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# NOW

BGR's Spotlight on Local Government Issues

## New Orleans Needs a Sustainable Budget to Meet Residents' Demands

As the races for New Orleans mayor and City Council heat up, frustrated residents have reached a tipping point. They are demanding improved public safety, relief from rising housing costs, more economic opportunities, better roads, and an end to seemingly interminable construction projects obstructing their neighborhoods – among many other things.<sup>1</sup> They want a city that works better.

A key factor in how well a city functions is its budget. The budget sets priorities for using limited resources to address the City's many challenges. Municipal budgets have immense impacts on residents' quality of life through the choices of policymakers. And in the case of New Orleans, the City's budget is at a tipping point of its own.

The 2026 budget, which the council must adopt by December 1, will in a sense be the City's first truly post-pandemic budget. In 2021 and 2022, the City used nearly \$400 million in federal pandemic relief funding to offset revenue shortfalls, cover tens of millions of dollars in new spending, and save local revenues to boost its nearly depleted emergency reserves, or "rainy day" fund. The City's reserves, a key barometer of its fiscal health, skyrocketed from just \$13 million before the pandemic to a high of \$344 million in 2022. But the financial windfall is over. Three years of spending from the reserves could reduce them below the minimum recommended level of two months' of the General Fund budget (\$133 million) by the end of this year.<sup>2</sup> Moreover, the 2025 budget is on pace for a \$100 million deficit as revenues are coming in low and overtime costs have soared.<sup>3</sup> All of this puts the City's improved financial position at serious risk.

The current administration and council have a responsibility to address these challenges and hand off a more financially secure City government to the incoming lead-

### 2026 Budget Timeline

**October 1:** Deadline for the mayor to submit a proposed budget to the City Council

**October 14 to November 4:** The City Council plans to hold 10 days of public hearings on the budget.

**December 1:** The City Council must adopt the budget.

ership after the elections this fall. In an April 2025 report entitled [After the Windfall](#), BGR recommended several ways to strengthen the City's financial management practices. These include (1) working to achieve a structurally balanced budget that covers the full costs of responsibly running City government, (2) developing a five-year financial plan to get there, and (3) adopting a policy to manage and safeguard the City's financial reserves. This BGR NOW release is intended to help the mayor and council use these recommendations to inform the process of drafting and adopting the 2026 budget.

### A STRUCTURALLY BALANCED BUDGET

Like many municipalities, the City's charter requires it to have a balanced budget. This means only that projected revenues must equal or exceed planned expenditures.<sup>4</sup> This is a relatively low hurdle that does not ensure the budget is financially sustainable. There are two primary reasons for this. First, the budget could achieve balance with one-time revenue, such as reserves, that the City cannot count on for future budgets. This could force cuts in services that citizens need. Second, the budget might not provide sufficient funding for certain City responsibilities, such as fully funding employee pensions and

maintaining infrastructure and facilities at acceptable levels. This failure pushes those costs onto future budgets and future taxpayers.

To avoid these problems and improve the City’s financial stability, the mayor and council should strive for a structurally balanced budget. This is when annually recurring revenues equal or exceed the recurring expenditures needed to adequately maintain services and infrastructure, without using reserves.<sup>5</sup> A structurally balanced budget is a relatively simple yet powerful concept that can help the City set priorities while ensuring the budget meets the true costs of City government and is sustainable year after year.

Last year, the City’s financial advisers urged the administration and council to consider adopting a structurally balanced budget for 2025 and beyond. The 2025 adopted budget is not structurally balanced because it includes \$28.5 million from the City’s reserves to offset a projected revenue shortfall.

The budget also does not fully fund the costs of adequately maintaining facilities and infrastructure. This is a chronic problem that has resulted in years of deferred maintenance. For example, the 2025 budget allocates about \$14 million to street maintenance, far less than the \$50 million that the Department of Public Works says is necessary. This deferred maintenance jeopardizes the useful life of hundreds of millions of dollars in ongoing street repairs across the city. Maintenance of City facilities has also suffered, most notably with the New Orleans Police Department moving in 2024 from its deteriorating headquarters to rented office space downtown.<sup>6</sup> Each year of deferred maintenance shifts more capital costs onto current and future taxpayers. Also, the necessary

repairs become more expensive as the infrastructure and facilities continue to deteriorate.

*Looming costs.* The City faces a host of other looming costs that will put pressure on the budget in 2026 and beyond. These annual cost increases include an estimated \$20 million to shore up the firefighters’ pension fund and at least \$11 million to support the Sewerage & Water Board’s takeover of maintenance of the minor drainage system from the City. The City has also faced overtime costs well in excess of what was budgeted in recent years. For example, the 2025 budget has a projected shortfall of \$72 million due primarily to skyrocketing overtime costs for incidents such as the Bourbon Street terrorist act and the mid-January snowstorm. The City may get federal reimbursement for some of the overtime costs, and it has implemented a hiring freeze to help reduce personnel costs.

