

CHIEF ADMINISTRATIVE OFFICE
CITY OF NEW ORLEANS

LATOYA CANTRELL
MAYOR

GILBERT MONTAÑO
CHIEF ADMINISTRATIVE OFFICER

January 29, 2025

Councilmember Joseph I. Giarrusso
Chairman, Budget, Audit, and Board of Review Committee
New Orleans City Council
City Hall, Room 2W80
1300 Perdido Street
New Orleans, LA 70112

Dear Councilmember Giarrusso,

The City's financial standing has reached a critical juncture, as current and impending obligations have put at risk the hard work that we have all put into the City's financial recovery from the pandemic in 2020. As recently as two days ago, an Executive Order was issued to pause all federal financial assistance programs. The financial impact to the City of New Orleans, at worst case scenario, could be as high as \$470M. As we enter a new Presidential term and the final year of this Mayoral and Council term, we feel it is incumbent upon us to regroup with you as Budget Chair to address the pressures being placed on the City's finances early in the year, in preparation for corrective actions that may need to be taken once our draft 2024 financial statements are completed to provide a clear picture of where we are headed.

We fear that the significant unassigned fund balance that we have relied upon while revenues have recovered post-COVID has largely been spent or appropriated, and the 2026 Budget will have to be balanced without the significant use of fund balance as a revenue source. As the Finance team and the City's auditors prepare to close out the City's 2024 books and City employees finish preparations for Super Bowl LIX and Mardi Gras, we have become aware of new obligations beyond what we previously anticipated, and we are uncertain that the actual revenues and expenditures that occurred in 2024 will provide a significant enough surplus to address them without further corrective actions. We hope that you will work with us to address this risk.

As you are aware, it will take several weeks to close out the City's books on 2024 revenues and expenditures, which we typically refer to as the accrual period. In addition, the City's first draft financial statements for each fiscal year are typically not completed until the second quarter of the following fiscal year, in preparation for the submittal of the City's audited financial statements to the Louisiana Legislative Auditor. During this accrual period, there is a level of uncertainty about what precisely happened on a citywide financial basis during the previous year, which impacts our confidence level in the revenue and expenditure projections we made for the current year. The requirements placed on City resources are also fluid, as we host massive public events throughout the Spring. In a normal Spring, the City hosts enormous crowds for Carnival,



French Quarter Festival, and Jazz and Heritage Festival, among many other events. This year, the demands placed on the City are even greater because we are hosting Super Bowl LIX.

Meanwhile, we just recovered from a record-level snowfall event that shut down the City, and we were victimized by the horrific terrorist attack on New Year's Day, resulting in revenue losses while incurring additional expenditures to ensure public safety.

In addition, several factors have intensified our concerns about the pressures being placed on the City's finances:

1. **Uncertain Impacts of Federal Executive Orders:** Recently issued Presidential Executive Orders have purportedly "paused" all Federal financial assistance programs except for assistance received directly by individuals, risking the cessation or interruption of major initiatives providing services throughout our community. At the very least, there will be an understandable desire to continue these critical programs using local dollars until the impacts of federal action are made clear, but the eventual impact could be the cessation of several public health, public safety, and housing programs, or the need for tens of millions of local dollars if federal assistance is eliminated. Early and initial estimates and worst case scenarios show that the impact could reach \$400M.
2. **Significant New Obligations:** Recent commitments, including the School Board settlement, the finalization of costly class action judgments against the City, redirected revenues to the Sewerage and Water Board, and heightened public safety and external agency expenditures have increased our expenditure projections.
3. **Recurring Expenditure Growth:** over the past three years, the Council and Administration have increased services provided to New Orleans residents and visitors, funded largely with Federal COVID-relief dollars, but some recurring expenditures have been approved without a recurring funding source.
4. **Insufficient Revenue Growth:** Current revenue streams are inadequate to meet this expenditure growth, and the Federal recovery funding has been committed or spent. Without expenditure adjustments or recurring revenue increases, these unsustainable practices will erode our ability to fulfill mandatory obligations.

As you know, the 2025 budget included appropriations of \$102.3M in unassigned fund balance to absorb additional spending above our projected recurring revenues, while maintaining the \$133M in the Savings Fund and Emergency/Disaster Reserve. This agreed-upon use of unassigned fund balance was part of our three-year strategy to rely on fund balance revenue until recurring revenues recovered to the levels that we had projected prior to COVID. However, any continued reliance on fund balance jeopardizes the City's financial stability and could result in cash management issues (strains on payroll and vendor obligations), inadequate reserves to address financial contingencies like hurricanes or recessions, and a deterioration of the City's credit rating (increased borrowing costs).

Therefore, we request that you, as Budget Chair, agree to meet with us to delve further into the increased pressures being placed upon the City's finances, commit to maintaining the \$133M in the Savings Fund and Emergency/Disaster Reserve, and consider engaging with us and your colleagues on the Council to find solutions that will allow us to fulfill the operational obligations



incumbent upon the City's leaders, to constrain recurring expenditures that do not have corresponding recurring revenue sources, and to eliminate any spending patterns that could result in a structural imbalance.

To address this potential crisis, we recommend the following corrective measures:

1. **Review of External Agency Budgets:** Review external agency budgets to ensure that all partners uphold their fiscal responsibilities with due diligence. The City can no longer afford to absorb financial risks created by external agencies.
2. **Review of City-Funded Initiatives:** Evaluate and prioritize initiatives to identify areas where spending can be reduced or deferred.
3. **Revenue-Generating Initiatives:** Develop and implement strategies to increase revenues to close funding gaps.

We are certainly open to any additional corrective measures that you would like to consider, and we hope that we can meet in the near future to address the increased risks and pressures that have begun to materialize in 2025.

Thank you,



Gilbert Montaño
Chief Administrative Officer



Romy S. Samuel
Director of Finance

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cc: Hon. LaToya Cantrell, Mayor
JP Morrell, President, New Orleans City Council
Helena Moreno, Vice President, New Orleans City Council
Lesli Harris, Councilmember District B
Freddie King III, Councilmember District C
Eugene Green, Councilmember District D
Oliver Thomas, Councilmember District E

