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Avoiding Municipal Bankruptcy in New Orleans, Louisiana

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EXECUTIVE SUMMARY

On July 18th, 2013, Detroit, Michigan filed the largest municipal bankruptcy claim in United States history in terms of the city's population and the size of its debts and liabilities, raising concerns that other major metropolitan areas across the United States might succumb to similar financial distresses.

Characteristics of cities that have filed for municipal bankruptcy in the past five years are not shared with New Orleans, Louisiana. Notable characteristics among economically distressed cities include payments of legacy costs that exceeded the economic capabilities of the municipalities, increased numbers of public employees, decreased tax revenue, loss of jobs to foreign competition, and population fluctuations within the past 50 years.

Since 2005, New Orleans has seen an increase in business start-ups, a population gain, and a massive decrease in unemployment rates. Furthermore, industrial activity in the city is not concentrated in any specific sector, allowing for New Orleans' economy to thrive even if one sector falls into economic distress. This is in stark contrast with Detroit, whose economy failed after its principal economic sector, the automobile industry, received a $24.9 billion bailout in 2008 from the federal government to avoid complete bankruptcy.

In essence, New Orleans, Louisiana has already economically recovered since Hurricane Katrina. Now, the focus should be to withhold and continue to strengthen the city's economic stability in future years. To continue to avoid economic decline, New Orleans cannot employ public employees in numbers that are disproportionate to the growth of the city's population, thus enabling excessive legacy costs in the future that the city will not be able to afford. To avoid legacy costs, the city should favor Defined Contribution (DC) plans, specifically 401K retirement plans, for its public employees rather than traditional multi-year labor contracts, known as Direct Benefit (DB) Plans, that enable legacy costs.

Municipal employees that retire under DC Plans contribute to their pension funds over the course of their employment. Therefore, municipalities will contribute less to the pensions of their employees, thus reducing legacy costs and ultimately reducing potential financial distress.

INTRODUCTION

New Orleans, Louisiana shares few characteristics with municipalities that have filed for Chapter 9 bankruptcy in recent years. The five principal characteristics that bankrupt municipalities shared include payments of employees' retirement benefits, or legacy costs, that exceeded the economic capabilities of the municipalities, increased numbers of public employees, decreased tax revenue, loss of jobs to foreign competition, and population fluctuation over the past 50 years. According to our research, New Orleans only possesses one of these characteristics, allowing us to conclude that New Orleans is not inclined to impending municipal bankruptcy. However, New Orleans can take fiscally responsible actions to ensure that the city does not embark on a path of economic decline.

I. STANDARD RESEARCH AND METHODOLOGY

Research reveals that cities that have filed for municipal bankruptcy in the past five years shared five principal characteristics: 1) legacy costs that exceeded the economic capabilities of the municipalities, 2) increased numbers of public employees, 3) decreased tax revenue, 4) loss of jobs to foreign competition, 5) population fluctuation over the past 50 years.

All cities that have declared bankruptcy in the past five years have experienced massive population fluctuations, and economically distressed municipalities have resulted from both population growth and population shrinkage. Population changes within a city need not be detrimental to city's economic health, so long as the size of the municipal government is adjusted to the population's demands. As populations oscillate, the number of public employees must be adjusted accordingly, as municipal tax revenue changes as the population varies. When the population decreases, the number of public employees must be reduced, so as to prevent the municipality spending more money on its public employees' salaries than its tax base can support.

The immediate effect of employing disproportionate numbers of public employees in comparison to the population of the city is not the most economically detrimental one. Rather, the long-term consequences of excessive public employment are what contribute to municipal bankruptcy. Oftentimes, public employees are hired under the conditions of multi-year labor contracts, known as DB Plans, in which employers pay not only the salary of a worker throughout his/her employment, but also fund benefits and pensions which extend into the employee's retirement. As the number of public employees accumulates over time, the amount of tax revenue dedicated to funding legacy costs accumulates as well, eventually bankrupting a city.

To that end, the public employee to citizen ratio of each of the analyzed cities was calculated (using data from the Census Bureau's *2011 Annual Survey of Public Employment and Payroll*) to assist in determining the economic stability of all analyzed cities.

