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ON THE BALLOT

A Report from the Bureau of Governmental Research

NEW ORLEANS PROPERTY TAX PROPOSITIONS, DECEMBER 5, 2020

INBRIEF

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 1: OVERVIEW OF THE TAX PROPOSITIONS

Proposition	Current	Proposed	Change
No. 1 Infrastructure and maintenance	**2.33 mills** ▷ 1.77 mills for streets and traffic signals ▷ 0.56 mills for capital projects	**2.619 mills** ▷ Single tax for streets, drainage, public facilities, vehicles and equipment	**+0.289 mills**
No. 2 Libraries and early childhood education	**2.58 mills** ▷ For libraries only	**0.987 mills** ▷ Single tax for libraries and early childhood education	**-1.593 mills**
No. 3 Housing and economic development	**0.91 mills** ▷ 0.91 mills for housing ▷ 0 mills for economic development*	**2.214 mills** ▷ 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 millage. If voters reject the library dedication, the combined rate could increase by up to 1.593 mills for one year.

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.

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.

INTRODUCTION

Overview of the Propositions

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 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.

This is the first time any of the existing taxes have come up for renewal since voters approved them in the 1980s and 1990s.

The December 5 propositions are as follows:

- **Proposition 1 (Infrastructure and Maintenance)** would levy 2.619 mills ($10.5 million in projected revenue for 2021) for streets, drainage, buildings, vehicles and equipment. It would replace two taxes currently levied at a combined 2.33 mills for streets, traffic signals and capital improvements.

- **Proposition 2 (Libraries and Early Childhood Education)** would levy 0.987 mills ($4 million) for public libraries and early childhood education, replacing a tax for libraries currently levied at 2.58 mills.

- **Proposition 3 (Housing and Economic Development)** would levy 1.05 mills ($4.3 million) for affordable housing facilities and alleviating blight and 1.164 mills ($4.6 million) for economic development. They would replace a single tax that can fund improving neighborhood housing, alleviating blight, and economic development. It is currently levied at 0.91 mills.

See Appendix A for a more detailed overview of the existing taxes.

City officials told BGR the propositions would better align the current tax dedications with the City's needs. As discussed in this 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.

For several years, BGR has highlighted potential problems with taxes dedicated to a specific purpose, as opposed to general purposes.[1] Such tax dedications can distort a government's budget picture and constrain future budget allocations. This is because dedicated tax revenue is unavailable when taxing entities want to reallocate public resources among competing needs and respond to new ones. In this case, two of the City's expiring taxes – the library and capital improvement millages – have yielded sizable surpluses that the City cannot spend on other purposes. This is the first time any of the existing taxes have come up for renewal since voters approved them in the 1980s and 1990s.

The proposed 20-year duration for the replacement taxes is shorter than that of the original taxes, which ranged from 25 years to 35 years. Determining the appropriate length of time for levying a dedicated tax is a balancing act between financial stability for the tax recipient and accountability to the public. A shorter duration provides the public and policymakers more frequent opportunities to reassess the tax through the renewal process. However, if the duration is too short, it can adversely affect the taxing entity's ability to develop plans and make the best use of the funds. An expert in government finance told BGR that a range of 10 to 20 years will typically satisfy the needs for stability and accountability. Therefore, 20 years is at the high end of the recommended range.

Twenty years is also longer than statewide norms. A BGR analysis found that 81% of the roughly 2,000 voter-approved property taxes in Louisiana have durations of 10 years or less.[2] For example, 95% of voter-approved property taxes in Jefferson Parish have durations of 10 years or less. However, the corresponding figure is just 17% in Orleans Parish.[3]

From a taxpayer's perspective, propositions at the shorter end of the range provide better accountability. Thus, there should be a compelling reason to justify levying taxes near the longer end of the range. One such reason is when the tax revenue will support bonds, which typically have repayment periods of up to 30 years. However, the City does not plan to issue bonds backed by the proposed taxes. Against this backdrop, the report discusses any concerns regarding the proposed duration of each proposition.

Impact on Tax Rates

Voters will decide the three propositions as many citizens are struggling financially because of the economic impacts of the public health crisis. City officials said this is why they structured the propositions so they would not increase taxes if voters approve them all. The officials also noted that the total millage rate for the City's property taxes is set to decrease by 1.43 mills for 2021 tax bills, regardless of the election's outcome.[4]

Although the City's goal is to keep the combined rate for the replacement taxes the same as the existing taxes, there are scenarios in which the combined rate would increase or decrease depending on voters' decisions on the separate propositions. For details and estimates of the impact on individual taxpayers, see the sidebar "The Taxpayer's Bottom Line."

