

NEW ORLEANS PROPERTY TAX PROPOSITIONS, DECEMBER 5, 2020

IN BRIEF

On December 5, New Orleans voters will decide three separate propositions to replace several City of New Orleans (City) property taxes that expire at the end of 2021. The replacement taxes would have the same combined rate of 5.82 mills (about \$23.4 million in 2021) as the existing taxes. However, the propositions would change the tax dedications. They would increase funding for infrastructure, housing and economic development, while decreasing funding for public libraries. They would also add early childhood education as a new permissible use for some of the libraries' tax revenue. The table below shows the proposed changes.

The replacement taxes would take effect at the beginning of 2021 and run for 20 years until 2040. For any proposition that voters reject, the City plans to levy the existing tax at its current rate in 2021. It could then place another tax proposition on the ballot next year before the tax expires.

REPORT HIGHLIGHTS

City officials told BGR the propositions would better align the current tax dedications with the City's needs. As discussed in the report, consolidating taxes for streets and capital improvements would allow greater flexibility in using the proceeds. Early childhood education, a growing priority for the City, would receive its first dedicated tax funding. And the City could expand housing and economic development initiatives to meet challenges in those areas. To fund these objectives without increasing taxes, the City is proposing a reduction in the library millage. However, the report explains that the combined rate for these taxes could increase or decrease depending on voters' decisions on the individual propositions (see Page 5).

BGR analyzed each proposition by considering four questions that address the efficient and effective use of public resources: (1) Are there credible reasons to fund the proposed purposes? (2) Is the tax an acceptable way to fund them? (3) Is the tax appropriately sized? (4) Will the tax revenue be spent effectively? BGR gathered information from available plans, budgets, financial statements and other documents, as well as interviews with and information requests to the City and other stakeholders.

TABLE I: OVERVIEW OF THE TAX PROPOSITIONS

Proposition	Current	Proposed	Change
No. 1 Infrastructure and maintenance <ul style="list-style-type: none"> ▷ 1.77 mills for streets and traffic signals ▷ 0.56 mills for capital projects 	2.33 mills	2.619 mills <ul style="list-style-type: none"> ▷ Single tax for streets, drainage, public facilities, vehicles and equipment 	+0.289 mills
No. 2 Libraries and early childhood education <ul style="list-style-type: none"> ▷ For libraries only 	2.58 mills	0.987 mills <ul style="list-style-type: none"> ▷ Single tax for libraries and early childhood education 	-1.593 mills
No. 3 Housing and economic development <ul style="list-style-type: none"> ▷ 0.91 mills for housing ▷ 0 mills for economic development* 	0.91 mills	2.214 mills <ul style="list-style-type: none"> ▷ 1.05 mills for housing ▷ 1.164 mills for economic development 	+1.304 mills
TOTAL	5.82 mills	5.82 mills	0 mills

* The City could have levied up to 0.91 mills for economic development.

BGR found that the merits of the tax propositions vary significantly. The proposed infrastructure tax would sustain essential funding for streets and drainage while expanding the permissible uses to address other long-neglected needs for building maintenance and vehicles. Spending money on these purposes maximizes the lifespan of public assets and saves on repair and replacement costs down the road. Similarly, the proposed investment in early childhood education is likely to produce substantial benefits for economically disadvantaged children and the public at large.

But to varying degrees, there are concerns about the lack of spending plans for the proposed tax dedications. For the infrastructure tax, this means voters cannot fully assess whether the tax will make meaningful progress toward addressing identified needs. In the case of the housing tax, the City's existing planning and evaluation processes for potential tax-funded projects mitigate this concern. The lack of a detailed spending plan for the economic development tax is a greater concern. Economic development initiatives, by their nature, are less tangible and certain in their results. If the City does not have a clear plan for how it will use the tax revenue and measure results, it opens the door for waste.

Meanwhile, the proposed library tax reduction lacks the backing of adequate strategic and financial planning, and could continue the library system's roller coaster ride of surpluses and deficits. If voters approve the tax reduction, the system could draw upon its reserves to support operations while it pursues budget reductions. However, if it cannot achieve the necessary cuts, City officials said this could prompt them to return to voters with another library tax proposition – the third one in less than a decade. Moreover, voters lack sufficient information to assess whether the proposed reduction in funding would diminish, sustain or increase the value of the public libraries to the community.

Due to the highly interconnected nature of the tax propositions, the library tax presents voters with a couple of conundrums. First, because it is paired with early childhood education, voters must approve the most problematic tax dedication in order to approve one of the most promising dedications. Second, the City's plan to keep the combined tax rate the same is predicated upon voter approval of the reduced library

About BGR's On the Ballot Series

This report is the latest in BGR's *On the Ballot* series, which provides voters with objective, nonpartisan analysis of significant ballot propositions in the New Orleans metropolitan area. In producing *On the Ballot* reports, BGR recommends positions consistent with its mission of promoting informed public policy and the effective use of public resources for the improvement of local government. *On the Ballot* reports bring to light the strengths and weaknesses of ballot propositions and assess the potential for government expenditures or actions to efficiently achieve beneficial outcomes for citizens.

millage. If voters reject the library dedication, the combined rate could increase by up to 1.593 mills for one year.

City officials said they are seeking to replace the taxes a year before they expire to achieve a level of stability amid the fiscal crisis. They also want to expedite reallocation of some tax revenue to new priorities, such as early childhood education and vehicle replacement. But with the City facing a multi-year financial recovery, voters may question whether it is prudent to lock in tax dedications for 20 years.

If voters reject the propositions, the City could levy the existing taxes for another year. It could adjust the individual tax rates for 2021 to achieve some of its reallocation goals without increasing the overall tax rate. The City could then return to voters in 2021 with tax propositions informed by a clearer picture of the City's finances. The City would also have more time to address shortcomings in some of its plans for using the tax revenues. This approach would require the City to find additional funding in the budget for one year of early childhood education.

If the City does return to voters with revised tax propositions in 2021, it should consider shortening the duration to 10 years to provide a greater opportunity for citizens and policymakers to reassess the taxes through the renewal process.

Whatever voters decide on December 5, the City should use the current fiscal crisis to reevaluate its post-pandemic spending priorities. It may be able to keep some pandemic-related spending cuts in place as its finances recover, and redirect the revenue to underfunded needs.

BGR POSITION

AGAINST ALL THREE PROPOSITIONS. For several years, BGR has urged City leaders to re-examine New Orleans' tax dedications for opportunities to redirect revenue to help meet important community needs without raising taxes. The City's millage rededication proposal adheres to the spirit of that call. However, it does not give voters adequate information for decision-making on taxes that would run for 20 years. Voters are asked to approve a nearly 40% revenue cut for public libraries without a strategic plan or a clear roadmap for right-sizing their budget before their reserves run out. The proposal further asks voters to increase taxes for infrastructure, housing and economic development without any spending plans. As a result, all propositions have significant flaws, despite the compelling needs they might address.

If voters reject the propositions, the City plans to levy the existing taxes for another year. It could then address the shortcomings of the propositions and return to voters in 2021. The City should deliver a new proposal that makes a clear case for each of its components. In the meantime, the City should maintain its current \$3 million commitment to early childhood education, a well-developed purpose in the current proposal.