

**MEETING MINUTES**  
**REVENUE ESTIMATING CONFERENCE**  
**June 3, 2024**

**PRESENT**

Honorable LaToya Cantrell, Mayor  
Honorable Joseph Giarrusso, Councilmember District "A"  
Gilbert Montaña, Chief Administrative Officer  
Romy Samuel, Director of Finance  
Mara Baumgarden Force, Professor, Tulane University

**ABSENT**

Honorable Helena Moreno, Council Member At-Large (non-voting)

**OPENING**

The meeting of the Revenue Estimating Conference (REC) was called to order by Mayor LaToya Cantrell.

1. Mayor's Remarks

Mayor Cantrell began the meeting by remarking on the state of the economy and City's fiscal recovery efforts following the COVID-19 pandemic and policies. The Mayor emphasized that while the City is financially healthy due to the accomplishments of our staff and that tourist visitation has returned to pre-pandemic levels, the City remains in a recovery trajectory from an economic and tax revenue standpoint, largely due to broad price inflation and the more specific price increases within insurance and construction costs locally. The situation will require continued fiscal restraint and close management in preparation for a municipal bond issue planned for late 2024 and our hosting of the Super Bowl in February 2025. In fact, the Mayor indicated that the second part of the REC would include a presentation from our Bond Rating consultant/subject matter experts to explain that process.

2. Adoption of Minutes

CAO Montaña moved to adopt the minutes from the June 2024 meeting, with a second provided by Prof. Force, with the minutes adopted unanimously.

3. Discussion of 2024 General Fund Revenue Forecast

Chief Economist Matthew Cooper began by reviewing the status of the 2024 General Fund Revenue Forecast versus actual revenues during the first five months of the year. The two largest risks were as a result of pending Council ordinances governing the Short-Term Rental market in the City and a Louisiana State legislation Senate Bill 302 which would limit the amount of revenue the City would be able to collect from traffic enforcement efforts aided by automatic cameras monitoring streets.

Mr. Cooper then reviewed the specific risks to the City's revenue situation by the economic environment, highlighting the continued risk for economic recession due to broader commercial financial sector risks. The Chief Economist specifically reviewed what he termed a "confluence

of events,” specifically citing the end of Bank Term Funding Program, in which the Federal Reserve provided additional liquidity to banks during the Spring 2023 banking crisis, which could result in a tightening of commercial and personal credit nationwide due to higher lending rates; the ongoing commercial real estate crisis due to a glut of vacant commercial space and the potential inability of property owners to make mortgage payments as well as limiting the customer base for the downtown service industry; and finally the continued reluctance of the Federal Reserve to reduce interest on the schedule that was promised during late 2023/early 2024.

Inflation was discussed by Mr. Cooper, showing that while the rate of price inflation has slowed from the peak in Summer 2022, the compounding nature of inflation means that prices have not declined and continue to increase – in fact the latest inflation reading shows that prices are still increasing 2.4x faster than the typical official target. He then emphasized several specific items which had dramatically increased in price during a short three-year period and explained that this rapid rate of inflation had not allowed incomes to increase substantially to compensate, and showing that real average wages had actually declined from their level at the beginning of 2021. It was then noted that growth in Gross Domestic Product had been relatively slow over the beginning of 2024, even though there was still positive growth taking place.

Mr. Cooper then reported that the estimated GDP level for the first quarter had actually been downgraded between the first and second estimate, and that one of the primary components of the GDP formula, net exports, had turned from a positive contribution to a negative contributor. Mr. Cooper reminded the REC that, due to revisions made by the US Dept. of Labor at the beginning of the year, local labor market data showed a loss of jobs during the second half of 2023, indicating that the local economy was struggling to recover back to a pre-pandemic level and had actually been losing ground during a time we understood it to be gaining. This was also reflected in the Labor Force data presented, which also showed a loss during the end of 2023 and that there still remained a labor shortage in the local economy versus the pre-pandemic period. Despite this Mr. Cooper indicated that it appeared that actual visitation to the City had recovered to pre-pandemic levels, as measured by traffic data at Louis Armstrong Int’l Airport.