BGR notes that the ballot propositions state the original rates for the existing taxes – a combined 10.9 mills – rather than the current rates, which the City Council has reduced over the years to a combined 5.82 mills as property assessments increased. This could lead some voters to incorrectly infer that the propositions would collectively reduce tax rates by more than 5 mills, when, in fact, they would keep the combined tax rate the same. For example, Proposition 2 seeks authorization for the City to levy a 0.987-mill tax for public libraries and early childhood education "in lieu of" a previously approved tax for libraries in the amount of 4 mills. Voters might conclude that the proposition would decrease their taxes by slightly more than 3 mills. However, the City currently levies the library tax at the rolled-back rate of 2.58 mills.[5] Thus, the reduction would be just 1.593 mills. For the other two propositions, voters could infer that taxes would decrease, when they would actually increase. See Appendix B for the wording of the December 5 ballot propositions.

City officials said they used the original maximum authorized rates for the taxes because that is how the Louisiana Legislative Auditor identifies them. They told BGR in early September that it was too late to amend the ballot propositions to include the current tax rates. However, the officials said they are committed to ensuring voters understand the millage package and have a clear picture of the impact on tax rates.

The City's Uncertain Financial Picture

Voters must also weigh the propositions as the City faces a financial crisis related to the pandemic. As of late October, the City projected a 6% shortfall in 2020 General Fund revenue, from a budgeted $726 million to about $680 million. The 2020 budget includes $121 million of one-time revenue that has softened the blow of the pandemic-related drop in sales and hotel tax receipts and certain other recurring revenue sources.[6] City administrators also have taken a number of steps to reduce costs, including a partial hiring freeze and employee furloughs. In 2021, they anticipate far less one-time revenue (about $26 million) and a limited recovery in recurring revenue, resulting in a forecast of

THE TAXPAYER'S BOTTOM LINE

If voters approve all three propositions, the combined tax rate would remain at 5.82 mills for property tax bills payable in early 2021. As the table indicates, homeowners would continue to pay a total of $58.20 annually for each $100,000 of property value above the $75,000 homestead exemption. For example, the owner of a homestead-exempt property valued at $361,000 would continue to pay $166.45 per year.* The combined tax rate would also remain the same for one more year if voters reject all three propositions. This is because the taxes do not expire until the end of 2021, and the City indicated it would continue to levy them at the current rates.

The impact on taxpayers for 2021 would vary if voters make a split decision by approving at least one proposition and rejecting at least one. For example, if voters reject Proposition 2 (libraries and early childhood education) but approve the others, the combined tax would be $74.13 per $100,000 of taxable value, or a $15.93 increase over current rates. If voters did the opposite by accepting Proposition 2 and rejecting the others, the combined tax would be $42.27 per $100,000 of taxable value, a $15.93 decrease. See the chart for these and other scenarios. City officials said they divided the tax renewals into three propositions because the State of Louisiana's 200-word limit made it impossible to describe them in a single proposition.

TABLE 2: TAXPAYER IMPACT FOR HOMESTEAD-EXEMPT PROPERTIES

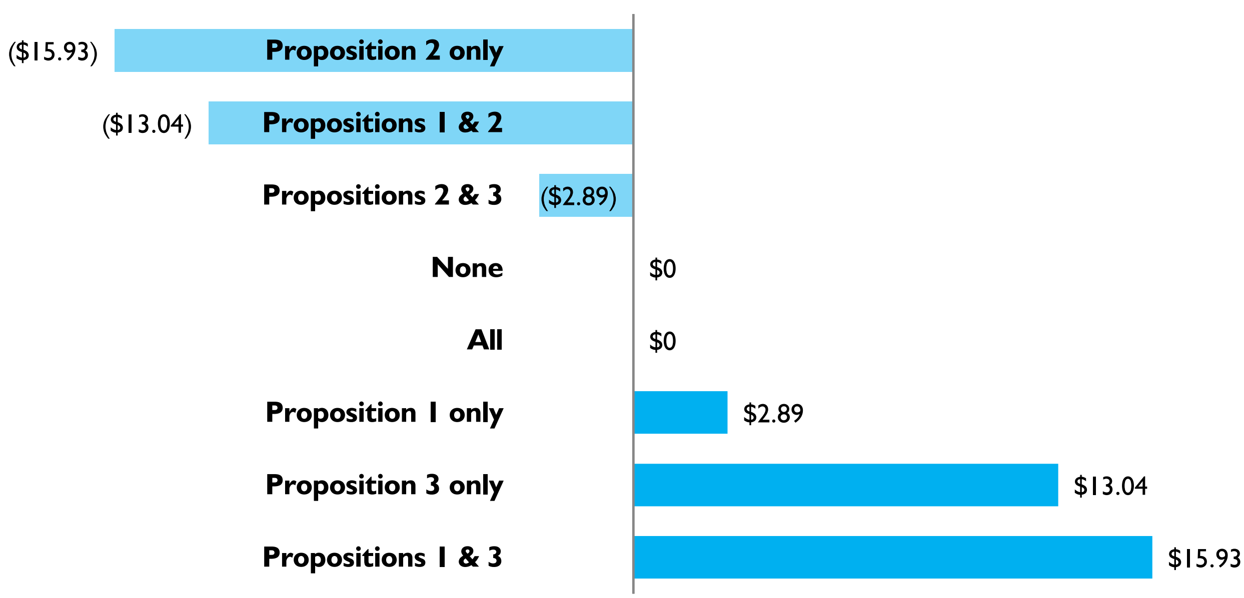
For property tax bills payable in early 2021

	Tax per $100,000 of taxable value if voters **APPROVE**	Tax per $100,000 of taxable value if voters **REJECT**
Proposition 1 Infrastructure and Maintenance	$26.19	$23.30
Proposition 2 Libraries and Early Childhood Education	$9.87	$25.80
Proposition 3 Housing and Economic Development	$22.14	$9.10
Total	**$58.20**	**$58.20**

Any tax not replaced on December 5, or on another ballot before the end of 2021, would not be levied beginning in 2022.

