultimately unnecessary. The slight revenue gain above the budgeted fund balance allocation, combined with the \$101.4 million expenditure reduction, led to a substantial \$102.3 million surplus to grow the City’s

reserves. Even if the City had not used any ARPA funding in 2021, its General Fund revenue would have covered all expenditures and generated a \$25 million surplus.²⁰

There are a few key reasons why the additional expenditures the City budgeted with the \$77.3 million it redirected from the fire department – broken down in Chart D by type and shown in Table 3 by department – ultimately resulted in a surplus. To start with, the City calculated the personnel expenditures required for eliminating employee furloughs based on total budgeted positions. This overstated the actual cost because many of the positions remained vacant during the year. Based on payroll through mid-August 2021, which included back pay for the days employees had been furloughed, the City projected a \$10.8 million year-end deficit for General Fund personnel expenditures.²¹ However, the budget amendments included \$32 million to address furlough costs.

CHART D. HOW THE CITY BUDGETED \$77.3 MILLION FREED UP BY FIRE DEPARTMENT ARPA FUNDING TO OTHER 2021 GENERAL FUND PURPOSES (\$ in millions)



BGR analysis of New Orleans City Council, Ord. 28,824 M.C.S., adopted November 4, 2021, and documents provided by the City of New Orleans.

TABLE 3. BUDGETED AND ACTUAL GENERAL FUND EXPENDITURES BY DEPARTMENT, 2021
(\$ in millions)

| | 2021 Adopted Budget | 2021 Amended Budget* | \$ Increase Enabled by ARPA | % Increase Enabled by ARPA | 2021 Estimated Actual** | Over (Under) Amended Budget |
|--|---------------------|----------------------|-----------------------------|----------------------------|-------------------------|-----------------------------|
| Police | \$164.2 | \$181.3 | \$17.1 | 10.4% | \$146.5 | \$(34.8) |
| Fire*** | \$108.6 | \$119.3 | \$10.7 | 9.8% | \$111.4 | \$(8.0) |
| Chief Administrative Office | \$40.6 | \$48.0 | \$7.5 | 18.4% | \$35.4 | \$(12.6) |
| Law | \$4.8 | \$12.0 | \$7.2 | 150.6% | \$5.9 | \$(6.1) |
| Orleans Parish Sheriff's Office (Jail) | \$50.0 | \$57.1 | \$7.1 | 14.1% | \$50.0 | \$(7.1) |
| Sanitation | \$31.6 | \$35.3 | \$3.7 | 11.5% | \$34.5 | \$(0.8) |
| Health | \$18.7 | \$22.2 | \$3.5 | 18.7% | \$17.5 | \$(4.7) |
| Finance | \$20.1 | \$22.9 | \$2.8 | 13.7% | \$17.6 | \$(5.3) |
| Miscellaneous | \$26.3 | \$28.5 | \$2.2 | 8.6% | \$20.4 | \$(8.1) |
| Mayor's Office**** | \$20.5 | \$22.5 | \$2.1 | 10.1% | \$41.7 | \$19.1 |
| Property Management | \$8.3 | \$9.9 | \$1.6 | 19.4% | \$9.5 | \$(0.4) |
| Public Works | \$27.2 | \$28.8 | \$1.6 | 5.8% | \$23.7 | \$(5.2) |
| District Attorney | \$5.4 | \$6.8 | \$1.4 | 25.6% | \$6.8 | - |
| Safety and Permits | \$6.4 | \$7.8 | \$1.4 | 21.4% | \$5.8 | \$(1.9) |
| Municipal and Traffic Court | \$6.1 | \$7.2 | \$1.1 | 18.1% | \$7.1 | \$(0.0) |
| NORD Commission | \$12.1 | \$13.2 | \$1.1 | 8.8% | \$10.0 | \$(3.1) |
| Parks and Parkways | \$9.4 | \$10.4 | \$1.1 | 11.2% | \$8.6 | \$(1.8) |
| Criminal District Court | \$5.5 | \$6.6 | \$1.0 | 18.8% | \$6.6 | - |
| Coroner's Office | \$2.6 | \$3.3 | \$0.7 | 26.6% | \$3.4 | \$0.1 |
| City Council | \$8.9 | \$9.6 | \$0.7 | 7.7% | \$9.1 | \$(0.4) |
| City Planning Commission | \$1.5 | \$1.9 | \$0.4 | 27.5% | \$1.3 | \$(0.6) |
| Civil Service | \$2.4 | \$2.8 | \$0.4 | 15.1% | \$2.4 | \$(0.4) |
| Juvenile Court | \$2.2 | \$2.5 | \$0.3 | 14.2% | \$2.4 | \$(0.0) |
| Juvenile Justice Intervention Center | \$7.2 | \$7.5 | \$0.3 | 3.6% | \$5.6 | \$(1.8) |
| Public Defender | \$3.4 | \$3.7 | \$0.3 | 7.5% | \$3.7 | - |
| Historic District Landmarks Commission | \$0.7 | \$0.9 | \$0.2 | 25.4% | \$0.7 | \$(0.1) |
| Registrar of Voters | \$0.3 | \$0.4 | \$0.1 | 22.7% | \$0.3 | \$(0.1) |
| Vieux Carré Commission | \$0.3 | \$0.4 | \$0.1 | 21.0% | \$0.4 | \$(0.0) |
| Mosquito Control Board | \$2.2 | \$2.2 | \$0.0 | 1.7% | \$2.4 | \$0.2 |
| Office of Inspector General | \$3.5 | \$3.5 | \$0.0 | 0.8% | \$2.8 | \$(0.7) |
| Office of Independent Police Monitor | \$1.0 | \$1.0 | \$0.0 | 1.2% | \$0.9 | \$(0.1) |
| Ethics Review Board | \$0.3 | \$0.3 | \$0.0 | 0.7% | \$0.1 | \$(0.1) |
| General Fund Debt Service | \$26.1 | \$26.1 | \$0.0 | 0.0% | \$9.7 | \$(16.4) |
| New Orleans Museum of Art | \$0.3 | \$0.3 | \$0.0 | 0.0% | \$0.3 | \$(0.0) |
| Office of Community Development | \$0.3 | \$0.3 | \$0.0 | 0.0% | \$0.0 | \$(0.3) |
| Clerk of Criminal District Court | \$4.4 | \$4.4 | \$0.0 | 0.0% | \$4.5 | \$0.2 |
| Judicial Retirement | \$0.4 | \$0.4 | \$0.0 | 0.0% | \$0.4 | \$0.0 |
| TOTAL | \$633.8 | \$711.1 | \$77.3 | 12.2% | \$609.7 | \$(101.4) |

* The 2021 amended budget does not reflect isolated amendments that the City Council passed outside of the comprehensive November budget adjustment.