*Declining and uncertain revenues.* Compounding the rising costs, some of the City’s revenue streams have declined. The City will lose an estimated \$16.3 million in annual sales tax receipts due to new tax exemptions the Legislature approved in 2025. The City has also begun sharing its revenue from traffic cameras with the Sewerage & Water Board and Orleans Parish School Board. This will reduce the City’s portion by an estimated \$8.7 million in 2025. Also, in response to a lawsuit, the City recently agreed to temporarily stop charging the Orleans Parish School Board fees for collecting the board’s property and sales taxes.<sup>7</sup> BGR estimates those fees totaled about \$7 million in fiscal year 2023, the last year for which audited financial statements are available.

These revenue losses prompted the City’s Revenue Estimating Conference to reduce its projection for 2025 General Fund revenues by \$30.5 million. Factoring in the

A STRUCTURALLY BALANCED BUDGET

Recurring revenues that can reasonably be expected to continue from year to year

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Recurring expenditures to adequately maintain necessary services and infrastructure, without using reserves



\$72 million shortfall on personnel costs, the City is on pace for a \$102.5 million deficit in 2025. And the 2026 budget might be even tighter. The Revenue Estimating Conference released a preliminary revenue projection for 2026 that is \$13.1 million less than the reduced projection for 2025. All of this complicates the City's path to a structurally balanced budget.

The good news is that the City already has some of the building blocks for a structurally balanced budget in place. The City begins the budgeting process with revenue projections that it publicizes. This helps avoid any temptation to adjust those estimates at the end of the process to bring the budget into an artificial balance. The City also wisely flags revenues that it can't count on as recurring. For example, it classified surges in sales tax revenue from the October 2024 Taylor Swift concerts and the February 2025 Super Bowl as one-time revenues. Also, a new asset management system will help the

City plan and budget for preventive maintenance.

## RECOMMENDATIONS

- **As a step toward a structurally balanced budget, the administration and council should seek to balance the 2026 budget without using one-time reserve funds.** As BGR demonstrated in *After the Windfall*, the City's reserves are at risk of dropping below the minimum level recommended by government finance experts.
- **The administration and council should start ramping up funding for maintaining facilities and infrastructure.** Investments in preventive maintenance can pay for themselves. For example, the City has estimated that every dollar spent on street maintenance saves \$4 to \$5 in repair and reconstruction costs down the road.

## LOOMING COSTS

### The City of New Orleans faces substantial costs for new and unmet needs:

- **\$36 million** more to adequately maintain streets, plus an undetermined amount to maintain deteriorating facilities.
- A projected **\$72 million** shortfall in the 2025 budget due primarily to soaring overtime pay.
- At least **\$11 million** in annual contributions to the Sewerage and Water Board to properly fund its maintenance of the minor drainage system, which it assumed from the City at the beginning of 2025.
- **\$20 million-plus** in additional annual contributions to shore up the beleaguered firefighters' pension fund as recommended by the fund's actuary.
- About **\$17 million** a year (2% of General Fund revenues) for affordable housing starting in 2026 as mandated by a charter amendment that New Orleans voters approved.
- **\$4.4 million** in annual operational costs for a new medical wing under construction at the Orleans Parish jail.

## DECLINING AND UNCERTAIN REVENUES

### The City of New Orleans faces tighter budgets due to revenue crunches:

- A **\$16.3 million** annual reduction in sales taxes due to new exemptions the Legislature approved in 2025.
- An **\$8.7 million** annual reduction in traffic camera ticket revenue that was reallocated to the Sewerage & Water Board and Orleans Parish School Board.
- At least **\$7 million** that the City will forgo by not charging fees to collect property and sales taxes for the Orleans Parish School Board.
- Property tax receipts have fallen short of projections by **\$17 million** in 2024 and **\$11 million** in 2025, prompting a more conservative projection for 2026.



## A FIVE-YEAR FINANCIAL PLAN

Given the City's array of service and infrastructure funding problems, attaining a structurally balanced budget might take several years or longer and will require careful planning. In *After the Windfall*, BGR recommends adopting a financial plan covering at least five years. The plan should account for significant anticipated changes in revenue and spending. The plan should identify funding strategies to meet looming costs and high-priority needs. The plan should also include a comprehensive review of the budget to identify areas where the City can cut unnecessary costs or slow their growth.

The public has limited tolerance for new taxes and fees, so current and future leaders will need to make difficult decisions on spending priorities. A multi-year financial plan would include a strategy for making and implementing those decisions. Forging ahead without a plan would mean the City is making funding decisions in a vacuum. With no financial roadmap, how will citizens or council members know that budget decisions are putting their government on the right track?