* The average sale price for a single-family home in New Orleans during the 12 months ending December 2019 was $361,000, according to data from the University of New Orleans Institute for Economic Development and Real Estate Research.

CHART A: INCREASE (DECREASE) IN TAXES PER $100,000 OF TAXABLE VALUE IF VOTERS APPROVE…



* Note: This chart is based on the City's statement that, for any replacement taxes voters reject, it would continue levying the existing tax at the current rate.

$634 million in total General Fund revenue – still 13% below the pre-pandemic projection. To balance the 2021 budget, the City administration is proposing significant budget cuts. As of this report's publication, the administration was discussing its proposed budget with the City Council. The council must adopt the budget by December 1, a few days before voters head to the polls.

Property taxes have remained one of the City's most stable sources of revenue during the pandemic. The 5.82 mills of taxes up for rededication accounted for about 9% of the City's 67.91 mills of total property taxes in 2020, as shown in Chart B.

In the midst of the current financial uncertainty, the City views its tax rededication package as a way to shore up these revenue streams for their distinct purposes and thereby facilitate financial planning in the short and long terms. However, there are questions about whether it is an appropriate time to impose tax dedications that will last 20 years, especially when the existing taxes do not expire until the end of 2021. Furthermore, voters must make their decision as plans for several of the proposed taxes remain incomplete. For example, the City indicated its finances are in too much flux to provide a spending plan for the proposed infrastructure tax. City officials also acknowledged that the proposed cut in library funding may have to be revisited after a few years. If instead the propositions were on the ballot next year, voters could have a clearer picture of the City's finances and its prospective uses of the tax revenue.

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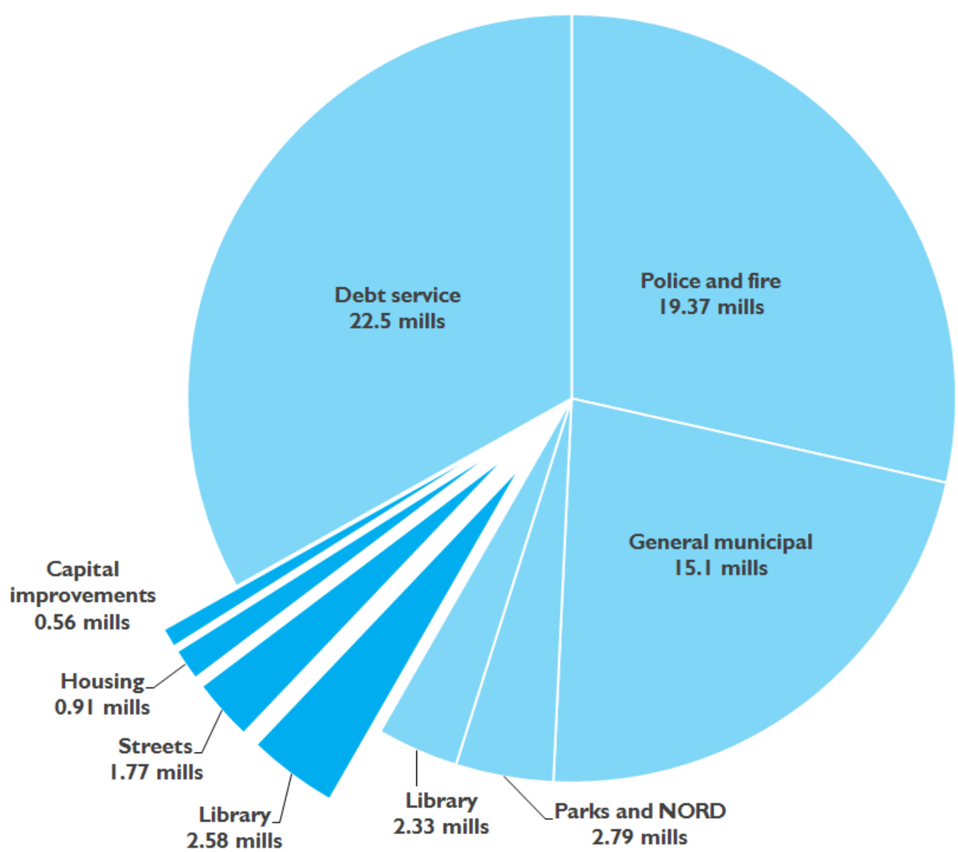


CHART B: CITY OF NEW ORLEANS PROPERTY TAXES, 2020

The proposed taxes on the December 5 ballot would replace the taxes shaded darker blue.