** Estimated and unaudited

*** Includes the fire department's General Fund and ARPA expenditures.

**** Actual expenditures for the mayor's office were significantly higher than the amended budget due to Hurricane Ida expenses covered by the mayor's office of homeland security.

BGR analysis. Numbers may not add due to rounding.

The City also did not implement all of the budgeted \$45.3 million in other department and outside agency expenditures enabled by the ARPA appropriation, leading to additional General Fund surplus. As detailed in an October 2021 presentation the administration gave to the City Council when it was seeking the council's approval of the budget amendments, planned expenditures included restoration of certain services and police and fire overtime hours, additional staff, new programs and program expansions, information technology, equipment and vehicles.²² Interestingly, while one of the largest planned expenditures – \$5.8 million for legal settlements, included in the law department's budget – is not an eligible use of ARPA funds, the City's method of appropriating ARPA funds allowed it to redirect General Fund revenue to this purpose. And while the planned expenditures spanned most departments, Table 3 shows there were significant differences in the impact the additional funding had on each department.

Administration officials told BGR that several of the budgeted expenditures for additional staff did not occur because the City was unable to fill the positions by the end of the year. The officials also said that the City was unable to fully implement other planned expenditures in the two months remaining in 2021 after the City Council approved the amendments.

TRACKING \$110 MILLION IN 2022 ARPA APPROPRIATIONS

The City entered 2022 with a slightly better outlook for General Fund revenue, anticipating \$652.1 million in its adopted budget, a 3% increase over the 2021 budget. Its expectations for an improving economy drove increas-

es in budgeted sales and hotel tax revenue, but the gains were partially offset by projected reductions in property tax revenue. The budget did not include any use of fund balance as it had the previous year. And as Chart E shows, the 2022 budget continued to substitute ARPA dollars – \$87.7 million – for General Fund revenue to fund the fire department, freeing up the revenue for expenditures across departments and outside agencies.

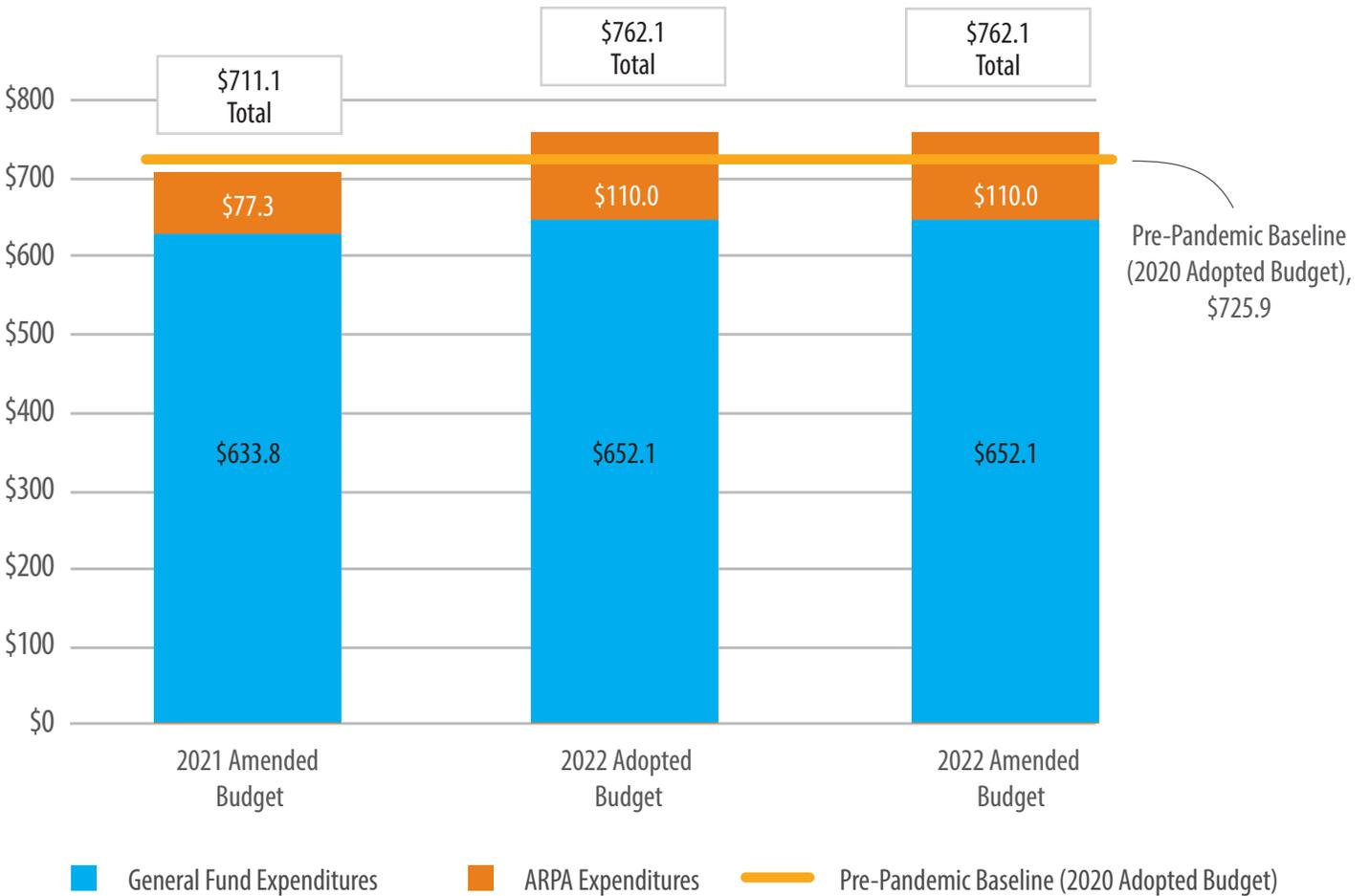
As originally budgeted, this revenue helped maintain the initiatives, staffing levels and hours, and funding for outside agencies included in the 2021 amended budget. It also allowed the City to pursue new spending, such as adopting a \$15-per-hour minimum wage for all employees, a funding increase for the public defender's office, additional staff positions in multiple departments, a pre-trial monitoring program for juvenile defendants and a "right to counsel" program to fund legal representation for residents facing eviction.

In addition to the \$87.7 million ARPA appropriation to the fire department, the budget initially appropriated \$22.3 million in ARPA funding to the police department without reducing the department's General Fund allocation from its pre-pandemic level. However, as Chart E also shows, budget amendments subsequently reduced the police department's General Fund allocation from \$176.2 to \$147.2 million and redirected the \$29 million to other expenditures.