	Detroit, MI	San Bernardino, CA	Stockton, CA	Central Falls, RI	New Orleans, LA	Charlotte, NC
Public Employees per Citizen	1/61	1/139	1/185	1/164	1/52	1/103

The cause-and-effect relationship between population increases/decreases, legacy costs, and municipal bankruptcy is evident. Municipalities generally experience population booms when the city's economy thrives, causing a need for an increased number of public employees who are hired under conditions of multi-year labor contracts. However, when the population of a city decreases but the number of public employees is not reduced or remains constant, legacy costs accumulate while the municipality's tax revenue decreases. These conditions almost certainly lead to municipal bankruptcy.

Four cities were analyzed based on their municipal bankruptcy claims under Chapter 9 conditions. These cities are Detroit, Michigan; San Bernardino, California; Stockton, California; and Central Falls, Rhode Island. Additionally, Charlotte, North Carolina was analyzed due to the similarities between its economic structure and that of Detroit's. However, as Detroit is currently in a state of financial distress, Charlotte is in an era of economic growth, confirming that the five principal characteristics that contribute to economic instability are indeed damaging to a city's economy. Each city's analysis will be compared to the analysis of New Orleans, Louisiana, thus verifying New Orleans' post-Katrina economic health.

The economic stability of each municipality was analyzed and evaluated based on an index that is also applicable to New Orleans. The index (Table 2.1) evaluates the economic stability of all analyzed cities. In Table 1.1, the five principal characteristics leading to economic instability are located above the red indicator line. The remaining eight traits contributing to financial insecurity will be referred to as secondary characteristics and are located below the red indicator line. These features are shared amongst all major metropolitan areas and are thus considered typical characteristics of municipalities.

Table 1.1: Comparing characteristics of bankrupt municipalities to those of New Orleans, LA.

	Detroit, MI	San Bernardino, CA	Stockton, CA	Central Falls, RI	New Orleans, LA	Charlotte, NC
Excessive legacy costs	X	X	X	X		X
Excessive number of public employees	X				X	
Decrease in tax revenue	X	X	X	X		
Loss of jobs to foreign competition	X	X	X			
Population fluctuation	X					
Selling of limited-tax general obligation bonds	X	X	X	X	X	X
Plummeting property values	X	X	X	X		
High crime	X	X	X		X	
High unemployment	X	X	X			X
Suburban growth	X				X	X
Misuse of Federal Aid	X				X	
Tax base relying on select industries	X			X		
Increased numbers of illegal immigrants		X	X		X	X

II. APPLICATION CITIES

To analyze the characteristics of bankrupt municipalities, and thus the economic conditions that lead to filings of Chapter 9 bankruptcy, we obtained statistics from a variety of reputable online sources, most notably the *Detroit Free Press* and *www.governing.com*, as well scholarly research performed by Laura Reese and The Brookings Institution, and applied them to the cities of Detroit, San Bernardino, Stockton, Central Falls, Charlotte, and New Orleans. The cities of Detroit, San Bernardino, Stockton, and Central Falls make for good comparative analyses, as they have all filed for Chapter 9 bankruptcy. Therefore, their histories can be analyzed to determine the causes that led to their bankruptcies, and their current actions can be examined to determine which economic actions can restore economic stability within a city. By performing this comparative analysis, the economic stability of New Orleans may be determined.

The city of Charlotte is economically stable and serves as a prototype city upon which a comparative analysis may be built.