Source: Orleans Parish Assessor's Office, *2020 Millage Rate*. The chart does not include property taxes levied by other Orleans Parish taxing bodies.

In the interim, the City could redeploy a portion of the 5.82 mills to achieve some of its goals. The City Council can adjust individual tax rates for 2021 to address priority needs among the current purposes without increasing the overall rate.

The additional time may also allow the City to seek revenue in its General Fund to help pay for the purposes the replacement taxes would fund. Generally, this is not a promising option now due to the pandemic-related revenue shortfalls. However, the City Council, at the administration's request, voted in October to increase retirement benefits by 33% for employees hired on or after January 1, 2018, and all future hires.[7] If the City can commit to substantial increases in employee benefits during the ongoing fiscal crisis, it may well be able to find revenue for the purposes the replacement taxes would fund. This is especially so because City officials have indicated that all of those purposes are high priorities.

In light of these issues, BGR prepared this report to help voters make informed decisions on the propositions. The report includes a section on each proposition that provides an overview of the proposition, background information and an analysis grounded in BGR's mission of promoting the effective use of public resources. See the box for a description of the four criteria that BGR applies in the analyses. The report concludes with BGR's comprehensive position on the propositions.

In addition, citizens and policymakers who want a more in-depth understanding of the individual propositions can click here for BGR's Expanded Report.

Analyzing Tax Propositions

BGR's *On the Ballot* reports provide independent, objective, nonpartisan analysis to help voters assess the merits of a ballot proposition. Because dedicating taxes to specific purposes carries risks of constraining future budget allocations and impeding local government's ability to respond to emerging needs, a government asking voters to approve a tax should demonstrate that:

1) **There are credible reasons to fund the proposed purpose.**
2) **The proposed tax is an acceptable way to fund the purpose.**
3) **The tax is appropriately sized.**
4) **The tax revenue will be spent effectively.** This requires:
    - A clear plan for directing tax proceeds to high-priority needs.
    - Appropriate financial stewardship of and accountability for taxpayer dollars.
    - Evidence demonstrating the likelihood of effective outcomes.

This framework derives from BGR's research on government finance and taxation, as well as consultation with government finance experts.

PROPOSITION 1: INFRASTRUCTURE AND MAINTENANCE

The proposed tax of 2.619 mills would support City streets, drainage, buildings, public safety facilities, vehicles and equipment. As shown in Chart C, the tax would replace two, more limited taxes for streets, and capital improvements. Besides broadening the permissible uses, the proposed tax is 0.289 mills higher than the combined current rate for the existing taxes.

City officials say the greater flexibility and the increased revenue would allow them to better maintain City infrastructure and buildings and replace aging vehicles. The City has about $11.5 million in annual dedicated funding for maintaining its street and drainage networks, about a third of what it estimates it needs. The City has no dedicated funding for either facility maintenance or vehicle replacement. Its average appropriations of general revenue for those purposes fall short of what it estimates it needs for proper maintenance and replacement programs. The consequences of the inadequate funding are well known to citizens and City employees, for example:

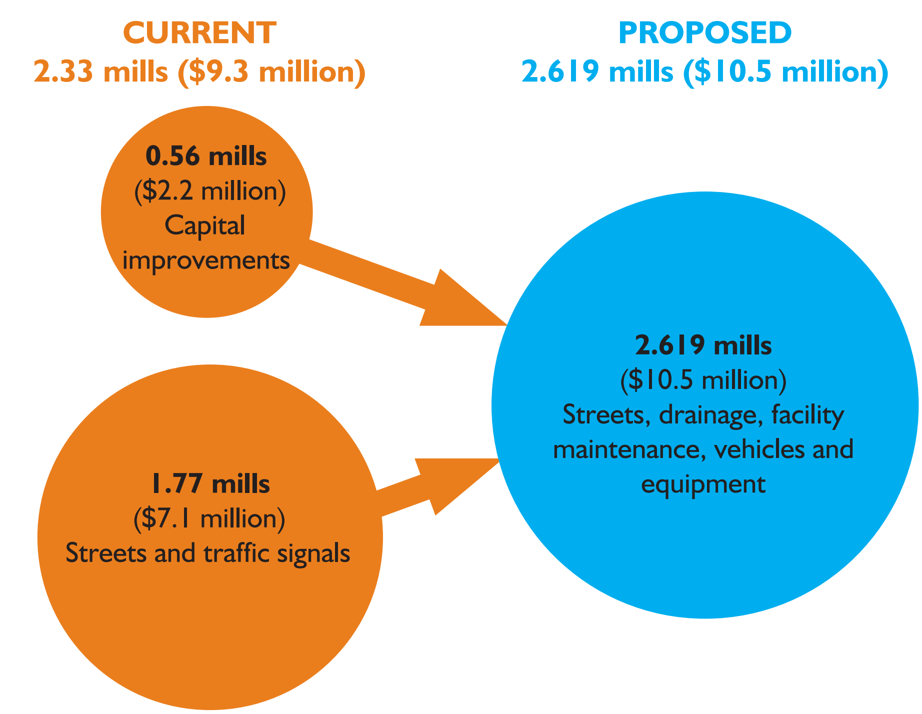
- 44% of streets are rated very poor and are passable only at slow speeds
- Inadequate drainage maintenance contributed to the 2017 floods
- The average City vehicle is 13 years old

