

**THE \$1 BILLION QUESTION REVISITED**

Updating BGR’s 2015 Analysis of Orleans Parish Tax Revenues  
April 2019

**WHY THIS REPORT MATTERS**

New Orleans faces billions of dollars in costs to improve drainage, streets and public services. These needs are so great that it may be impossible to adequately address them all. This means that every tax dollar that is not well spent represents a dollar’s worth of critical needs that will go unmet.

For this reason, it is important to pursue a more optimal allocation of local tax revenues. BGR called for a comprehensive reevaluation of current tax dedications in a 2015 report on the uses of local tax revenues in Orleans Parish. Entitled *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?*, the report provided an overview of current funding priorities to help public officials and citizens assess how well they align with New Orleans’ needs.

Policymakers have not yet conducted the comprehensive review of tax dedications that BGR recommended. In addition, the City has made only limited progress in funding critical needs, and it did so primarily through new taxes and General Fund allocations rather than rededication of existing taxes.

Still, the community has recently begun an important dialogue about tax dedications and funding needs. The mayor has called for redirecting some tax revenues from tourism-related entities to help fund critical infrastructure improvements. In the ongoing State legislative session, legislators are considering bills to rededicate New Orleans taxes. BGR recently released an analysis of the Orleans Parish hotel tax structure that concluded the City’s annual share of hotel tax revenues should increase by the equivalent of at least a 1% tax, or \$12.3 million currently.

To help inform the public dialogue on tax dedications now and beyond the legislative session, this report resets the local tax revenue picture by updating key figures in *The \$1 Billion Question*. The report breaks down 2019 projected local tax revenue by recipient and by purpose, comparing the results to 2015. The report then reviews progress toward reevaluating tax allocations to identify funding for high-priority needs, including those of City government. In a future report, BGR will analyze growth in City budgets during the past decade to identify changes in its funding priorities.



## KEY FINDINGS

- Local tax revenue will total an estimated \$1.25 billion in 2019, an increase of \$154 million, or 14%, since 2015. This increase is largely the result of growth in revenue from existing taxes that significantly exceeded the rate of inflation.
- Since 2015, a half-dozen new taxes have taken effect, providing \$33 million dedicated primarily to public safety, libraries and street repairs. These taxes were partially offset by about \$21 million in decreases in existing taxes.
- As shown in the chart, public safety and public education are the top funded purposes for local taxes, with each receiving about a quarter of total tax revenues. Promoting tourism, conventions and professional sports is next with about 14% of the total. At the lower end of the spectrum, drainage and streets receive 5% and 4%, respectively.
- BGR's 2015 report flagged two entities with large reserve funds that raised questions about the size of their local tax dedications. Since then, the reserves for both entities have grown. As of September 2018, the New Orleans Ernest N. Morial Convention Center had \$235 million in unrestricted reserves, nearly four times its operating budget. Meanwhile, the Orleans Parish Assessor's Office projects its reserves will reach \$13.1 million by the end of 2019, or 123% of its operating budget.
- The City's debt service costs on outstanding bonds are scheduled to drop by nearly \$20 million in 2022 and continue falling in subsequent years. This could reduce the property tax for debt service and present an opportunity for the City to rethink how it funds infrastructure improvements. One of the options the report discusses is a fee-based approach to funding drainage and street improvements that has a couple of advantages over property taxes. The fees can be tied to the property's impact on the underlying infrastructure, and they can apply to properties exempt from property taxation.

## CONCLUSION AND RECOMMENDATIONS

BGR restates and expands upon its core recommendation from *The \$1 Billion Question* by calling for a reevaluation of local tax dedications in Orleans Parish to identify opportunities for redirecting revenue to fund necessary improvements to infrastructure and public services. While some needs may require additional revenue from the public, policymakers owe it to citizens to deploy existing resources optimally before asking them to pay more. This is particularly important given the \$154 million growth in local tax revenues since 2015. The Legislature should begin the reevaluation process in the current session by considering the most clearly justified tax rededication options. At a minimum, it should take action to increase the City's annual share of hotel taxes by at least the equivalent of a 1% tax (\$12.3 million currently).

Looking beyond the legislative session, the City should develop a comprehensive, long-term plan for funding high-priority needs. This should include reevaluating the City's current spending priorities. If City tax revenues continue to grow at a rate that exceeds inflation, the plan should direct a portion of this growth to critical needs. The plan also should evaluate additional tax rededication options for future legislative action and set priorities for how the City will use any revenue it receives.

If these rededicated and reallocated revenues prove insufficient, any proposals for new taxes or user fees should reflect the plan's priorities. For any tax proposition, the City should demonstrate that it is necessary to meet a high-priority need, appropriately sized and likely to produce effective outcomes for which it will be held accountable. In weighing options to generate new revenue for drainage and street improvements, the City should strongly consider the advantages of alternatives to property taxes, such as user fees that better connect use of the infrastructure and the charge associated with it.