



Office of Inspector General
City of New Orleans
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September 16, 2009

Honorable C. Ray Nagin, Mayor
City Hall, Room 2E04
1300 Perdido Street
New Orleans, LA 70112

Rev. Kevin Wm. Wildes, S.J., Ph.D. Chair
Ethics Review Board
6363 St. Charles Ave.
New Orleans, LA 70118

Arnie Fielkow, Council President
City Hall, Room 2W40
1300 Perdido Street
New Orleans, LA 70112

Re: Management Alert Report (MAR 09-I&E-001)

Dear Mayor Nagin and Councilmember Fielkow:

Attached is the MAR issued in connection with the Office of Inspector General's evaluation of the City's budgeting process. An internal review copy was transmitted to the Mayor and Council on April 30. The purpose of this MAR was to offer recommendations to facilitate the discussion, modification, and adoption of the City's operating budget for 2010. An internal review copy of the complete budget evaluation will be released by month's end.

City Ordinance §2-1120(9)(c) provides that reports are final thirty working days after transmittal. As such, attached is the final MAR.

Sincerely,

Dr. David L. Westerling
Interim Inspector General

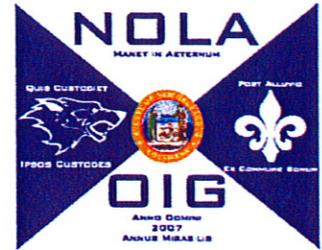
cc: Dr. Brenda Hatfield, Chief Administrative Officer
Jacquelyn Brechtel Clarkson, Council Vice President
Shelley Midura, Councilmember District A
Stacy S. Head, Councilmember District B
James Carter, Councilmember District C
Cynthia Hedge-Morrell, Councilmember District D
Cynthia Willard-Lewis, Councilmember District E
Cary Grant, Assistant CAO, Budget Office
Barbara T. Avalos, Council Budget Office
Calvin J. Aguiard, Council Budget Office

Rev. Cornelius Tilton, Ethics Review Board
Elizabeth S. Nalty, Ethics Review Board
Winston D. Brown, Ethics Review Board
Leah Chase, Ethics Review Board
Dr. Beverly C. Favre, Ethics Review Board
Kathryn V. Lorio, Ethics Review Board

CITY OF NEW ORLEANS

OFFICE OF INSPECTOR GENERAL

525 St. Charles Avenue
New Orleans, La 70130-3409
504-681-3200



April 30, 2009

Honorable C. Ray Nagin, Mayor
City Hall, Room 2E04
1300 Perdido Street
New Orleans, Louisiana 70112

Jacquelyn Brechtel Clarkson, Council President
City Hall, Room 2W50
1300 Perdido Street
New Orleans, Louisiana 70112

Dear Mayor Nagin and Councilmember Clarkson:

This is a Management Alert Report (MAR 09-I&E-001) issued in connection with the Office of Inspector General's ongoing evaluation of the City's budgeting process. The purpose of this MAR is to offer timely recommendations that can be implemented immediately to facilitate the discussion, modification, and adoption of the City's operating budget for 2010.

The City is making a substantial investment in an effort to implement a set of practices collectively known as "Budgeting for Outcomes," which is intended to promote transparency, accountability, and inclusion in the budget process. A key component of the Budgeting for Outcomes approach is establishing procedures to involve stakeholders, including citizens, community leaders, and councilmembers, in establishing the City's budget priorities. However, the OIG has found that the City's actual budget development practices have been anything but inclusive, and offer no effective opportunities for discussion until after the Mayor's proposed budget is submitted to the Council just prior to the November budget hearings.

According to the National Advisory Council on State and Local Budgeting, appropriate procedures are needed to resolve conflicts, to promote acceptance of the proposed budget by stakeholders, and to allow the legislative body to achieve a consensus. The recommendations offered in this MAR are intended to promote more informed decision making and a reasoned

debate over budgetary issues. The OIG's final report, which will be issued later this year, will offer more extensive recommendations relating to the budget process.

If you wish to provide comments regarding this MAR to be considered in our final report, please do so by May 29, 2009. Any response should include actions taken or planned, dates for completion of planned actions, and reasons for any disagreement with the concerns and recommendations presented.

Should you have any questions, or would like to meet prior to preparing your response, please contact Janet Werkman, First Assistant Inspector General for Legal Affairs, or David Westerling, Supervisory Forensic Engineer, at 504-681-3200.