To close the presentation, Mr. Cooper presented a few notes on the upcoming presentation of the 2025 General Fund Revenue forecast. The new deadline for delivery of the proposed budget for deliberation to the City Council of October 1<sup>st</sup> requires a compressed timeline, where instead of 10 months of revenue data for the previous year now only 6 months would be available, and that Property Value Assessment information for the 2025 tax year would not be available. This would result in a much larger than typical amount of forecast vs. actual variance risk. In addition, it was reported that the Finance Department intends to create an updated 5-year General Fund Revenue Forecast for 2025-2030 during this process, in order to contribute to our upcoming Bond Rating activities. This also carried with it a significant amount of potential variance over the five-year time period of the long-term forecast.

Mr. Cooper then asked for additional questions from the REC members. CAO Montañó opened the Q/A session with a question about the 2025 General Fund Revenue forecast and how the Super Bowl was being considered for that context. The Chief Economist responded that he was hesitant to predict a large revenue windfall related to that event due to the likelihood of various displacement effects and how much additional visitor spending activity could be expected above the baseline established during that portion of the Mardi Gras timeline. CAO Montañó

requested further detail on the concepts cited in that response, and indicated that he had much higher expectations for the additional revenue the City would collect as a result of the Super Bowl event in February 2025. The Mayor echoed these ideas, and suggested that Mr. Cooper consider the data available for the previous 10 instances where New Orleans had hosted the Super Bowl and whether the data backed up those considerations. Councilman Giarrusso echoed the Mayor and the CAO, indicating that since the timing of the Super Bowl and the actual day of Mardi Gras are nearly a month apart, that there should be no conflict between these two categories of visitors. Prof. Force then commented that she understood Mr. Cooper's point that there could be displacement going on between the two events, but that the event would be successful and create a positive economic impact for the region. Director Samuel then asked that the Super Bowl revenue question be placed in the context of the bottom line, as whether increases or decreases in revenue expectations amongst various sources are being considered. Mr. Cooper related the Super Bowl question to the Red Light/Traffic Enforcement camera revenue issue, which equated to one entire month of Sales Tax revenues, indicating that whatever revenue impact there would be from the Super Bowl that it would not likely be equivalent to an extra month of Sales Tax revenue during 2025. The Mayor agreed that this would be a significant expectation to place on the event.

#### 4. Fund Balance Uses and Potential Implications

With a conclusion to the Super Bowl Revenue discussion, Mayor Cantrell requested the next phase of the June 2024 REC, presenting Kyle Wright of CLB Porter and Ricardo Callender of PFM Financial Advisors to discuss "Fund Balance Uses and Potential Implications" to the outcome of the bond issuance set to take place in the 3<sup>rd</sup> Quarter of 2024. Mr. Callender began by highlighting the fact that both presenters' firms serve as financial advisors to the City's Board of Liquidation, assisting the City in bond transactions for nearly 30 years. In performing their initial due diligence, they wished to bring multiple issues to the attention of decision makers. In particular, the subject matter experts noted a depletion of the existing Fund Balance and the potential for a cash crisis which would affect the bond rating negatively and would increase the City's cost of borrowing during the upcoming issue.

To start, Mr. Callender reminded the REC members that the Fund Balance is not made up entirely of liquid "cash." It is made up of some cash mixed in with various substantial non-liquid assets which cannot be readily converted into cash. Since the Fund Balance is meant to be used in support of unforeseen or emergency events, the current status of the City's Fund Balance as largely illiquid inhibits the ability for it to be used for its intended purpose. Additionally, the Fund Balance should not be used for recurring expenses for any municipality. Mr. Callender related GFOA recommendations that a municipality should have at least two full months of Fund Balance available in order to support day-to-day operations, and since New Orleans is likely to experience additional severe emergencies, it would be recommended to carry a larger amount of Fund Balance. Mr. Callender then reiterated that a City's level of Fund Balance, especially the amount of cash available within the Fund Balance, is a primary driver of its bond rating and corresponding cost of borrowing. In fact, rating agencies typically weigh consideration of the amount of Fund Balance by 25%-35%.

Mr. Wright then reviewed the current state of the City's Fund Balance, breaking down its composition in terms of illiquid and liquid assets, and how the status of both had changed over the preceding months. Mr. Wright acknowledged that the City does receive cash receipts from items like Sales Tax which might supplement the cash available to a municipality, but then noted

that this option is unavailable if this source of cash is unavailable, as happened during the COVID-19 pandemic period where much of the commercial activity which generates Sales Tax cash receipts was suspended, cutting off a source of cash that can be used to fund the City's operations. Mr. Wright emphasized that, with the special vulnerability to natural disasters which New Orleans is subject to, there should be a high priority in the budget to be able to fund the City's day-to-day operations during a period where cash flow is interrupted. He then reported the actual amount of Fund Balance to the City and how it has changed over time, dividing the Fund Balance into "Restricted" and "Unassigned" – noting that Fiscal Year 2023 had ended with over \$186 million of Unassigned Fund Balance.