2.1 DETROIT, MICHIGAN:

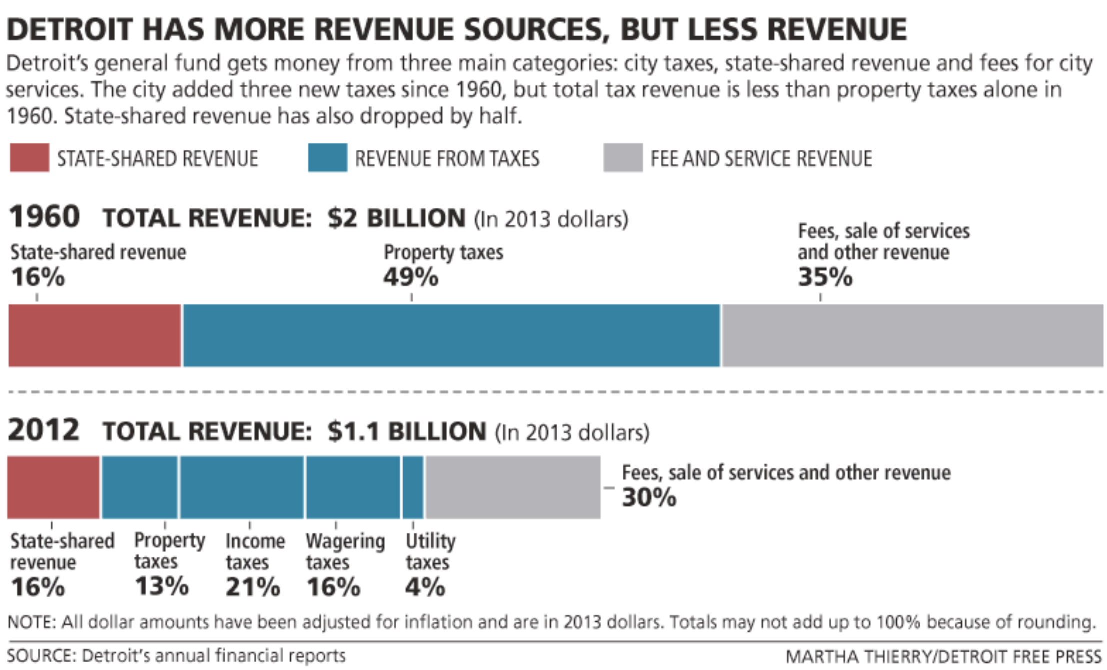
Table 2.1: Characteristics of Detroit leading to its municipal bankruptcy filing.

Contributing Factors to Municipal Bankruptcy	Detroit, MI
Excessive legacy costs	X
Excessive numbers of public employees	X
Decrease in tax revenue	X
Loss of jobs to foreign competition	X
Population fluctuation	X
Mass selling of limited-tax general obligation bonds	X
Plummeting property values	X
High crime	X
High unemployment	X
Suburban growth	X
Misuse of federal aid	X
Tax base relying on select industries	X
Increased numbers of illegal immigrants	

Detroit, Michigan possesses all five principal characteristics that contribute to financial instability. From 1970 to 1980, Detroit experienced a 25% population loss, with another 25% population loss occurring from 2000 to 2010. Currently, the city's population is approximately 713,777 people, as compared to the 1.25 million people residing within city limits in 1970. Detroit's massive population in the mid-twentieth century is a major cause of the city's present-day economic issues. As the city's population expanded, the city physically expanded as Detroit's suburbs were developed. However, relatively little has been done over the past 60 years to renovate these facilities, and thus much of Detroit's infrastructure is over half a century old. Indeed, abandoned neighborhoods in Detroit have recently been compared to Hurricane Katrina-ravaged residential districts in New Orleans. As renovation of infrastructure becomes a mandatory issue to be rectified in the city, the city's debt will inevitably increase.

Detroit's civilian workforce suffered greatly as Detroit's population decreased between 1970 and 2010. The number of civilian jobs in the city decreased by 52.8% and the number of citizens employed decreased by 43.5% during the same time period.

In regard to the city's public employment, despite Detroit's almost 50% population decrease since 1970, the municipal government only reduced the number of public employees by 24% between 1970 and 2004, leading to an accumulation of legacy costs that could not be funded as the city's tax base was reduced in direct proportion to Detroit's population. In addition to lacking funds for legacy costs from multi-year labor contracts, Detroit's municipal government paid over $1 billion in bonuses to retired and current public employees from 1985 to 2008, contributing to the city doubling its total spending on debt and pension costs from 1960 to 2012.



Detroit's accumulation of legacy costs directly led to its July 2013 municipal bankruptcy filing. Amassing legacy costs is not a rare occurrence in the United States, as every municipal worker in the United States has the opportunity to qualify for a public employee retirement plan because every state in the USA has at least one pension plan in effect for its public employees. There are over 3,200 municipal employee pension plans in the United States and more than 220 state plans that provide pensions for retired municipal employees. Accurate data of the workings of the 3,200 municipal employee pension plans does not exist, as the plans are too numerous and varied to individually analyze. Collectively, these pension plans ensure benefits for 14.7 million current municipal employees.