Analysis

Are There Credible Reasons to Dedicate Funding to Infrastructure, Building Maintenance and Vehicles? In analyzing the proposed tax, BGR identified several credible reasons why these purposes warrant dedicated funding. Adequate funding for preventive maintenance of streets and drainage can diminish risks posed by their deterioration to the local economy and residents' quality of life. It will also help to maximize the benefits of more than $2 billion in ongoing repairs to streets damaged in the Hurricane Katrina disaster. Similarly, proper maintenance of buildings and timely replacement of vehicles can extend their useful life and save on future repair costs. Also, reliable police cars and ambulances are essential for public safety. The proposed replacement of the existing streets and capital improvement taxes would provide a single, more flexible tax to support all these purposes.

Is the Proposed Tax an Acceptable Way to Fund These Purposes? This is clearly the case for facility maintenance and vehicles: A common, stable funding mechanism, such as a property tax, aligns well with these basic needs of municipal government. But when it comes to

CHART C: PROPOSED TAX REDEDICATION UNDER PROPOSITION 1
Revenue projections for 2021



Note: Traffic signals would remain eligible as "equipment" under the proposed tax.

funding street and drainage improvements, there are alternatives to taxes that warrant consideration:

- Charging property owners infrastructure maintenance fees provides a broader base of payers, including governments, nonprofit organizations and others exempt from property taxation. The fee amount also ties to the burden the property places on streets (vehicle trips) or drainage (stormwater runoff). However, implementing a well-justified user fee is a complex process, and there is no proposal currently under consideration.

- Directing a portion of General Fund revenues generated by the street network — such as parking meter fees and tickets for parking and traffic camera violations — to street maintenance is another option. Before the pandemic, they generated more than $50 million a year, all of which went to other City spending. Revenue has declined significantly this year, and any rededication will require careful evaluation during the recovery.

Therefore, while user fees and street-related revenue offer better long-term options for street and drainage maintenance, the proposed tax would provide an immediate source of funding to help address long-standing needs.

Is the Tax Appropriately Sized? As Table 3 indicates, the $10.5 million from the proposed tax would leave the City $19.7 million short of the estimated amount it needs to adequately fund streets, drainage, building maintenance and vehicles. Because the tax is insufficient to meet the need, the City will have to explore supplemental funding, such as the options discussed above. BGR notes that, in a community with many competing demands for public funding, any new tax or fee should be carefully justified in light of taxpayers' limited tolerance for additional increases.

While the proposed tax does not exceed the identified needs, BGR could not fully assess whether the tax will make meaningful progress toward addressing them. City officials did not provide an initial spending plan — something they have done for previous tax propositions. They cited the current uncertainty surrounding the City's finances and described only general plans to address street and drainage priorities, replace deteriorating bridges and replace public safety vehicles. This is not enough information for voters to compare planned expenditures for each program to the identified needs. For example, the City would have to spend at least two-thirds of the proposed tax revenues on streets and drainage to match the current level of funding. But there is no requirement to do so. Depending on future spending decisions, those purposes could receive less funding than today.

TABLE 3: ESTIMATED ANNUAL FUNDING NEEDS COMPARED TO AVAILABLE FUNDING IF VOTERS APPROVE THE TAX

Purpose	Estimated need	Available funding
Streets and drainage	$30 million	$4.4 million State gas tax dedication ($2.3 million) and the Infrastructure Maintenance Fund ($2.1 million)
Building maintenance	$5.5 million	$3.5 million General Fund allocation ($2.5 million) and capital budget ($1 million)
Vehicles	$10 million	$7.4 million General Fund allocation
Any of the three above purposes	---	$10.5 million Revenue from the proposed tax
TOTAL	**$45.5 million**	**$25.8 million**
UNFUNDED NEED		**$19.7 million**

BGR calculations based on information provided by the City.

Will the City Spend the Tax Revenue Effectively? BGR found indicators that the City would spend the revenue effectively. The City plans to use new technologies and expert assessments to guide its deployment of the tax revenue. Examples include periodic pavement assessments and vehicle fleet management technology. It also plans to manage the tax dollars in a special fund. A new City law would require the finance director to provide the City Council with an annual report on the fund's revenue and balance, further enhancing accountability. In general, money spent on maintaining infrastructure and facilities tends to be effective because it saves on costs of major repairs and replacements. For example, the City estimates that each dollar invested in preventive maintenance of streets can save four or five dollars on future capital repair costs. In addition, investments in vehicle replacement could increase productivity because roughly 70% of City workers depend on functioning vehicles and equipment to do their jobs.