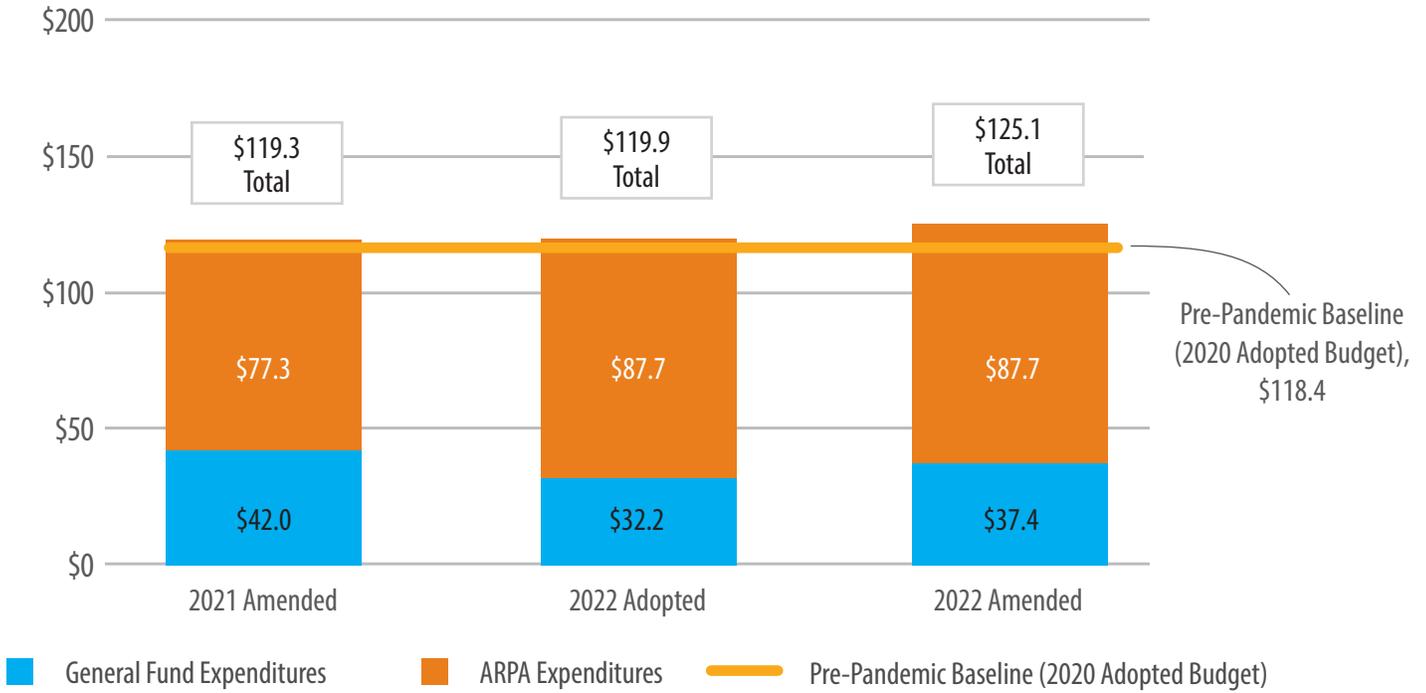
The ARPA appropriations to both departments raised total budgeted expenditures typically included in the General Fund to \$762.1 million in 2022, \$36.2 million (5%) higher than the pre-pandemic baseline of \$725.9 million.

CHART E. GENERAL FUND AND ARPA BUDGETED EXPENDITURES FOR 2021 AND 2022, COMPARED TO PRE-PANDEMIC BASELINE

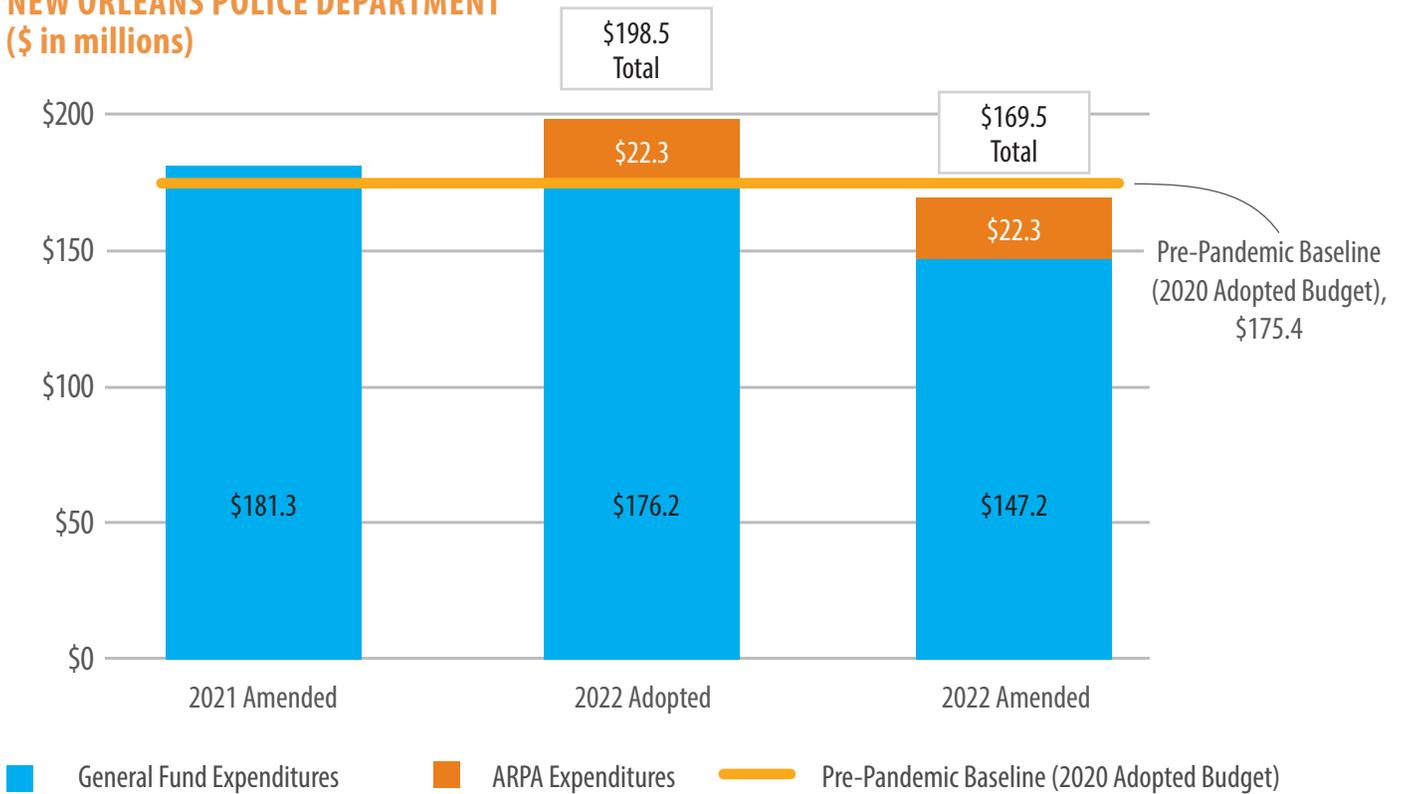
CITY OF NEW ORLEANS GENERAL FUND
(\$ in millions)



