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The Hotel Assessment: A Question of Priorities, A Question of Propriety

May 14, 2013

In the immediate future, the citizens of New Orleans will face enormous public expenses.

Sewer and water rates are **rapidly rising** and will be double the 2012 level by 2020. The Sewerage & Water Board is considering hiring a consultant to advise it on the creation of drainage fees to provide funding for pending drainage projects. Public schools are being rebuilt primarily with federal money, but there is **not enough revenue** in place to maintain them at the proper level. The federal consent decrees mandating police and prison reforms combined could, according to the city, cost as much as $165 million in the coming years.[1] **As BGR documented earlier this month**, one-eighth of the city's annual General Fund revenue must go toward addressing the disastrous state of the New Orleans Firefighters' Pension and Relief Fund.

As things stand, many of the basics that citizens enjoy in other cities, such as street maintenance, get scant attention, with little sign of new investment. The city budgeted $2.6 million for street maintenance in 2013.[2] This is less than what the city budgeted in 2008, when **BGR found that the city was grossly underfunding** basic street maintenance work. Broken streetlights and the weak enforcement of noise and building ordinances are a constant source of frustration for residents as well.

Now, a bill is making its way through the Legislature that could, in effect, place a new tax on hotel rooms. Senate Bill 242 would allow the private, nonprofit New Orleans Convention and Visitors Bureau (CVB), to levy on its member hotels an assessment of up to 1.75% of the daily room charge.[3] In order to do so, it must receive a two-thirds vote of approval from the CVB's hotel members.[4] The bill will be heard tomorrow in the House Committee on Municipal, Parochial and Cultural Affairs.

The bill would allow the proceeds to be used for "destination marketing, sales, public relations and for other matters deemed by the tourism organization to benefit directly or indirectly economic development, the traveler economy, and tourism growth."[5] The CVB estimates that the proposed assessment would generate $14 million per year.

According to the CVB, 1.5% of the tax ($12 million) would be split between the CVB and the New Orleans Tourism Marketing Corp. (TMC), another tourism promotion entity, for marketing.[6] The remaining .25% ($2 million) would go to the city for enhancements in the French Quarter. The division of funds is not set forth in the legislation.

The assessment would be on top of hotel occupancy taxes totaling 13%. The majority of those taxes currently support sports and tourism, with roughly 1.2% going to the CVB and TMC. This nearly matches the 1.5% the City of New Orleans government receives from hotel occupancy taxes.

Proponents argue that additional marketing is needed to attract more visitors and enable the city to compete with other cities for major conventions and meetings. They say this will, in turn, have a positive economic impact and generate fiscal benefits for tax-recipient bodies in New Orleans.

However, the proposal raises a number of troubling issues.

First, although the proposed charge is crafted as an assessment, it would consume a portion of the city's tax capacity. That capacity, which circumscribes the city's ability to provide services and infrastructure, is finite and must be used judiciously. Adoption of a tax for one purpose can, as a practical matter, foreclose the opportunity to seek revenue for another.

Yet, under SB 242, neither the citizens of New Orleans nor their elected representatives in the City Council would be involved in the decision to impose the proposed hotel assessment. Rather, the decision to consume that capacity would be made by the state Legislature and members of a private organization.

Second, the proposal to use the funds for marketing is being made in a vacuum, without consideration of the city's other pressing needs. How important is tourism marketing compared to public safety and the city's pressing infrastructure needs? This is a matter that should be resolved at the local level after extensive public debate, rather than at the state level by a legislative fiat.

The proponents of the assessment have not demonstrated that marketing tourism is the highest and best use of the city's tax capacity. They should have to do so, as part of the public dialogue, before the Legislature approves such a bill. We note that a compelling case could also be made for the economic benefits of investing in clean, safe streets and reliable infrastructure – which would benefit the hospitality industry itself.

BGR has consistently urged a strategic approach to public spending, based on a comprehensive assessment and prioritization of the needs of the multiple governmental entities operating in the city. The Legislature should table SB 242 until that prioritization takes place.

NOTES

1 This includes $55 million for the police and $110 million for the prison. Maldonado, Charles, "City provides a breakdown of consent decree costs," *Gambit Weekly*, August 9, 2012. Monteverde, Danny, "Mayor, sheriff spar over consent decree costs," *The Advocate*, April 2, 2013.

2 City of New Orleans, *2013 Adopted Annual Operating Budget*, pp. 315-318

3 SB 242 provides that the hotels shall place the assessment on their guests' bills as a "mandatory surcharge," along with the other hotel taxes and surcharges.

4 La. SB 242, Reg. Sess. of 2013.

5 Ibid.

6 Information provided by CVB.