Sincerely,



Leonard C. Odom

Interim Inspector General

- cc. Dr. Brenda Hatfield, Chief Administrative Officer
Arnie Fielkow, Council Vice President
Shelley Midura, Councilmember District A
Stacy S. Head, Councilmember District B
James Carter, Councilmember District C
Cynthia Hedge-Morrell, Councilmember District D
Cynthia Willard-Lewis, Councilmember District E
Cary Grant, Assistant CAO, Budget Office
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INSPECTIONS AND EVALUATIONS DIVISION

MANAGEMENT ALERT REPORT

MAR-09-I&E-001

Interim Recommendations for Adopting the 2010 Annual
Operating Budget

April 30, 2009

Introduction

The Office of Inspector General is conducting an evaluation of the City's process for developing and adopting its annual operating budget. This evaluation will include a comprehensive examination of the City's policies and practices, interviews of many participants in the budget process, including City department heads, and a review of widely accepted best practices. The final report will assess the City's implementation of performance measures in conjunction with the budgeting process for 2008 and 2009. The OIG's goal in conducting the evaluation is to develop a set of recommendations to improve transparency and accountability and help ensure that the goals and priorities of the citizens are reflected in future operating budgets.

The OIG's final report will be completed in 2009, but the City's implementation of the recommendations will not likely be possible prior to the upcoming budget cycle. The OIG is aware that the City faces a daunting challenge in allocating operating funds for 2010 as it completes the transition from disaster relief funding to recurring revenues. For this reason, the OIG has identified specific actions that City officials may take in the near term to facilitate the process of adopting a budget for the coming year and is issuing this Management Alert Report (MAR) to provide timely recommendations that can be implemented immediately.

The recommendations offered in this MAR relate to one concern with the City's current practices: the absence of processes to facilitate discussion, resolve conflicts, and promote informed decision making in the adoption of the proposed budget. Despite the City's recent efforts to implement a budgeting methodology that is more inclusive, there was little or no effective exchange between the executive and legislative branches in setting policies and priorities during the City's most recent budget cycle. The actions recommended in this MAR are intended to ensure that councilmembers and the public are better informed and to provide the Council with a more effective forum for developing and communicating its priorities. These actions may help to build a consensus on difficult decisions and ensure that the City's needs are discussed and weighed in a reasoned and orderly fashion.

Background

The Mayor and City Council share joint responsibility for establishing the City's annual operating budget. Their respective roles are set by the City Charter, which requires the Mayor to submit a proposed budget to the Council no later than November 1. The Council holds public budget hearings during the month of November and adopts a final budget by December 1 for the fiscal year beginning January 1. Neither the Charter nor the budgeting practices the City has employed over the years provides a process to engage the Council or citizens until after the

Mayor's proposed budget has been completed. The public debate on important budgetary decisions is therefore effectively postponed until the eleventh hour.

Budgeting for Outcomes Model

In 2007, the City contracted with consultant Public Financial Management (PFM) to help the City implement a set of budgeting practices that is collectively referred to as "Budgeting for Outcomes." For the period from October 2007 through December 2008, the City paid PFM over \$1.5 million primarily for services related to implementing Budgeting for Outcomes. These practices are recommended by the Government Finance Officers Association and others as tools to promote transparency, accountability, and inclusion in the budgeting process. They are intended to focus the City's resources on the results that matter most to its citizens. The Budgeting for Outcomes process calls for involving stakeholders, including citizens, community leaders, public employees, and the legislative body, to identify priorities that will guide budget decisions.

The Budgeting for Outcomes model contemplates setting up a formal framework for active participation of stakeholders and legislators in the development of broad goals and in prioritizing spending decisions accordingly to achieve the goals. The framework established for the City of New Orleans is described in the Mayor's Proposed 2009 Operating Budget, which includes the budget calendar shown as Table 1 on the next page. This framework calls for the Mayor to consult community leaders and the City Council in April, at the beginning of the budget development process, to begin to work toward a consensus on the results the City will seek to achieve for its citizens through its spending decisions. The calendar also calls for including leaders within City government and citizens on "Results Teams," which are committees chosen to rank budget proposals submitted by departments and other entities seeking funding. Finally, the process described in the Mayor's proposed budget includes City leaders and community leaders on a "Leadership Team" appointed to determine the funds to be allocated to each of the results the City seeks to achieve.