NEW ORLEANS FIRE DEPARTMENT
(\$ in millions)



NEW ORLEANS POLICE DEPARTMENT
(\$ in millions)



Total 2022 ARPA expenditures do not include the \$6.1 million the City Council appropriated to programs outside of the General Fund. The 2021 and 2022 amended budgets do not reflect isolated amendments that the City Council passed outside of the comprehensive November 2021 and September 2022 budget adjustments, respectively. The chart does not include estimated actual 2021 expenditures because the 2022 budget was adopted several months before those figures were available.

BGR analysis of City of New Orleans adopted budgets, 2020-2022, New Orleans City Council, Ord. 28,823 M.C.S. and 28,824 M.C.S., adopted November 4, 2021, New Orleans City Council, Ord. 29,168 M.C.S., adopted September 15, 2022 and New Orleans City Council, Ord. 29,168 M.C.S., adopted November 17, 2022.



With the year not yet over, it isn't possible to compare budgeted and actual 2022 expenditures. However, the budget amendments the City Council adopted in the fall of 2022 show that the City has made significant changes from its initial spending plan. While the amendments did not alter the General Fund budget's overall level, they shifted \$40.1 million between, and in a few cases within, departments to fund new priorities, including:

- Bonus pay (5%) for all City employees to help offset the impacts of inflation (\$9.9 million)
- Waste transfer station operations, higher sanitation contract costs and other sanitation initiatives (\$9.8 million)
- New City vehicles and police cars (\$6.4 million)

- Higher vehicle repair and maintenance costs (\$2.8 million)
- Additional parking enforcement costs to cover higher ticket volume (\$2.6 million)
- Additional support for ambulance and emergency medical services to cover high volume (\$2.4 million)
- Higher fuel costs (\$2.1 million)²⁴

Administration officials said that the more than 1,000 vacant positions in City government had generated a large budget surplus that could cover the costs of the new priorities addressed by the amendments. Prior to the amendments' adoption, the City was projecting a \$49.4 million General Fund budget surplus for personnel expenditures – more than enough to fund the amendments.²⁵

About three quarters of the \$40.1 million funding re-directed through the amendments came from the police department, which would have had a substantial budget surplus even after allocating the funding necessary to cover the costs of the 5% bonuses for department staff.²⁶ In addition to the police department's high number of vacancies, the department's ARPA appropriation also contributed to its large unspent General Fund allocation.

As mentioned earlier, the adopted 2022 budget allocated \$22.3 million in ARPA funds to the police department on top of General Fund revenue that already put the department back at its pre-pandemic budgeted funding level. And while the City allocated the ARPA dollars entirely to police personnel expenditures, it did not similarly increase the department's budgeted positions. Total budgeted personnel expenditures rose about 16% from the pre-pandemic level, but the number of positions only increased by about 3%.²⁷ Nor could the expenditure increase be attributed to pay raises, which the administration had not yet proposed, leaving no clear need in the police department's budget for the ARPA appropriation. Essentially, the appropriation built surplus funding into the police department's budget, allowing the City to redirect department General Fund revenue to other expenditures if necessary – or use the savings to grow its financial reserves.

It's too early to determine how 2022 expenditures will compare to budget. However, based on collections thus far, the City recently increased its projection for sales tax revenue, raising total projected General Fund revenue to \$714 million – \$62 million higher than budgeted expenditures. Thus, even if the City spent every dollar it budgeted, it would still be able to put \$62 million toward increasing the General Fund balance under the current revenue projection. Or alternatively, it could have reduced its ARPA expenditures from \$110 million to \$48 million. This illustrates the challenges of forecasting revenue during a pandemic, paired with the conservative nature of municipal budgeting.

Administration officials highlighted strong fund balance growth during the last two years when presenting the proposed 2023 budget and noted that the City's use of ARPA funds had contributed to the increase. They said

that based on unaudited figures, the General Fund balance should top \$200 million at the year's end – which would be a gain of at least \$147.2 million from its pre-ARPA (2020) level of \$52.8 million.²⁸

LOOKING AHEAD: 2023 AND BEYOND

Essentially, the City's appropriations of the first half of its ARPA funds in 2021 and 2022 allowed it to store a similar amount of General Fund revenue in its fund balance. Therefore, any expenditures financed through fund balance use will be largely attributable to the City's ARPA funds.

The City received the second half (\$194 million) of its ARPA allocation in the spring of 2022. The administration provided an overview of its three-year plan for allocating the remaining funds to various initiatives in October 2022, when it presented the proposed 2023 operating budget to the City Council. And at the same time, it outlined a plan for using \$150 million of an anticipated \$250 million in General Fund reserves during the next three years, while designating \$100 million for future emergency and disaster-related expenses. Administration officials said that the plans reflected priorities expressed by residents during community meetings on potential ARPA uses and other engagement efforts.

The administration's proposed 2023 operating budget did not include any ARPA or fund balance appropriations to support the plans. Instead, during the same October City Council meeting, administration officials said that discussion about approving the funds and the details of the initiatives would be a separate process that they would initiate after the council adopted the 2023 budget.²⁹ But without any public notice, the administration and City Council changed course. They included \$124.2 million in ARPA appropriations and \$151.1 million of fund balance use in the 2023 City operating budget the council adopted on December 1. And they did so without prior public discussion of the funded initiatives' details, which the administration outlined in an internal memo to council members. Table 4 breaks down the ARPA and fund balance uses included in the administration's proposed three-year plan and the allocations that the council adopted in the 2023 budget.