## MANAGING RESERVES

A key to achieving a sustainable budget is to maintain adequate reserves to help avoid cuts to essential services and increases in taxes or fees during financial crises or events such as the Bourbon Street attack. Government finance experts recommend that municipalities maintain at least two months of expenses in reserve, or about 17% of their general fund operating budgets.<sup>9</sup>

The experts say disaster-prone cities such as New Orleans should consider a higher level. As the chart shows, the City's reserves remained well below 17% before the onset of the pandemic in 2020 and even turned negative in some years, signifying a deficit. The federal pandemic relief funding enabled New Orleans to save local revenues and bolster its reserves. But three years of drawing down those reserves to offset revenue shortfalls and cover new spending have put them at risk of falling below the recommended minimum level this year. That risk has significantly increased with this year's budget on pace for \$102 million shortfall.

Part of the problem is the City lacks a policy to manage its reserves and limit spending to ensure an adequate financial cushion. Both BGR and the City's financial consultants have called for the City to develop and adopt such a policy this year.<sup>10</sup> The City administration told BGR in April 2025 that it was drafting a policy on reserves that it plans to submit to the council by the end of the year. However, as of this writing, the administration continued to review the draft internally.

While the City's 2025 budget briefly discusses the benefits of financial planning, it does not present a plan or a forecast of future revenues and expenditures. BGR first recommended that the City develop a multi-year financial plan in a [2019 report](#) that examined a decade's worth of City budgets to help guide funding priorities.<sup>8</sup>

### RECOMMENDATION

- **The administration and council should begin a multi-year planning process now.** This should include developing five-year revenue and spending projections. To the extent possible, they should also flag major anticipated revenue and spending changes on the horizon. This will help ground the 2026 budget deliberations in a better understanding of the City's finances and needs, even if a more comprehensive five-year plan cannot be completed until the next administration and council take office.

Establishing a policy on reserves now is important to support continuity in managing fiscal issues into the next mayoral and council terms. It will help protect the City's fiscal health as the incoming leadership strives to meet new costs and address high-priority City and community needs. In an encouraging sign, [candidates for mayor and City Council who responded to a BGR survey](#) expressed broad support for developing both a five-year plan to achieve a structurally balanced budget and a policy to manage the City's reserves. However, only some candidates support a reserve level at or above the generally recommended minimum of 17%.<sup>11</sup>

### RECOMMENDATION

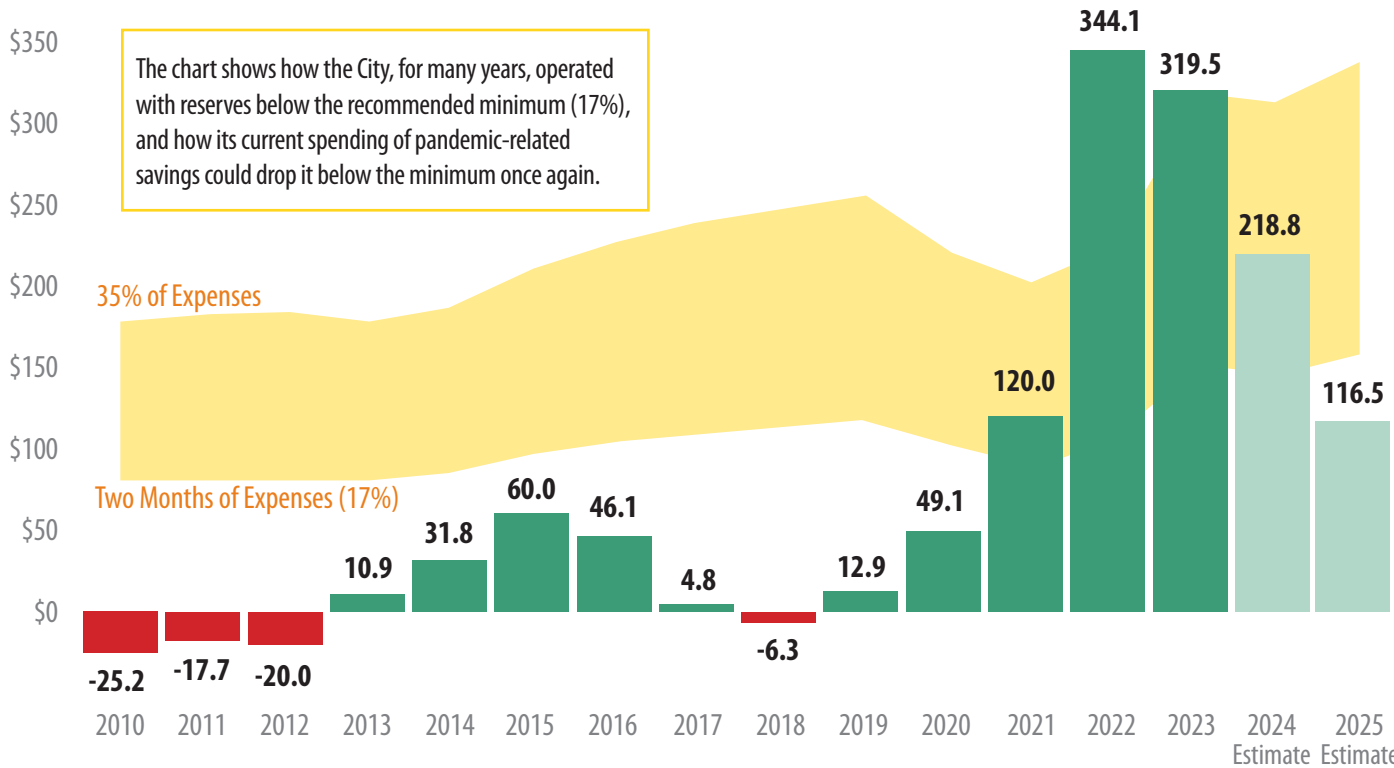
- **The administration should finish developing a comprehensive policy for the use and preservation of the City's General Fund reserves, and the City Council should adopt it by ordinance this year.** The policy should set a level for reserves sufficient to meet financial emergencies. The specific amount should be informed by a study conducted by experts in government finance and risk assessment. Given New Orleans' vulnerability to disasters, City officials and consultants should strongly consider a reserve level higher than the recommended minimum 17% of General Fund expenditures.