The Enactment of the City's Budget for 2009

According to the Mayor's description of the Budgeting for Outcomes process, priorities are established in consultation with the City Council and community leaders, among others. However, according to interviews with City officials, there was no Council participation in establishing the City's priorities for 2009. Rather, the priority-setting process was carried out solely by the Chief Administrative Officer (CAO)'s budget staff and department heads (who report to the CAO) in conjunction with PFM. Budget preparation for 2009 began in June 2008,

Table 1	
City's Budget Planning Process	
Mayor's 2009 Budget Proposal	
April	The Mayor, in consultation with community leaders, department heads, and the City Council, establishes the results for the next year.
June	City departments submit requests for funding of budget programs to the Results Teams.
July-August	After receiving feedback from the Results Teams, departments submit final requests for funding.
August	The City estimates revenue for the upcoming year. A Leadership Team, consisting of City leaders, department heads, and community leaders, determines what percent of funds will go to each result.
September	The Results Teams rank the funding requests submitted by the departments and determine which programs will be funded based on the rankings and the available funds.
October	Once programs are ranked, the Mayor reviews them to ensure they are coordinated and address city-wide goals, then finalizes all budget information.
November	The Mayor submits a proposed budget to the City Council by November 1. Upon receipt of the Mayor's proposed budget, the City Council Budget Committee will begin holding public hearings as an additional check that the budget meets the citizens' needs.
December	After public budget hearings, the City Council approves an adopted budget by December 1.

when City departments submitted budget proposals to the CAO's office. Once collected, the proposals were reviewed and ranked according to the City's priorities by Results Teams made up of the CAO's budget staff, the Mayor's executive team, and department heads. The Leadership Team, consisting of the Director of Finance, as well as staff from the CAO's office and the Mayor's office, convened to decide on the percentage of the budget to be assigned to each priority. Subsequently, the Results Teams reconvened and assigned their budget allocation by program. Throughout this entire decision-making process, communication between the executive branch and the Council was limited to infrequent and informal discussions between the CAO's office and the Council. The reported lack of coordination between the two branches of city government in setting budget priorities became evident in the struggle that ensued after the Mayor submitted his budget proposal on October 28.

On October 28, 2008, the Mayor announced a proposed budget calling for just over \$500 million in general fund expenditures, as well as a property tax increase to generate \$24 million in additional revenue. On November 5, the Council began holding public budget hearings, and on December 1, 2008, adopted the 2009 annual operating budget. However, the Council did not adopt the Mayor's proposed budget but instead unanimously rejected the Mayor's proposed tax increase. The Council also reduced certain expenditures proposed by the Mayor, transferred funds to the District Attorney's Office and the Indigent Defenders, and applied funds from a federal Community Disaster Loan to balance the budget.

On December 12, 2008, the Mayor rejected the adopted budget by vetoing certain appropriations added by the Council. In lieu of the tax increase, the Mayor proposed an approximate 2.5% spending cut and hiring freeze across all departments, with the exception of police, fire, and emergency medical services. On December 17, 2008, the Council voted to override the Mayor's vetoes and reinstated the budget originally adopted on December 1.

With the reinstatement, the Council also proposed an across-the-board budget cut of approximately 5.58% for all City departments, excluding public safety, sanitation, and recreation. However, the Mayor suggested the 5.58% reduction was too severe, and on January 12, 2009, the Council amended the reinstated budget to include a smaller 3% appropriation cut across most departments (excepting Criminal Justice and Public Safety). Finally, on January 16, 2009, the Mayor approved the amended 2009 budget, ending the contentious back-and-forth between the executive and legislative branches.

The Issue

The National Advisory Council on State and Local Budgeting (NACSLB) has formulated comprehensive guidelines and recommended practices for governmental budgeting.¹ The NACSLB guidelines for preparing and adopting a budget call for developing a process to assist stakeholders in understanding tradeoffs and to help decision makers choose from among competing options. The guidelines define “stakeholders” broadly to include members of the public who are affected by the government’s resource allocation plans and service decisions. For the City of New Orleans, the decision makers include not only the Mayor and his administration but also councilmembers, who share responsibility for setting City policy.