**TABLE 4. PLANNED AND ADOPTED ALLOCATIONS OF THE CITY'S
REMAINING ARPA FUNDS AND GENERAL FUND BALANCE
(\$ IN MILLIONS)**

| | Remaining ARPA Funds, 2023-2025 Plan | Remaining ARPA Funds, Adopted 2023 Budget | Fund Balance Use, 2023-2025 Plan | Fund Balance Use, Adopted 2023 Budget |
|--|--|--|---|--|
| Reserved for emergencies and disasters | | | \$100.0 | \$100.0 |
| Certificate of indebtedness repayment | | | \$50.0 | |
| Police department recruitment and retention | \$37.5 | \$32.5 | | |
| Criminal justice system information technology overhaul | 30.0 | 30.0 | | |
| Public safety vehicles | | | 25.0 | |
| Homeownership programs | 22.0 | | | |
| Street repair and improvements | | 3.0 | 20.0 | 0.5 |
| Temporary enhanced contractual support for code enforcement, safety and permits, illegal dump site clean-up and tree maintenance | | | 20.0 | 10.0 |
| Sewerage and Water Board electrical power substation | 15.0 | 15.0 | | |
| Housing assistance programs | 10.5 | | | 2.0 |
| Public health programs | 10.0 | 12.9 | | 6.5 |
| Catch basin cleaning | 10.0 | 10.0 | | |
| Blight abatement and grass cutting | | | 10.0 | 10.0 |
| Economic development including support for the cultural economy | | | 10.0 | 1.0 |
| Youth programs, services and NORDC facility upgrades | 10.0 | 2.6 | 10.0 | 7.2 |
| City information technology system overhaul | 8.5 | | | |
| Small business support | 8.0 | | | |
| Public safety equipment | 7.5 | 7.5 | | |
| Targeted homeowner rehabilitation loans and grants | 7.5 | | | |
| Workforce development | 7.0 | | | |
| Unhoused population programs | 5.0 | | | |
| Juvenile probation, parole and diversion programs | 5.0 | 4.9 | | |
| Lawsuit judgments | | | 5.0 | 7.0 |
| ARPA administration | | 5.8 | | |
| City Council personnel | | | | 0.9 |
| Cost of living adjustment for retirees in the City's pension plan | | | | 2.0 |
| Public safety programs | | | | 4.0 |
| Total | \$193.5 | \$124.2 | \$250.0 | \$151.1 |

BGR analysis of City of New Orleans, 2023 Operating Budget Presentation, October 25, 2022, and a memorandum from the Chief Administrative Officer to the City Council, November 30, 2022.

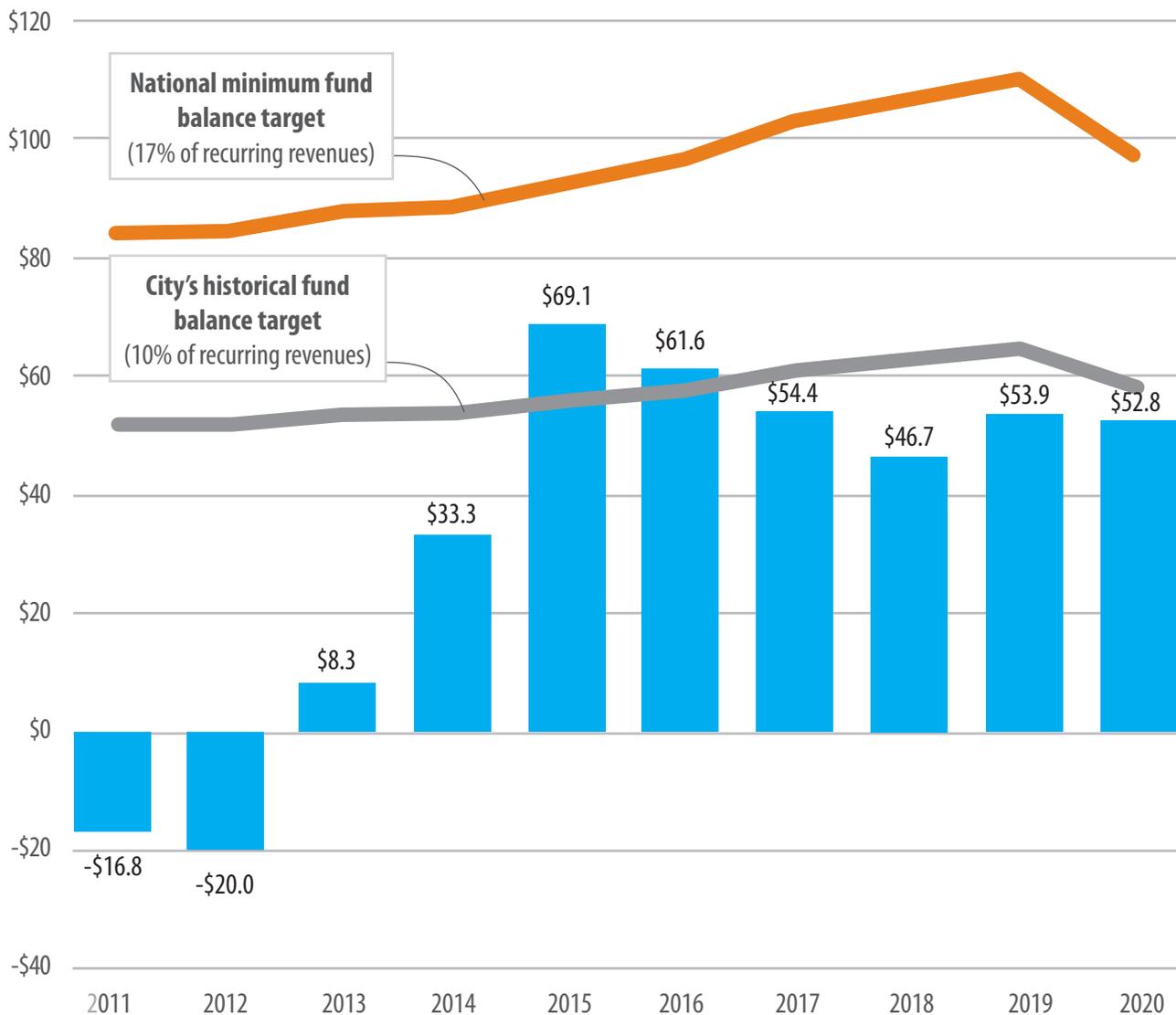
While designating \$100 million in the fund balance for future emergency and disaster needs, the adopted allocations added \$175.3 million in expenditures financed by one-time funding to the 2023 operating budget. And while the majority of the expenditures appear to be one-time in nature, they also include programs that will require a recurring funding source to continue after the ARPA and fund balance dollars are gone.

The \$100 million designation for emergency and disaster needs would bring that portion of the City’s reserves to approximately \$136 million.³⁰ Administration officials say increasing this balance is critical for achieving strong bond ratings and having the cash on hand to pay for expenses in the wake of a natural disaster. Strong bond rat-

ings reduce taxpayers’ cost of borrowing for capital projects. And while the federal government reimburses the City for most disaster-related expenses, it can take several months to years for the money to come through.