CONCLUSION

The City of New Orleans is at a critical juncture in its fiscal history. While it emerged from the pandemic in a better financial position, those gains are disappearing due to declining revenues, spending down the reserves and looming costs. The City administration and council have a choice. They can stick with their current financial management practices and risk sliding back to

a more tenuous position. Or they can work to improve those practices, including a five-year financial plan and a policy for managing its rainy day fund. Doing so would achieve a more sustainable budget to better address residents’ immediate and long-term needs and deal responsibly with any fiscal crises.

CITY OF NEW ORLEANS YEAR-END GENERAL FUND RESERVES AVAILABLE FOR EMERGENCIES, 2010 TO 2025 (ESTIMATED)  
(in \$ millions)



Notes: The bars show the City of New Orleans’ year-end reserves available for emergencies. The calculations are detailed in [Appendix A to After the Windfall](#). The negative numbers in red indicate a deficit, or negative unassigned reserves.

The yellow band shows a range of reserve targets from the minimum of two months of expenses, or 17%, recommended by the Government Finance Officers Association to the 35% level associated with the highest municipal credit rating by Moody’s. As BGR emphasizes in the report, 35% is not necessarily a suitable target for New Orleans, but is presented to show the upper end of the general range for municipal financial reserves. The chart shows how the City, for many years, operated with reserves below the recommended minimum, and how its current spending of pandemic-related savings could drop it below the minimum once again.

BGR analysis of: City of New Orleans Annual Comprehensive Financial Reports for the years ended December 31, 2010 to 2023; CLB Porter LLC and PFM Financial Advisors, “Fund Balance Uses and Potential Implications,” presentation to the City of New Orleans Revenue Estimating Conference, June 3, 2024; and City of New Orleans, “ARPA and Fund Balance Project Updates,” presentation to the City Council Budget Committee, July 18, 2024; 2024 General Fund budget-to-actual data provided by the City Department of Finance, February 25, 2025; and reserve appropriations in the City’s adopted 2025 budget Ord. 30,140 MCS, November 21, 2024.

## ENDNOTES

- 1 See surveys by the [City Services Coalition](#) and [Silas Lee](#) via Verite News.
- 2 Government Finance Officers Association, [Fund Balance Guidelines for the General Fund, September 30, 2015](#), webpage accessed March 10, 2025.
- 3 See presentations by the City administration at the [August 27, 2025, meeting](#) of the City of New Orleans Revenue Estimating Conference and the [August 13, 2025, meeting](#) of the New Orleans City Council’s Budget Committee.
- 4 Home Rule Charter of the City of New Orleans, Sec. 3-116(1) and Sec. 3-116(2).
- 5 Government Finance Officers Association, [Achieving a Structurally Balanced Budget](#), webpage accessed September 4, 2025.
- 6 “[New Orleans City Council greenlights NOPD head-quarter move](#),” WDSU, May 1, 2024.
- 7 Fazio, Marie, “[City of New Orleans agrees to stop charging schools a tax collection fee](#),” *The Times-Picayune / Nola.com*, September 3, 2025.
- 8 BGR, [A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities](#), October 2019.
- 9 Government Finance Officers Association, [Fund Balance Guidelines for the General Fund](#), September 30, 2015.
- 10 BGR, [After the Windfall](#), p. 16.
- 11 [Click here to read BGR’s Candidate Q&A reports](#).

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