Legacy costs are a direct result of Defined Benefit (DB) retirement plans, in which employees receive a contract upon hiring that ensures they receive pensions from their employer after their retirements. According to the Brookings Institute, over 80% of municipal employees in the United States are currently employed under the conditions of DB Plans. Therefore, legacy costs are not a possibility; they are an assured problem whose solution must quickly be implemented.

DB Plans are often determined in the following formula:

$$\text{Employee Pension}=\text{average salary in fi d three years of employment}*\text{years of service}*(2\%\text{ for each year of service})$$

As employee pensions are partially determined by the number of years in which public employees are employed, long-term municipal employees' pension funds can be financially straining for city governments. In order for municipalities to employ public workers, city governments must ensure that money is available not only to provide employees' salaries but also to fund the pensions of the employees upon their retirements.

According to Laura Reese, Detroit's adopted 2013 budget totals $2.6 billion, with "general fund appropriations" (which includes the payment of legacy costs) accounting for $1.15 billion of the budget. The state of Michigan requires that all municipalities "adopt a balanced budget" and thus, despite Detroit's financial distress, the city must continue borrowing funds to maintain cooperation with the law. Detroit's General Fund has five principal sources of revenue: property tax, income tax, utility use tax, state revenue sharing, and casino wagering tax. Since the 2006 fiscal year, each source of funding has produced decreased amounts of revenue than the prior year.

Property tax is the principal source of revenue for Detroit's General Fund, and its decline in revenue has been caused by a variety of factors. Since 2006, the overall value of Detroit's real estate has significantly dropped in the wake of the Great Recession and the subsequent housing foreclosure crisis. In the 2007 fiscal year, the Detroit state equalized property value was worth approximately $14.1 billion. However, this number was reduced to $9.4 billion by the 2012 fiscal year, reflecting a near 33% reduction in only five years.

Additionally, it is estimated that over $130 million in property taxes remain uncollected in Detroit, which is almost 12% of the entire General Fund's budget.

Property taxes in Detroit are reflective of racial conditions within the city. Detroit's racial history is a violent one (the race riot with the most casualties in America's history occurred in Detroit in the 1960's), and the city's geographic landscape has been shaped by the segregation that once dominated, and still influences, the city's political and economic conditions. The mayoral administration's attitudes towards black and immigrant culture have been reflective of the property tax revenue collected from certain races. When administrations have strained racial relationships in the city, property tax revenue from offended races was reduced. As Laura Reese states, "A long-standing culture of distrust, both internally and externally, has worked against regime formation contributing to the city's inability to address chronic challenges associated with long-term structural economic decline."

Indeed, it has been suggested that the political and financial instability resulting from racial issues in Detroit has caused the city to lack a governing regime. Instead of an administration of elected officials governing over Detroit, the city has adopted a ruling body of "independent actors" that blur the lines of formal authority. Understanding the unique characteristics of Detroit's municipal government is essential to contriving potential solutions to the city's current financial instability.

Detroit became a major American metropolis due to the success of its automobile industry. However, after an economic boom during World War II and major competition from foreign automobile makers, Detroit's automobile industry suffered years of economic instability throughout the second half of the twentieth century. In 2008, Detroit's principal industry filed for a $24.9 billion bailout from the federal government, effectively ruining Detroit's economy.

Numerous cities have overcome their municipal bankruptcies, and thus the question becomes: Why is Detroit's bankruptcy such a focal point in the national media? Much of the reasoning is because Detroit is the largest city in American history to file for Chapter 9 bankruptcy in regards to its population and the size of its debt. Although many cities in the nation have undergone cutbacks as a result of the Great Recession, the extent of Detroit's cutbacks are unprecedentedly high, particularly in a city where nearly 40% of the population lives below the poverty line and are thus dependent upon public services. The complexity of the Detroit case is due to the city's public-dependent citizens. The solution to Detroit's financial instability lies in its excessive number of municipal employees. However, the question of which public employees to eliminate is currently unanswerable. Detroit cannot reduce the size of its police force when approximately half of the city's streetlights are nonfunctioning and the city's crime rate is at an all-time high. The city's archaic infrastructure increases the likelihood of urban fires within the city, thus making it unwise to reduce the size of the city's fire department. Reducing the number of public employees providing public transport is also unfavorable, as citizens of the city living below the poverty line are dependent on public transportation. Even more unlikely is a reduction in cultural and recreational services, as these are the public services viewed as most valuable by impoverished citizens.