Summary of Findings on Proposition 1

The proposition would sustain and increase funding for street and drainage infrastructure, public facilities and vehicles. This could safeguard and extend the useful lives of major infrastructure investments, save on future capital repairs and support essential public safety workers. The City anticipates using new technology to guide future repair and replacement decisions and promises increased accountability for the revenue. The dedicated property tax is an acceptable funding option, even though evidence suggests it is insufficient to fully address the need. However, the City's lack of a spending plan prevents a full assessment of whether the tax will make meaningful progress toward addressing the identified needs, limiting voters' information for decision-making.

For additional detail supporting BGR's analysis of this proposition, [click here for the Expanded Report].

"The proposition would sustain and increase funding for street and drainage infrastructure, public facilities and vehicles. ... However, the City's lack of a spending plan prevents a full assessment of whether the tax will make meaningful progress toward addressing the identified needs, limiting voters' information for decision-making."

PROPOSITION 2: LIBRARIES AND EARLY CHILDHOOD EDUCATION

This proposition would replace a 2.58-mill dedicated tax for New Orleans' libraries with a 0.987-mill tax, as shown in Chart D. The rate reduction is part of the City's commitment to keeping the total rate of the three-proposition package at the 2020 level of 5.82 mills. The proposition would also expand the permitted uses of the tax revenue to include early childhood education.

While the proposition does not specify allocations for the projected $4 million in revenue, City officials plan to allocate $1.5 million to early childhood education and the remaining $2.5 million, to libraries. Because of the City's plan to divide the revenue between the two purposes, BGR provides a separate analysis of each permitted use.

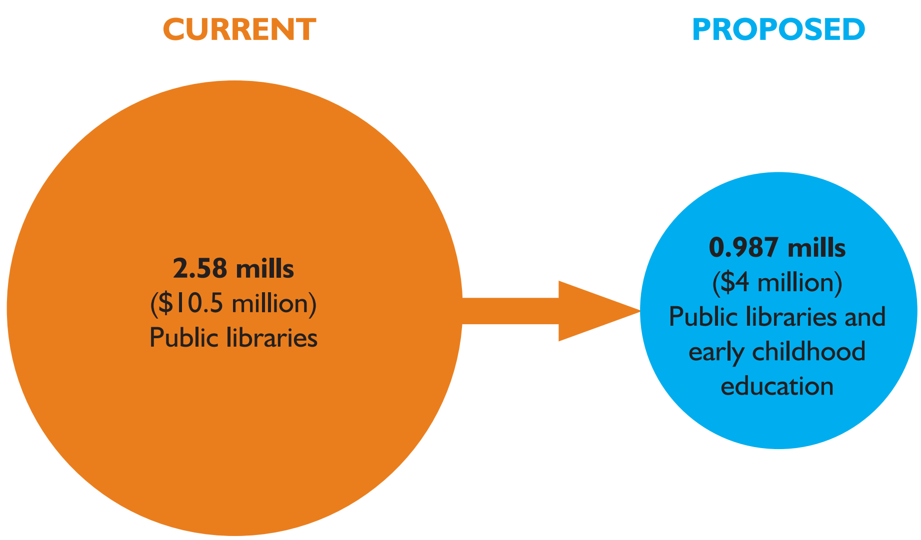
Early Childhood Education

In 2018, New Orleans became the first local government in Louisiana to directly fund early childhood education. The City allocated $750,000 to establish the City Seats program for 50 children under age 3 who live in an Orleans Parish household with earnings at or below the federal poverty line. The City contracted with the local nonprofit organization Agenda for Children to administer the program. The City doubled its funding to $1.5 million in 2019 and doubled it again to $3 million in 2020. The program now serves 200 children but has no dedicated revenue source. The City has funded it through its General Fund.

Are There Credible Reasons to Dedicate Funding to Early Childhood Education? City leaders, backed by a coalition of advocates, have prioritized financial support for early childhood education as a way to reduce poverty and crime, and improve New Orleans' workforce and financial future. Research on early childhood education supports those outcomes. It has found that high-quality programs for economically disadvantaged children can deliver higher earnings, better health and other benefits for participants, their families and society that amount to a 13.7% annual return on the program investment.[8] However, State and federal funding of early childhood education is limited. As shown in Chart E, the majority of economically disadvantaged children under age 4 in New Orleans are not served through publicly funded programs, including City Seats.

Half of the City's $3 million allocation this year comes from one-time money. In the current budget crisis, City officials have committed to maintain only an annual $1.5 million General Fund allocation for City Seats. The proposed tax would help City Seats to continue enrolling its target number of children, even during periods of increased competition for General Fund support. Securing a new revenue stream to maintain the $3 million investment would also maximize the program's future dollar-for-dollar match from the State. These are credible reasons to pursue dedicated local funding for early childhood education.