For several years, BGR has called on the City to increase its reserves designated for emergencies to at least nationally recommended levels.³¹ As Chart F shows, during the 10 years preceding ARPA’s arrival, this amount was well below the national minimum recommendation of 17%, or two months, of recurring revenue and typically below the City’s historical 10% target for emergencies.³² At \$136 million, the emergency cushion would be equivalent to about 19% of the City’s projected \$722.4 million in recurring General Fund revenue in 2023.

CHART F. CITY OF NEW ORLEANS YEAR-END GENERAL FUND RESERVES COMPARED TO BEST PRACTICE LEVELS, 2011 TO 2020
(\$ in millions)



BGR analysis of City of New Orleans year-end General Fund balances as reported in annual operating budgets.

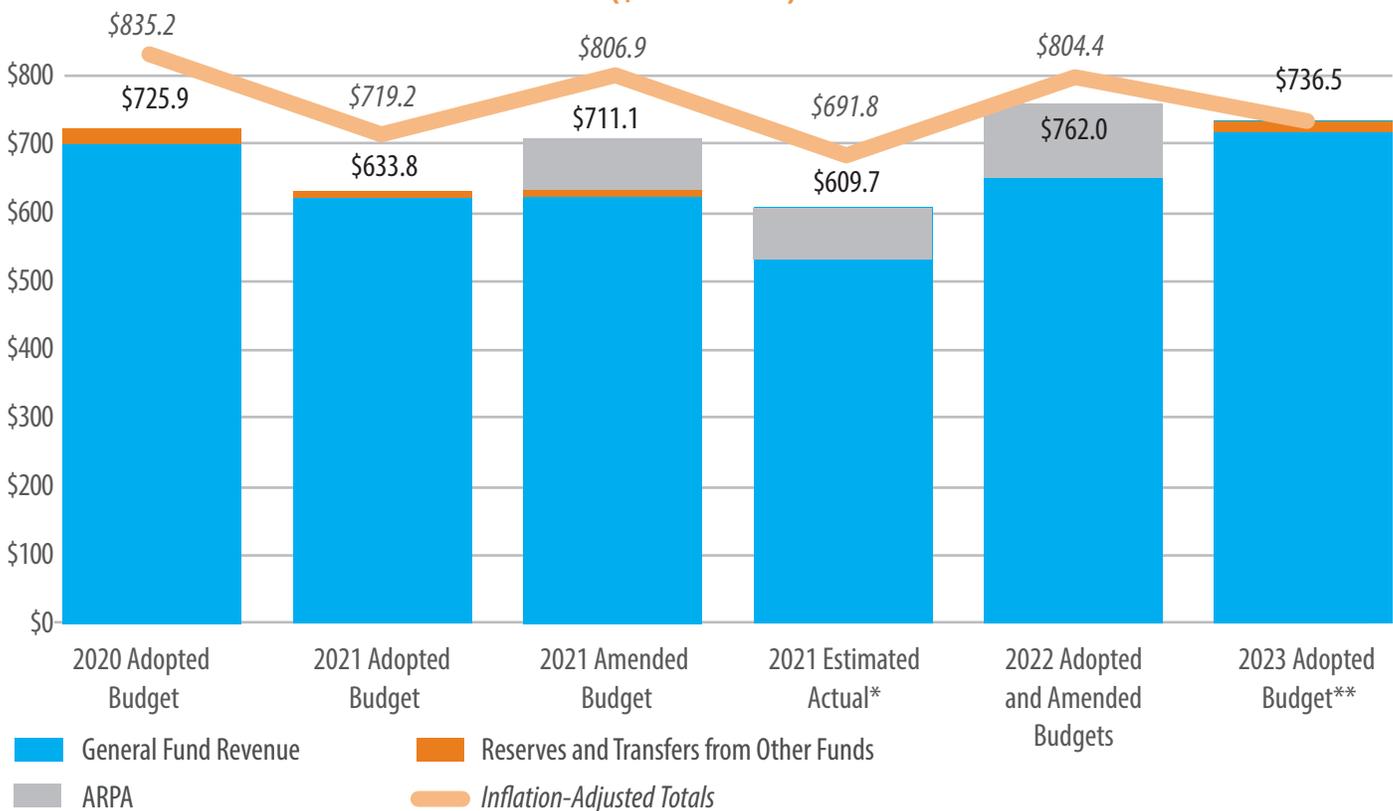
Unlike in 2021 and 2022, the \$124.2 million in ARPA appropriations in the City’s 2023 budget span multiple departments and do not primarily fill projected General Fund budget gaps.³³ But the City has not specified the ARPA expenditure category it plans to use for each initiative the appropriations will fund. And stronger-than-expected revenue growth, such as the City experienced in 2022, could limit its ability to designate all the initiatives as revenue replacement, ARPA’s most flexible category. In this case, the City must make sure that each initiative aligns with the specific eligibility requirements of one of ARPA’s six other expenditure categories.

Outside of the fund balance use policymakers added to the City’s 2023 budget for specific initiatives, the General Fund budget relies on using \$14 million in reserves to balance. And administration officials told BGR they anticipate having to erase General Fund budget deficits with fund balance use through 2025, when they project the City’s revenue streams will have fully rebound-

ed from the pandemic’s impacts. They anticipate using \$24.2 million from the fund balance for this purpose in 2024 and \$23 million in 2025, bringing the total projected use of reserves for General Fund budget gaps during the next three years to \$61.2 million. And combining this use with the fund balance allocations included in the administration’s three-year plan would require reserves of at least \$311.2 million.

The \$14 million fund balance use in 2023 supplements projected revenue of \$722.4 million to cover total expenditures of \$736.5 million. As Chart G shows, this expenditure level is \$25.6 million less than the \$762 million the City budgeted in 2022 including ARPA funds, but still above the pre-pandemic baseline of \$725.9 million. Nevertheless, it is important to take into account the high rate of price inflation during the past two years, which has affected costs for City government as it has for residents and businesses. Taking inflation into account, the adopted 2023 spending level is almost \$100 million below the pre-pandemic baseline.

CHART G. GENERAL FUND EXPENDITURES BY FUNDING SOURCE, INCLUDING ARPA, 2020 TO 2023 (\$ in millions)



* Estimated and unaudited ** Does not include reserves or ARPA funds appropriated for specific initiatives

Although not visible because of the chart’s scale, actual 2021 expenditures and amended 2022 expenditures used transfers from other funds that were under \$100,000. The 2021 and 2022 amended budgets do not reflect isolated amendments that the City Council passed outside of the comprehensive November 2021 and September 2022 budget adjustments, respectively.

BGR analysis of City of New Orleans adopted operating budgets, 2020-2022, proposed 2023 operating budget, New Orleans City Council, Ord. 28,823 M.C.S. and 28,824 M.C.S., adopted November 4, 2021, and New Orleans City Council, Ord. 29,168 M.C.S., adopted September 15, 2022. Inflation adjusted figures calculated using the U.S. Bureau of Labor Statistics’ Consumer Price Index (CPI) Inflation Calculator.