Thus, the direction to financial stability in which Detroit must move remains ambiguous. Laura Reese suggests that Detroit has six potential solutions that could save its economy:

- Reduce all municipal services to the fullest extent possible while still allowing them to remain operational, thus ensuring that an affordable, balanced budget may be established.
- Overtake all current operations of the Detroit municipal government by other government organizations, such as the state and county governments or newly formed governmental bodies.
- Regard Detroit as a "municipal corporation," and subdivide the city into numerous, smaller municipal entities.
- Rid the municipal government of all public service responsibilities, including public transport, and turn these responsibilities over to the private sector.
- Make Detroit a "homeland" or "sandbox," taking away all decision-making powers from Detroit citizens and confining municipal problems to the city rather than allowing the county and state governments to have influence on the municipal government's decisions.
- Make Detroit a "de facto colony" with all municipal resources being used for the betterment of others.

Should New Orleans be on a path of economic decline, the solutions offered by Laura Reese to rectify Detroit's economic instability may be applicable to New Orleans as well.

2.2 NEW ORLEANS, LOUISIANA:

Eight years after Hurricane Katrina, five years after the onset of the Great Recession, and three years after the Deepwater Horizon oil spill, New Orleans has made a slow yet steady positive climb toward total recovery.

Table 2.2: New Orleans, Louisiana's current standing on the characteristics leading cities filing for municipal bankruptcy.

Contributing Factors to Municipal Bankruptcy	New Orleans, LA
Excessive legacy costs	
Excessive numbers of public employees	X
Decrease in tax revenue	
Loss of jobs to foreign competition	
Population fluctuation	
Mass selling of limited-tax general obligation bonds	X
Plummeting property values	
High crime	X
High unemployment	
Suburban growth	X
Misuse of federal aid	X
Tax base relying on select industries	
Increased numbers of illegal immigrants	X

New Orleans shares only one of the principal characteristics that contribute to bankruptcy: excessive numbers of public employees. The majority of New Orleans weaknesses lay in the secondary factors that, based on our research, only correlated with bankruptcy in application cities.

The economy is the city's current strength. The New Orleans metro economy has weathered the Great Recession impressively and shows signs of a more competitiveness and expanded amenities. According to the Community Data Center's "New Orleans Index at Eight," as of 2012, the New Orleans metro economy had recovered all its recession-era losses and reached 1 percent above its 2008 employment level while the nation remained 2 percent below its 2008 job level. In addition, New Orleans experienced growth in knowledge-based industries while maintaining older industrial strengths. Entrepreneurship in the New Orleans area continues to expand and the business startup rate exceeds the national average by 56 percent. Furthermore, industrial activity in the city is not concentrated in any specific sector, allowing for New Orleans' economy to thrive even if one sector falls into economic distress.

Although New Orleans is a smaller city after undergoing three major shocks since 2005, it is still growing. The U.S. Census Bureau has estimated the city of New Orleans' population at 369,250 as of July 2012, only 76 percent of its population in 2000. But, also according to the Census Bureau, the population of New Orleans and the metro area grew by 2 percent (roughly 8,900 people) and 1 percent (approximately 13,700 people) respectively, between July 2011 and July 2012. A study by Valassis, Inc., performed June 2013, on the number of households receiving mail in New Orleans indicated that 37 of New Orleans' 72 neighborhoods have recovered 90 percent of their June 2005 population, and 13 of those neighborhoods have higher populations than they did in June 2005.

Crime rates have declined to lower than pre-Katrina levels, but the city's 2011 crime rates remain significantly higher than the national averages for both violent and property crimes. The public education, health care, and criminal justice reforms underway have significant potential to raise standards of living and build a safer and more just community. Improvements in quality of life are being enjoyed across the metro. The presence of arts and culture organizations in the city has never been stronger. When coupled with entrepreneurship trends, it is clear the metro is a creative place.