CHART D: PROPOSED TAX REDEDICATION UNDER PROPOSITION 2
Revenue projections for 2021



Is the Proposed Tax an Acceptable Way to Fund Early Childhood Education? The proposed tax would

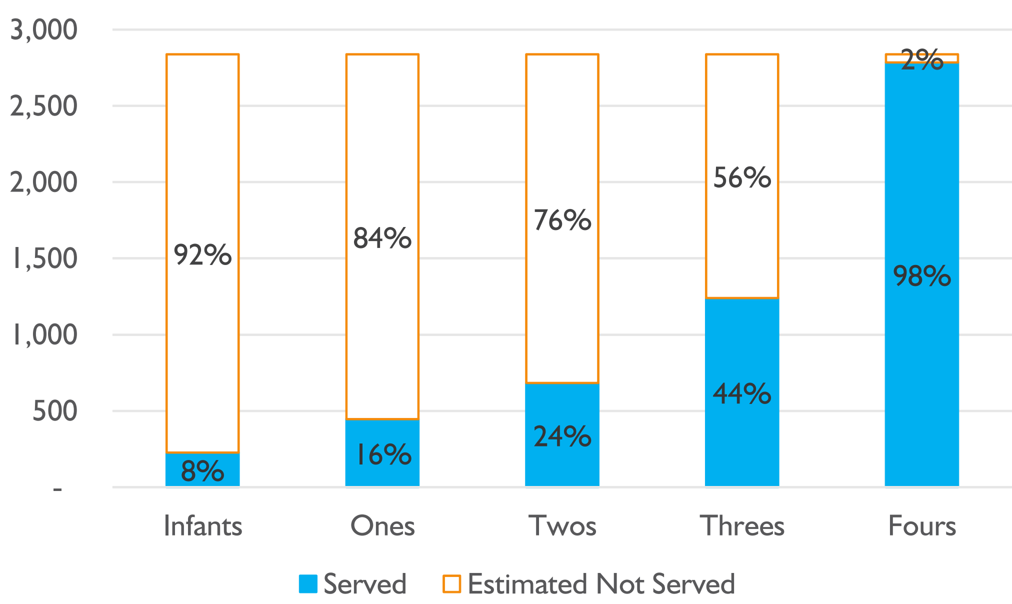


CHART E: ECONOMICALLY DISADVANTAGED CHILDREN SERVED THROUGH PUBLICLY FUNDED EARLY CHILDHOOD EDUCATION PROGRAMS IN NEW ORLEANS, INCLUDING CITY SEATS IN 2019

Data provided by Agenda for Children. City Seats accounted for 112 of the children served. Total children in each age group is estimated based on the number of economically disadvantaged children enrolled in kindergarten in New Orleans public schools.

provide a reliable source of funding to maintain the $3 million investment while the General Fund recovers from the fiscal strain of the pandemic. However, the City should not rule out the General Fund as an alternative revenue source long-term. Other potential sources are uncertain. For example, City administrators continue discussions with NOLA Public Schools on ways to increase funding for early childhood education, but there are significant legal restrictions — and demands — on current funding for New Orleans' public schools.

Is the Tax Appropriately Sized? While the proposed tax would not come close to generating the more than $100 million likely required to provide quality early childhood education to all unserved economically disadvantaged infants and toddlers, it is appropriately sized to the financial needs of operating a comprehensive, high-quality program at City Seats' planned scale. The tax would contribute half of the funding for the City's $3 million investment in City Seats, allowing the program to provide 200 children with high-quality early care and wraparound services. City Seats' per-child cost of $15,000 aligns with federally funded Early Head Start, an established national model that costs $14,945 per child in Louisiana. The bulk of City Seats' funding, $12,000 per child, goes to participating licensed early care centers with demonstrated ability to provide high-quality care. The additional $3,000 per child funds developmental screenings, mental health support, professional development for teachers, family engagement, and program management, coordination and evaluation.

Will the City Spend the Tax Revenue Effectively? Collectively, the planning for City Seats, accountability provisions and the program's ability to leverage resources support its potential as an effective use of tax revenue. City Seats pursues goals of increasing access to early childhood education, improving quality and providing comprehensive child development services in several ways. These include professional development and training for child care center staff and ensuring center locations are aligned geographically to demand. The program also seeks equal access to available slots by using NOLA Public Schools OneApp enrollment system. Because City Seats provides professional development and coaching that supports the quality of each participating center, all children attending these centers benefit – not just the 200 children directly funded through City Seats. This leverages the City's investment in early childhood education to more than 900 additional children.

The City holds Agenda for Children accountable through monthly and annual reporting and an independent annual program evaluation. The most recent evaluation of City Seats found that the program did expand access and that all but one participating centers improved their quality rating. However, because City Seats has operated for only two full years, there is limited data to draw conclusions about the program's effects on center quality and children's developmental growth.

Finally, as the economy recovers and the State's matching fund grows, New Orleans could eventually turn its $3 million investment into $6 million, doubling the number of children served.