To help address difficulties attracting and retaining qualified employees, not just in the police department but throughout many areas of City government, the 2023 budget includes 5% pay raises for all City employees, with additional raises planned in subsequent years. The budget reduced the number of positions from the prior year by 777 (18%) to pay for the raises, adjusting departments' personnel funding based on their actual expenditures during the last four years. However, administration officials say that departments should still try to fill positions that weren't included in the 2023 budget, and that the healthy fund balance would be able to absorb any over-budget personnel costs that may occur.³⁴ They have proposed quarterly budget amendments to adjust department funding as necessary, and over time will determine the necessary staffing level for each department.

IN SEARCH OF FULL TRANSPARENCY

The City's method of appropriating the first half of its ARPA funds made it difficult for residents to see the full budget impacts of the City's ARPA use. As previously discussed, federally required public reports presented only expenditures directly funded with ARPA dollars and not the ultimate budget impacts.

Although the City used the same approach to appropriate ARPA funds in 2021 and 2022, it was easier to see the funds' impacts across the entire General Fund budget in 2021. Appropriating the funds that year required amending the 2021 operating budget the City Council had adopted in December 2020, which was months before Congress approved the pandemic relief bill. Therefore, in addition to approving the ARPA funds for the fire department, the City Council also had to approve amendments that transferred specific amounts of the fire department's originally budgeted General Fund revenue to individual departments and agencies.³⁵ And to secure the council's support for the amendments, the administration gave a presentation that detailed how most departments and agencies planned to spend their portion of the revenue transferred from the fire department. But when the fire department's ARPA appro-

priation and reduced level of General Fund revenue were established in the original budget, as was the case in 2022, the City budget did not identify the revenue redirected to each department and agency. Nor did the City otherwise specify the expenditures in the 2022 budget that depended on the General Fund revenue freed up by the ARPA appropriation to the fire department.

And as the preceding analysis has shown, even identifying the specific expenditures planned with the General Fund revenue freed up by ARPA appropriations does not fully reveal the ARPA dollars' true impact on municipal services and the City's financial position. Spending plans changed or could not be fully implemented, meaning actual expenditures enabled by the City's 2021 and 2022 ARPA appropriations were substantively different from what the City budgeted. In addition, neither year's budget clearly showed that the ARPA appropriations to the police and fire departments would result in a General Fund surplus. In 2021, the portions of the General Fund budget amendments related to the costs of ending furloughs were higher than necessary, building in excess funding that would ultimately increase the City's General Fund balance. And in 2022, the ARPA appropriation to the police department supplied funding in excess of the department's budgeted needs, ensuring that a portion of its General Fund allocation would go unspent and further build the City's reserves.

The City has pivoted with its approach to appropriating the second half of its ARPA funds. Instead of routing the ARPA dollars through the fire and police departments as it did in 2021 and 2022, the City allocated relief funds to multiple departments to administer specific initiatives in its recently adopted 2023 budget. This should make the funds' ultimate use easier to track in the City's operating budget, its ARPA dashboard and federally required reports. However, transparency concerns remain. Policymakers did not publicly discuss or provide the details of the initiatives the 2023 appropriations will fund prior to approving the expenditures, which account for almost two-thirds of its remaining ARPA dollars.

CONCLUSION AND RECOMMENDATIONS

The City used about \$187 million (97%) of the first half of its ARPA to cover expenditures typically included in the General Fund budget. This use, combined with below-budget expenditures and better-than-expected revenues during the last two years, allowed the City to increase its General Fund reserves by roughly an equivalent amount.

However, the City has sometimes fallen short of providing sufficient information on of the full impact of these ARPA funds, limiting public accountability. It did not always identify the specific expenditures – or fund balance increases – it planned to implement with the General Fund revenue made available by ARPA appropriations to the fire and police departments. This information would have let the public assess the City’s priorities upfront, as well as the trade-offs it was making with the available revenue.

The City has also not yet produced an accounting of the redirected General Fund revenue essential for understanding the true impact the ARPA dollars had on government operations, municipal services and reserve growth.

With its finances now in a stronger position, the City has changed its strategy for spending its remaining \$194 million ARPA installment. The City’s 2023 General Fund budget does not rely on the relief dollars to fill projected gaps, instead allocating \$124.2 million to specific initiatives. But in failing to provide the public with the details of the planned initiatives, the City has continued to limit opportunities for real public accountability of its ARPA use.

Regardless of the method the City uses to appropriate ARPA funds – or its technical compliance with federal reporting rules – the City should provide the public with sufficient details on the components and objectives of ARPA spending plans and regular updates on actual spending and outcomes. It should also clearly identify any effects the use of ARPA funds has on the City’s General Fund budget, including paying for recurring expenses that will eventually require new revenue sources and enabling further fund balance growth. The City should compile this information in easily accessible reports so the public does not have to review multiple documents or presentations to assemble the complete picture of the City’s ARPA use and its impacts. These recommendations follow BGR’s 2021 guidance for ensuring transparency and accountability of the pandemic relief funds.

The City’s 2023 budget also deploys \$51 million from the General Fund balance to new initiatives, and the administration has outlined plans for using another approximately \$100 million for specific expenditures during the next three years. ARPA played a crucial role in building the fund balance, and the same recommendations for ensuring transparency and accountability apply to these one-time dollars. As with the ARPA funds, the City should provide the public with the full details of the components of all fund balance use plans, including the objectives of individual initiatives, before it begins spending. It should report regularly to the public on actual fund balance usage during the three-year period and the outcomes of those investments. And if it intends to use money for recurring expenses, it should identify how it plans to cover those costs in future years.