In essence, New Orleans has essentially completely recovered almost all it's post-Katrina losses. The city is currently thriving despite minor weaknesses that are constantly being evaluated and improved. The economy is one of New Orleans current strengths, a stark contrast to Detroit, Michigan. Since 2005, New Orleans has seen an increase in business start-ups, a population gain, and a massive decrease in unemployment rates. The city only shares one of the five primary characteristics that we determined based on our research lead to municipal bankruptcy, putting it in far better condition than Detroit and the other application cities that have undergone or are currently undergoing financial and economic instability.

2.3 SAN BERNARDINO, CALIFORNIA:

Table 2.3: Characteristics of San Bernardino leading to its municipal bankruptcy filing.

Contributing Factors to Municipal Bankruptcy	**San Bernardino, CA**
Excessive legacy costs	**X**
Excessive numbers of public employees	
Decrease in tax revenue	**X**
Loss of jobs to foreign competition	**X**
Population fluctuation	**X**
Mass selling of limited-tax general obligation bonds	**X**
Plummeting property values	**X**
High crime	**X**
High unemployment	**X**
Suburban growth	
Misuse of federal aid	
Tax base relying on select industries	
Increased numbers of illegal immigrants	**X**

San Bernardino, California possesses three of the five principal characteristics that contribute to financial instability and became the third California city in recent history to be awarded municipal bankruptcy by state courts. Unlike Detroit, San Bernardino's bankruptcy claim is largely due to a major population increase from 1950 (population 63,058) to 2010 (population 209,924). San Bernardino's population increase would suggest rising tax revenues for the city. However, due to increased numbers of illegal immigrants, San Bernardino's population has been increasing through people who are not registered to pay taxes.

An additional cause for San Bernardino's bankruptcy can be traced to the 1970s, when California Governor Jerry Brown legalized public employee unions. The unions ensured that public employees (particularly police officers and fire fighters) received generous salaries, health benefits, and pensions. Thus, despite San Bernardino's relatively low public employee to citizen ratio—one public employee for every 139 citizens—the city must fund pension costs that are considerably higher financially than those in comparative municipalities.

San Bernardino's filing for Chapter 9 bankruptcy is as much a judicial precedent as it is an economic one. On August 1, 2012, after its primary declaration of bankruptcy, San Bernardino became the first city in United States history to suspend payments to CalPERS, the California Public Employees' Retirement System. CalPERS provides California's public employees with their retirement pensions, raising the issue of whether San Bernardino's retired employees would continue to receive pension checks if the municipality itself ceased payments to CalPERS. San Bernardino resumed payments to CalPERS in 2013, and its retirees continue to receive their pensions at this time.

2.4 STOCKTON, CALIFORNIA:

Table 2.4: Characteristics of Stockton leading to its municipal bankruptcy filing.

Contributing Factors to Municipal Bankruptcy	Stockton, CA
Excessive legacy costs	X
Excessive numbers of public employees	
Decrease in tax revenue	X
Loss of jobs to foreign competition	X
Population fluctuation	X
Mass selling of limited-tax general obligation bonds	X
Plummeting property values	X
High crime	X
High unemployment	X
Suburban growth	
Misuse of federal aid	
Tax base relying on select industries	
Increased numbers of illegal immigrants	X

Stockton, California possesses four out of the five principal characteristics that contribute to financial instability, and before Detroit's Chapter 9 bankruptcy filing in 2013; Stockton was the most populous municipality in the nation to be awarded bankruptcy by federal courts. In essence, Stockton's path to filing for Chapter 9 bankruptcy is almost identical to that of San Bernardino. Similar to San Bernardino, Stockton experienced a major population increase from 1950 (population 70,853) to 2010 (population 291,707). However, Stockton's rapid population growth is largely due to an increased number of illegal immigrants within city limits, leading to a population growth without a growth in the municipality's tax base.

As with San Bernardino, Stockton's eventual filing for Chapter 9 bankruptcy is largely because of the actions of California Governor Jerry Brown in the 1970s. California's public employee unions have ensured that all municipal employees receive sizable salaries, health benefits, and pensions. Thus, despite Stockton's relatively low public employee to citizen ratio—one public employee for every 185 citizens—the city must fund pension costs that are considerably higher financially than those in comparative municipalities.

