

MEETING MINUTES
REVENUE ESTIMATING CONFERENCE
August 14, 2024

PRESENT

Honorable LaToya Cantrell, Mayor
Honorable Joseph Giarrusso, Councilmember District "A"
Gilbert Montañó, 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 and the return of events and festivals. 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 2025. The Mayor also highlighted the positive outcomes of the bond ratings and sales process which had occurred earlier in the month.

2. Adoption of Minutes

CAO Montañó moved to adopt the minutes from the June 2024 meeting, with a second provided by Finance Director Romy Samuel, with the minutes adopted unanimously.

3. Discussion of 2023 Audited Actual General Fund Revenue

Chief Economist Matthew Cooper began by presenting the final audited revenue results for the 2023 fiscal/calendar year. He noted specifically that one-time revenue events during 2023 was the source of the year-over-year growth in revenue above 2022, and that recurring revenues from general fund revenue sources was actually on a declining trend, and indicated that this was a major factor in determining the 2025 forecast numbers. CAO Montañó called into question the downward trend, citing that revenues had experienced tremendous increases year over year for the past 2-3 years, and that in fact had beaten forecast expectations by tens of millions of dollars. Mr. Cooper pointed out that this occurred during the recovery period from the COVID shutdown policy, and what CAO Montañó was observing was actually a case of recurring revenues returning to previous levels due to the return of revenue generating economic activity

following the lifting of shutdown restrictions. He also explained that the unpredictable nature of recovery periods often require significant forecast revisions as conditions change rapidly.

Councilmember Giarrusso also questioned the assumption of a downward revenue trend, citing that if economic indicators and activity had now recovered and inflation had stabilized, that all things being equal, there should be an assumption of normal level of sustained economic growth for the City that should correspond to a sustained level of growth in recurring General Fund revenues. The Chief Economist did indeed agree that would be expected under those conditions, but noted that all things were not, in fact, equal. Mr. Cooper jumped ahead in his prepared presentation slides to discuss that economic activity had not yet fully recovered to its pre-pandemic levels and offered several endemic explanations as to why that is the case. These included an environment of high interest and lending rates, an overall labor shortage and correspondingly declining local population, and an ongoing insurance crisis, all of which restrict the pace of recovery of businesses lost during the lockdown period of 2020-2021. He also noted that, while one-time revenue events absolutely do support beneficial economic activity within the City, that these underlying issues facing both visitor spending and local resident's disposable incomes were directly affecting sustainable recurring revenue. He finished his response by noting that the 'recovery' momentum which had driven the observed year-to-year revenue increase in 2022 appears to have run out of steam, and that these endemic economic realities were major barriers for the economic and corresponding revenue outlook locally.

Director of Finance Samuel followed up on the previous discussions by pointing out that the General Fund forecast must also balance the economic and revenue growth outlook with anticipated losses from other revenue sources. She additionally asked about the status of actual revenue recovery to pre-COVID levels. Mr. Cooper responded that, adjusting for inflation, his analysis has concluded that Sales Tax revenues had nearly recovered to the pre-lockdown levels, but noted that as inflation has affected tax revenues from sources that are assessed on a per-dollar basis, costs of government activity and services have also increased directly with inflation. While on paper the dollars have increased, we are only able to get the same or in some cases less amount of activity and services from those dollars.

4. Revision and Adoption of 2024 General Fund Revenue Forecast

The Chief Economist reviewed the status of the 2024 General Fund Revenue Forecast versus actual revenues. The two largest risks were as a result of the rule changes governing the Short-Term Rental market in the City and a Louisiana State Senate 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. CAO Montaño then spoke to ensure that the City will indeed be retaining some of this revenue, but admitted that this was the largest potential revenue loss that the upcoming Budget process would be contending with. Mr. Cooper finished the discussion of revenue expectations for the rest of 2024 by noting the ongoing economic and revenue recovery, outlining the continued risk of economic recession during the end of 2024 and through the next year, and reporting that the Federal Reserve has begun signaling lower interest rates at some point during the next few months.