ENDNOTES

- 1 The federal American Rescue Plan Act (ARPA) allocated \$195 billion in direct fiscal recovery funds to states and \$130 billion to parishes, counties and municipalities.
- 2 Bureau of Governmental Research (BGR), [*Handle with Care: Public Planning and Accountability Must Guide Spending of Federal Relief Funds*](#), June 22, 2021.
- 3 Because the City of New Orleans' boundaries are coterminous with Orleans Parish, its \$388 million comes from ARPA's parish and municipal portions.
- 4 U.S. Department of the Treasury, [Coronavirus State and Local Fiscal Recovery Funds: Final Rule](#), Federal Register, Vol. 87, No. 18, January 27, 2022. The provisions of the Final Rule took effect April 1, 2022, replacing the provisions of the [Interim Final Rule](#). In the federal rulemaking process, an interim final rule is effective upon issuance but may be amended following a public comment period. For more information, see [this guide](#) to the rulemaking process.
- 5 U.S. Department of the Treasury, Final Rule.
- 6 For more information on the expenditure and performance reports, see U.S. Department of the Treasury, Compliance and Reporting Guidance: State and Local Fiscal Recovery Funds, June 17, 2022.
- 7 The City's General Fund includes a handful of dedicated property taxes for police, fire, parks and other purposes. While the City's annual financial reports include revenue from the dedicated property taxes for libraries in the General Fund, the City does not include the revenue in its General Fund budget. For budgetary purposes, the City considers the library tax revenue a separate funding source. 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.
- 8 The committee is the Revenue Estimating Conference, established by City of New Orleans Home Rule Charter (City Charter), Sec 6-101.
- 9 City Charter, Sec. 6-102(8).
- 10 City Charter, Sec. 3-115.
- 11 City Charter, Sec. 6-103(1) and City of New Orleans, Annual Comprehensive Financial Report for the year ended December 31, 2020, p. 41. BGR's report focuses on the General Fund balance available for annual budgeting purposes, including amounts designated for emergency response. It does not include other portions of the General Fund balance that the City reports in its annual financial statements but are subject to various commitments or use restrictions.
- 12 BGR separately accounted for \$26 million for debt service that the City reports in the finance department's General Fund budget. This resulted in excluding the department from the top five.
- 13 U.S. Department of the Treasury, April 2022 Quarterly and Annual Reporting: Data through March 31, 2022.
- 14 One public comment on the Interim Final Rule for ARPA suggested further restrictions to eliminate this perceived loophole. The U.S. Treasury Department, while acknowledging the comment, did not add any such restrictions in the Final Rule.
- 15 The City's 2021 performance report did not specify any ARPA appropriations or expenditures because the City had not yet budgeted any of the funds. The 2022 report notes ARPA use for emergency medical services (EMS) in addition to use for the police and fire departments, although the City did not directly appropriate ARPA funds to EMS. The performance reports are available at <https://nola.gov/next/finance/topics/american-rescue-plan-financial-reports/>.
- 16 New Orleans City Council, Ord. 29,033 M.C.S., adopted May 19, 2022.
- 17 The City's ARPA dashboard lists the utility bill relief program under ARPA's negative economic impacts category and the Wi-Fi program under ARPA's infrastructure category. However, the City's federal ARPA expenditure report for the quarter ending March 31, 2022 includes only one project: \$193.8 million for revenue replacement. The City also specified in the report that it had spent the entire amount.
- 18 In a December 30, 2020, email responding to BGR's question regarding the legality of paying employees for days they were furloughed and did not work, the City's Civil Service Department provided the following explanation from the City's Law Department: "Civil Service Rule XII, section 9.2 authorizes compensation to City employees who have been furloughed pursuant to the Civil Service Rules when the mayor 'determines that the circumstances warranting the furlough have changed . . . subject to the availability of funds.' Compensation paid pursuant to this rule is not a bonus or gift, as it compensates classified employees for an involuntary reduction in working time,

- which the City subsequently discovers is unnecessary due to changing circumstances. This type of compensation is not prohibited by any law or ordinance.” The Law Department also noted that classified employees receive compensation for time not actually worked when suspensions or terminations from work are overturned on appeal.
- 19 Excluding debt service, other departments’ and agencies’ 2021 amended budgets totaled \$565.7 million, within 3% of their pre-pandemic baseline of \$581.5 million.
 - 20 If the City had used General Fund revenue to cover the \$77.3 million in ARPA expenditures, its actual General Fund expenditures would have been \$609.7 (\$532.4 million plus \$77.3 million). This is still \$25 million less than actual revenue of \$634.7 million.
 - 21 Presentation by the City administration to the City Council Budget Committee, October 19, 2021.
 - 22 The presentation outlined the expenditures the administration originally proposed. However, in some cases, the City Council made changes when it adopted the final mid-year budget amendments. The presentation did not include expenditures related to ending City employee furloughs, or back pay for furloughed days.
 - 23 The planned expenditures for additional staff and programs facilitated by the 2021 mid-year ARPA appropriation included only the associated costs for the remainder of that year – approximately three months from the introduction of the budget amendment ordinances.
 - 24 The new expenditures funded by the budget amendments are detailed in a presentation the administration made during the August 20, 2022 meeting of the City Council Budget, Audit, and Board of Review Committee. The administration called the bonus pay for employees a one-time cost of living adjustment. Although the total cost of all priorities the amendments address is about \$41.5 million, a portion of the \$9.9 million required for employee bonuses did not require budget amendments. This is because some departments had enough savings in their personnel budgets from unfilled positions to cover all their employee bonus costs.
 - 25 Presentation by the City administration to the City Council Budget Committee, September 8, 2021.
 - 26 The amendments cut \$30.2 million from the police department’s personnel expenditures, but then increased the department’s other operating expenditures by \$1.2 million, leading to a net reduction of \$29 million.
 - 27 This includes NOPD personnel across all funds, although the General Fund accounts for more than 90%. BGR analysis of the City’s 2020 and 2022 adopted budgets.
 - 28 The City provided the fund balance as of December 31, 2020, in the 2022 adopted budget book.
 - 29 New Orleans City Council meeting, October 25, 2022.
 - 30 City of New Orleans, 2023 Operating Budget Presentation, October 25, 2022, pp. 26-27.
 - 31 See the following Bureau of Governmental Research reports: [*PolicyWatch: Borrowing Proposal Carries Risks; City Must Exhaust Other Options to Offset Deficit*](#), May 21, 2020; [*A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities*](#), October 2019; and [*On the Ballot: New Orleans Savings Fund Charter Amendment*](#), November 2017.
 - 32 The Government Finance Officers Association (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. GFOA also notes that governments vulnerable to natural disasters or dependent on a volatile revenue source may need to maintain a higher level of reserves. See GFOA, [*Fund Balance Guidelines*](#), September 30, 2015.
 - 33 The 2023 operating budget for the City also includes a \$1.5 million appropriation in the City Council’s budget equal to what went unspent for the proposed Wi-Fi program in 2022. Unlike the other \$124.2 million in ARPA appropriations, these dollars were included in the proposed 2023 budget.
 - 34 Stein, Michael Isaac, “[Mayor Cantrell rolls out draft 2023 budget, setting off weeks-long budget process](#),” *The Lens*, October 25, 2022.
 - 35 New Orleans City Council, Ord. 28,823 M.C.S., adopted November 4, 2021, appropriated \$77.3 million in ARPA funds to the fire department. New Orleans City Council, Ord. 28,824 M.C.S., adopted November 4, 2021, transferred the same amount of general fund revenue from the fire department to other departments and agencies.



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