Stockton's unemployment rate was approximately 16 percent in 2012, nearly doubling in the last decade, and one-fifth of residents live below the poverty line.

2.5 CENTRAL FALLS, RHODE ISLAND:

Table 2.5: Characteristics of Central Falls leading to its municipal bankruptcy filing.

Contributing Factors to Municipal Bankruptcy	Central Falls, RI
Excessive legacy costs	X
Excessive numbers of public employees	
Decrease in tax revenue	X
Loss of jobs to foreign competition	
Population fluctuation	
Mass selling of limited-tax general obligation bonds	X
Plummeting property values	X
High crime	
High unemployment	
Suburban growth	
Misuse of federal aid	
Tax base relying on select industries	X
Increased numbers of illegal immigrants	

Central Falls, Rhode Islands is a previously debt-ridden city that has recovered from municipal bankruptcy. The town filed for Chapter 9 Bankruptcy on August 1, 2011 and emerged from municipal ruin thirteen months later, prompting Judge Frank J. Bailey of the United States Bankruptcy court to state that Central Falls' handling of their bankruptcy was an example of how a "Chapter 9" should be run.

The municipality's population in 2010 was 19,376, and according to the last census, displayed a 2.4% increase over the past decade, displaying slow, almost stagnant population growth. During this time, Rhode Island's state government cut funding to cities and towns, essentially ensuring bankruptcy for Central Falls and increasing the likelihood of other municipal bankruptcy filings in the state.

Central Falls possesses two of the five principal contributing factors of municipal bankruptcy. The city's main and most detrimental factor is its excessive legacy costs. In its Chapter 9 filing, the city admitted to having over $80 million in debt due to unfunded pension and retiree health benefit liabilities. This generated concern in the 2000's when debts started to outweigh the revenue. In 2011, Central Falls owed $80 million and had an annual budget of $17 million, but the city was only generating annual revenues of $16.4 million per year from citizens.

To recover from municipal bankruptcy, Central Falls cut pensions by 55% and reduced the number of city employees from 174 to 118. The city also raised property taxes by 4%.

2.6 CHARLOTTE, NORTH CAROLINA:

Table 2.6: Characteristics of Charlotte leading to its municipal bankruptcy filing.

Contributing Factors to Municipal Bankruptcy	Charlotte, NC
Excessive legacy costs	X
Excessive numbers of public employees	
Decrease in tax revenue	
Loss of jobs to foreign competition	
Population fluctuation	
Mass selling of limited-tax general obligation bonds	X
Plummeting property values	
High crime	
High unemployment	X
Suburban growth	X
Misuse of federal aid	
Tax base relying on select industries	
Increased numbers of illegal immigrants	X

Unlike other comparable cities, Charlotte is economically thriving due to its use of annexation and limited use of municipal employees. Charlotte only possesses one principal characteristic contributing to financial instability. The city's population increased by 124% between 1970 and 1999, but the city's land annexation tactics enabled Charlotte to expand by hundreds of square miles. In 2001 the city of Charlotte added 22,300 citizens and approximately 260 square miles of land to its city limits. Charlotte's principal industry is banking, which allows the city to outsource many jobs. However, despite its ability to outsource, Charlotte also maintains a strong local workforce.

III. POLICY RECOMMENDATIONS:

New Orleans is not on a path of economic decline. However, the city must take appropriate financial actions to ensure the continuation of its current post-Katrina economic successes. Out of the six cities analyzed, New Orleans has the highest public employee to citizen ratio, with one public employee for every 52 citizens. This allows for possible accumulation of legacy costs in future years. It should be noted that the mean public employee per citizen ratio of all analyzed cities is one public employee for every 81 citizens.

Although New Orleans exhibits a high ratio, the municipality is an average of the characteristics of Detroit and Stockton/San Bernardino that eventually led the cities into bankruptcy. Detroit employed a large number of public employees while its population decreased, thus enabling the formation of legacy costs as the tax base was reduced. On the contrary, Stockton and San Bernardino employ a relatively low number of public employees in comparison to their populations. However, labor unions have caused an accumulation of legacy costs, and despite the cities' massive population increases, they have witnessed a reduced tax base due to a migration of illegal immigrants into the cities. In comparison, New Orleans employs a large number of public employees but its population is increasing. Thus, the legacy costs accumulating in New Orleans are currently affordable due to the city's steadily increasing tax base.