Of the amount of Unassigned Fund Balance, Mr. Wright noted that \$57.7 million was in the form of Outstanding Grant Receivables, and explained that this was an illiquid amount of Fund Balance. Since we have not received the money in the form of Grant Reimbursements this money is illiquid, noting that we do not receive the money from this source until we make a formal request which then must complete a review process by the Grant issuing entity. Since this is a long-term process this asset cannot be readily converted to cash. Additionally, since this receivables asset is meant to fund long-term projects, the City first, upon being approved initially for the Grant, funds the long-term project out of the General Fund and then requests reimbursement at a later date. Since the City has already spent this money, it cannot be reconsidered the same as cash since any receivable we collect from this category must be used to reimburse previous General Fund expenditures. When the additional Fund Balance appropriations which have been added to the 2024 budget through Council Ordinance are considered, totaling \$92.3 million, the current level of available liquid Fund Balance that is Unassigned, and therefore available for emergency funding, totals \$36.3 million as of the June 3, 2024.

Mr. Wright went on to highlight the direct implications of appropriating or spending cash Fund Balance. He began by explaining that for most municipalities, including the City of New Orleans, the entirety of the annual budget is actually not available to the City at any one given time. Instead, a certain and relatively predictable amount of revenues are received incrementally over time, in the case of New Orleans each month. If liabilities in a given month during the budget year exceed cash on hand, the Fund Balance must be used to make up the difference. For the City of New Orleans cash expenditures exceeded the available amount of cash for the first three months of fiscal year 2024 by \$72 million. This caused the City to use Fund Balance in order to fund the City's operations expenses during these months. Fluctuating cash revenues month to month must be considered, and a positive cash Fund Balance must be retained in Fund Balance in order to properly manage more predictable and relatively stable operational expenditures.

There are multiple financial mitigation techniques that Mr. Wright assured the REC could be employed in order to efficiently manage this issue, which he listed and described in some detail, many of which are currently being considered by the City. Those listed were:

- Establishing or formally codifying and adhering to the minimum level of Fund Balance
- Refraining from further use of Fund Balance until FY 2024 financial results are known, and ensuring future uses align with minimum targets
- Delaying, reducing, or canceling approved projects that draw on Fund Balance, or identify other funding sources
- Ensure the adoption of a structurally balanced budget in FY 2024 and beyond

- Exploring increasing revenue through charges for services or taxes that generate additional revenue
- Decreasing ongoing expenditures by reducing or eliminating services

Mr. Wright then ended his planned presentation and opened for questions. Mayor Cantrell extended her appreciation for the presentation, and asked for additional questions or comments. Prof. Force asked whether there was any historical data on how much of the Grant Receivable amount has actually been received in revenues. Freda Richardson, Deputy Director of Finance, responded that the amount received versus the amount listed as receivable fluctuated each year based on the level of actual Grant-Funded project expenditures from year to year, which compound on each other despite the realization of reimbursements. In fact, Mr. Callender offered in addition that the amount of Grant Receivables has as a result of that effect increased over the past two years. In addition, he explained that it was not realistic to expect that other events requiring, for instance, FEMA grant funding would not occur during the reimbursement period for these Grant Receivables.

Prof. Force asked whether a number could be put on the amount of money the City has been able to generate from Grant Reimbursement Requests, to which Dir. Samuels responded that it was definitely a focus of her new tenure as head of the Finance Dept., as was looking for strategies to expand the capacity of the City's departments to submit such request, as it is solely within their purview to do so. Mayor Cantrell reiterated that this was currently a priority for the City. Dir. Samuels then asked Mr. Callender about the question of establishing a mandatory minimum two months expenditure amount of Fund Balance as a GFOA best practice, to which he responded that his recommendation for the City would be to go above and beyond those best practices due to their special circumstances.

##### 5. Adjournment

There being no additional discussion or questions from the panel or public comment, Mayor Cantrell called for a motion to adjourn. With a motion by Councilman Giarrusso and a second provided by CAO Montaña, and adjournment was passed unanimously and executed.