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 price increases that occurred during the peak of the inflation crisis are still effecting economic activity and have not declined. While the rate of price increase has consistently slowed in the past few readings,

prices themselves continue to increase more than twice as fast as the typical official target. Mr. Cooper then presented a graphic comparing overall price inflation to wage inflation, noting that since wages are just a price for labor, that they were also affected by inflationary momentum. He pointed out on the graphic that, in periods where the CPI line was above the wage line, that price inflation was outpacing wage inflation, which had been the case up until the end of 2023. However the situation had reversed and that now wage growth was outpacing price growth which is cause for optimism.

Mr. Cooper then reported the GDP level for the second quarter, noting that the economy continues on its annual growth trajectory, but noted that there would be additional revisions in the coming months, and that one of the primary components of the GDP formula, net exports, had now become 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.

Prof. Force, referencing the faster pace of wage increase versus price increase, asked if it would be reasonable to expect that more people may be enticed back into the New Orleans area labor force, and if it were possible that workers might also choose not just to work here but also move to the City seeking economic opportunity as a result. Mr. Cooper responded that this could be the case that workers are re-entering the labor force seeking the higher wages and that more immigrants to the City could be a very beneficial effect of hosting special events in the City. Director Samuel followed up by asking how and in what direction wages were correlated with spending behavior. Broadly speaking, Mr. Cooper explained, that higher wages did correlate with higher spending, but broken down into earnings categories, and specifically for wage-earning income categories, it is unclear how much a person's wage or income needed to increase before their actual spending, purchasing, or consumer behaviors changed to the degree that the City would see an effect to Sales Tax revenues. The more immediate effect, Mr. Cooper continued, would come from an influx of workers into the labor market earning wages and spending. Prof. Force continued the discussion by noting again the relationship between inflation and Sales Tax revenues, and that the positive effect on tax revenues driven by inflation could recede along with inflationary pressures. Mr. Cooper acknowledged this effect, but offered that there would be a counter effect from increased disposable income for taxpayers as their basic costs of living stabilized.

5. Savings Fund Certification

Mr. Cooper then presented the amount that is required to be allocated to the Savings Fund Balance, totaling \$33,623,152.84. CAO Montañó moved to adopt the presented figures, additionally noting that there was actually an additional \$100 million which the City had set aside for the same purpose. The motion, which was seconded by Councilman Giarrusso, was adopted unanimously.

6. Discussion of Initial 2025 General Fund Revenue Forecast

The Chief Economist began the initial presentation of the 2025 General Fund Revenue Forecast by noting the variance associated with the compressed timeline for delivery of the forecast and associated budget proposal of Oct. 1st, as mandated by the voting public. Also noted was that the presented forecast represented a slight decline from the 2024 forecast amount, and that was mainly due to the current trajectory of actual 2024 revenues versus forecast. CAO Montaña then opened a discussion of the portion of the forecast which was defined as “2025 Non-Recurring Revenue” as it related to the Super Bowl, questioning what was considered in that number, specifically if new lodging and STR units had been included. CAO Montaña cited statistics which appeared to indicate that the lodging industry had grown significantly since 2013 and that Super Bowl-related inflationary factors had grown in the past 10+ years, and questioned whether the presented forecast properly accounted for the associated changes for revenues. Mayor Cantrell also expressed this sentiment, citing the scheduling changes that were made for the event in order to avoid any competitive or congestion effects for visitor spending. Mr. Cooper responded that he would evaluate the information cited ahead of the final forecast presentation which would take place the next month. The discussion concluded with a visual regarding the potential displacement of non-Super Bowl visitor spending activity, demonstrating the context of the additional revenue anticipated by hosting the event.

7. 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 CAO Montaña and seconded by Prof. Force, adjournment was passed unanimously and executed.