Thus, New Orleans is a combination of the two paths that lead to municipal bankruptcy, and municipal bankruptcy is therefore not a threat to the city. Despite the highest public employee to citizen ratio out of all analyzed cities, New Orleans' steady population increase has caused a steady rise in municipal tax revenue as well, therefore enabling the city to afford both the salaries and future pensions of its public employees. If New Orleans should continue with current trends, the city will not be in danger of financial stress.

3.1 STABILIZE PUBLIC EMPLOYEE PER CITZENS RATIO

To effectively eliminate the threat of legacy costs in New Orleans, the municipal government needs to adjust its number of public employees in proportion to the size of the city's population. New Orleans should not immediately reduce the number of public employees, as current trends convey that the present public employee to citizen ratio is an effective one. As the city's population continues to rise, though, New Orleans should not employ an increased number of public employees.

Ultimately, the issue for New Orleans, as with Detroit, is to identify in which sector of the municipal government are public employees existing in excess. Crime in New Orleans is a ubiquitous issue, and thus the size of the New Orleans police department should not be reduced. Additionally, New Orleans' downtown infrastructure is outdated, so the city should not reduce the size of its fire department. Public transportation in New Orleans does not exist on the same scale as public transportation in other major cities (i.e. Detroit), and therefore the elimination of public employees involved in public transport is not logical. The issue remains to discover where New Orleans can cut public employees from its payroll.

3.2 AVOID LEGACY COSTS BY FAVORING 401K RETIREMENT PLANS

All municipalities that filed for irreparable financial distress under Chapter 9 bankruptcy suffered from the accumulation of unaffordable legacy costs. These legacy cost retirement programs are entirely funded by either the municipality or a statewide organization (such as CalPERS) that municipalities must pay funds to each year. Instead, municipalities should favor DC Plans, such as 401K retirement plans, for its public employees in which, throughout their careers, public employees would pay into their retirement plans.

401K retirement plans are often not favored by municipal employees, as they require employers to set no guaranteed income for life. Rather, pensions determined by DC Plans are subject to the global market, causing employees' personal retirement plans to fluctuate according to global economics. The private sector comprehended the danger of legacy costs over thirty years ago, reducing its number of long-term labor contracts from 62% to only 7% from 1970 to 2013. To that end, the private sector has more than quadrupled its number of 401K-styled retirement plans from 16% to nearly 69% in the same time span.

Should New Orleans reform to a 401K-styled retirement plan for its employees, it needs to act in the immediate future while the city's economy is undergoing an economic boom. Cities, such as San Diego, California, currently attempting to convert from long-term labor contracts to 401K plans for their public employees are facing opposition, as the cities do not currently have the funds to support a complete overhaul of the current pension system. The San Diego Employees' Retirement System estimates that the total cost of pension reformation will be $94 million, a sum that debt-ridden San Diego cannot afford.

Additionally, states that have attempted to convert from DB Plans to DC Plans have been met with legal backlash from retired and current employees, as the conversion typically affects contracts already established. The conversion of pension plans has spawned lawsuits in Colorado, Minnesota, New Jersey, and South Dakota. Therefore, should New Orleans convert to DC Plans for municipal employees, the conversion must only apply to newly formed contracts, lest legal repercussions occur.

3.3 ENACT HARSHER CONDITIONS FOR CURRENT DB PLANS

According to the Brookings Institute, in light of increasing concerns regarding the affordability of long-term retirement pensions, 43 states have enacted legislation making the conditions of DB Plans less fiscally detrimental to municipal governments. The most common conditions under the new legislation are: "increased employee contribution requirements (30 [states]); raised age and [years of] service for eligibility (32 [states]);

adjusted formulas for calculating benefits (17 [states]); and reduced cost of living increases (21 [states]).”

Should New Orleans enact the above recommendations, potential financial instability for the city will be greatly reduced. Overall, the primary cause of fiscal insecurity is the accumulation of legacy costs. If this accrual were to cease, New Orleans would no longer share any of the five principal characteristics leading to municipal bankruptcy, and the Crescent City’s potential to become bankrupt would become near nonexistent.

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