The Mayor’s proposed budget purports to have adopted a process that includes the City Council along with other stakeholders in setting priorities and defining the results. In practice, the budget development process has been anything but inclusive and has provided no opportunity for outside input until after the proposed budget has been submitted to the Council for the November budget hearings. In November 2008, the Council compressed 47 budget hearings into 15 days, on a schedule described by one councilmember as “painful.” Councilmembers were in wide agreement that these budget hearings, while essential for providing public information, were not well-suited to decision making and that the time available to analyze the large volume of information presented in the proposed budget was inadequate to make informed choices.

The absence of effective communication between the executive and legislative branches in the early stages of budget development contributed to the disorderly budget adoption process that undermined the City’s efforts to implement the Budgeting for Outcomes method. The Mayor and CAO had devoted time and resources, paying a consultant to help rank City programs according to priorities. This ranking system was intended to avoid resorting to across-the-board budget cuts, which fail to weigh the relative merits or efficiencies of competing programs. But when the Council rejected the Mayor’s proposed tax increase, after a contentious struggle over funding priorities, the Mayor and Council fell back on broad-based cuts to balance the budget. All the extensive planning work that had gone into prioritizing programs through the Budgeting for Outcomes ranking system went out the door when the final spending decisions were made.

¹ The NACSLB guidelines represent a cooperative undertaking on the part of associations representing elected officials and professional managers of state and local governments, including the Government Finance Officers Association (GFOA).

Recommendations

The National Advisory Council on State and Local Budgeting recommends developing and implementing a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget. According to NACSLB, appropriate procedures are needed to resolve conflicts, promote acceptance of the proposed budget by stakeholders, and assist in timely adoption of the budget. In a publication titled "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting," the NACSLB offers this advice:

A series of processes should be developed that permit stakeholders to satisfy themselves as to the appropriateness of the budget proposal and to allow the legislative body to achieve consensus and adopt a budget. . . . Discussion will inevitably be needed regarding the tradeoffs and choices that need to be made. Issues can be more satisfactorily addressed to the extent that there are clear and accepted processes for considering options and reaching the compromise position that most budgets inevitably represent.

An important component of the Budgeting for Outcomes methodology the Mayor is attempting to implement is a meaningful effort to involve citizens and the legislative body in the process. In reality, however, the Mayor's budget development practices have not been inclusive and no procedures have been implemented to reach out to stakeholders or build consensus with councilmembers on budget matters. For its part, the Council has no process for developing or communicating its priorities to the Mayor before the proposed budget has been completed.

The OIG's final report will include additional recommendations for implementing more inclusive priority-setting procedures. The following recommendations address actions that can be taken in the next few months to facilitate an informed and reasoned decision-making process in the adoption of the City's budget for 2010.

1. The Council should schedule mid-year budget hearings in June 2009, to assess the performance of the 10 or so selected entities that warrant close examination, either because they account for a significant portion of general fund expenditures or because of other concerns. The Council should also focus on departments that generate or collect revenues and seek out information on the bases of revenue estimates and programmatic decisions that affect the level of revenue generated or collected. In connection with this assessment, the Council should review the quarterly performance reports prepared by the City's consultant, PFM, assessing the performance measures established in the City's 2009 budget.

2. Prior to September 1, 2009, the Council Fiscal Office and the Chief Administrative Officer should present an early budget briefing to the Council and the public with a detailed report on current revenues and expenditures, results from latest revenue projections and the five-year forecast, and an update on major budget issues, which could include:

- an assessment of the options identified by the City's financial adviser for paying bonds issued in connection with the firefighters' pension fund²;
- a status report on state funding levels and the implications for revenue sharing programs;
- potential changes that could affect revenue from traffic light cameras;
- employee healthcare and retirement costs;
- other significant impacts on revenues or expenditures.

3. During August and September, the Council should receive the budget proposals submitted by City departments and other entities seeking funds at the same time as the CAO receives them. The Council should also receive each of the reports prepared by the Results Teams in the CAO's office, ranking the budget proposals, as soon as each report is completed.

4. The Council should convene to establish a statement of budget priorities and policies. This statement could include the Council's rankings for budget proposals submitted to the CAO as well as additional proposals for programs, cost savings, or revenue enhancements. This statement should be submitted to the Mayor's Office by October 1, 2009.

² The City's Finance Director warned that this liability could require five annual payments of approximately \$26 million each starting in 2010.