Libraries

The remainder of the proposed tax revenue from Proposition 2, an estimated $2.5 million in 2021, would flow to the New Orleans Public Library system (Library). This would replace the Library's existing 2.58-mill tax, which if levied next year would generate $10.5 million for Library operations. The $8 million decrease in revenue under the new tax would cut the Library's overall budget by nearly 40%.

The City proposed the Library reduction to keep the three tax propositions revenue neutral, noting that the Library's current taxes have produced large surpluses. For many years, the Library's operations relied primarily on a single property tax — the millage expiring next year. But after Hurricane Katrina, as the Library reopened branches and added new ones, its operating costs began to significantly exceed its revenues. Voters approved a second tax for Library operations in 2015. As shown in Chart F, this doubled Library revenue, while expenditures increased gradually. By mid-2020, the Library had accumulated an $11.6 million reserve. This is equivalent to 59% of annual operating costs, far higher than the best practice of 17%, or two months of expenses. If voters approve the proposition, City and Library officials plan to draw upon the reserves for at least two to three years as they restructure the Library's budget to reflect a new, less costly operating model. However, they have publicly committed to maintain all of the Library's current branches (14 plus the main library downtown) and its current service hours.

Are There Credible Reasons to Dedicate Funding to Public Libraries? Across Louisiana and the nation, libraries are a common locally funded public service. The New Orleans Library today provides a diverse array of informational, educational and entertainment resources and programs. With 15 locations, the system offers citywide access to these resources. While these are credible reasons to continue funding, citizens' needs and preferences for Library services continue to change. The Library must make sure it evolves to meet them and does so efficiently. This is especially important in a city such as New Orleans where there are many competing priorities for public funding.

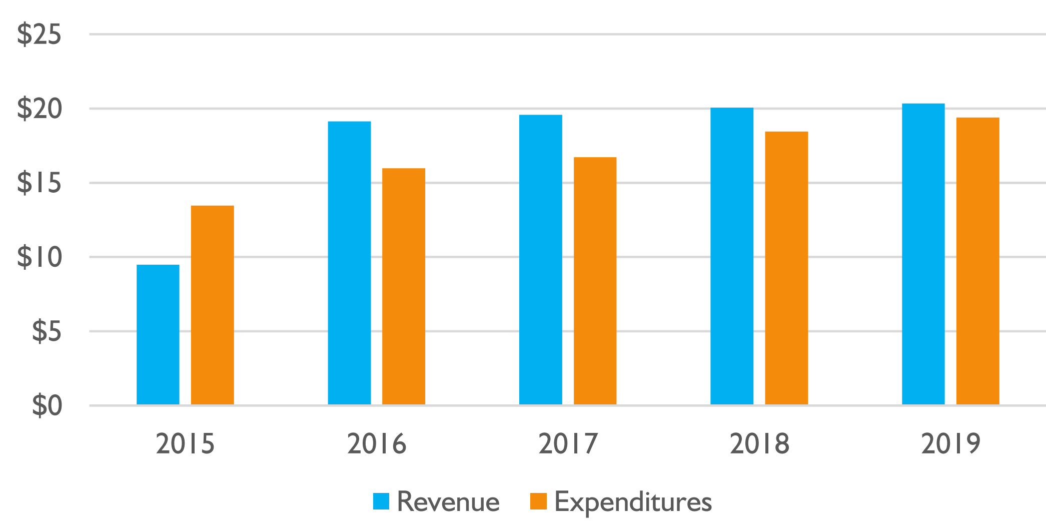


CHART F: LIBRARY REVENUE AND EXPENDITURE
($ in millions)

Sources: City of New Orleans budget information and New Orleans Public Library. Revenue figures do not include funding from FEMA or the BP settlement.

Is the Proposed Tax an Acceptable Way to Fund Libraries? Property taxes are commonly used to secure revenue for libraries.[9] It is unlikely, given the City's current financial circumstances and other competing needs, that the Library could rely on the General Fund for revenue.

Is the Tax Appropriately Sized? The City's plan for restructuring the Library's services and budget is not fully developed, leaving voters unable to evaluate whether the Library can still support its current branch and service levels after a revenue cut of nearly 40%. City officials suggest that the Library can initially reduce its budget from $19.4 million to $17.6 million, the average annual expenditures for the past four years. Library officials indicate they can reduce the budget to that level by not filling 21 staff vacancies and by cutting non-personnel expenditures. However, they have not identified when those cuts might occur. Regardless, the budget would need to decrease by another $5.7 million to align with the $11.9 million projected tax revenue if voters approve Proposition 2.

To get there, City and Library officials are counting on:

- Realizing efficiencies through adopting new technologies and eliminating service duplication, and aligning services with community needs
- Reducing Library expenditures by expanding City maintenance and information technology support
- Providing City funds for capital improvements that could lower Library operating costs
- Building additional revenue streams such as grants or self-generated revenue

Currently, there is no estimate of the potential cost savings or increased revenue from these initiatives. The Library is about to begin a strategic planning process, which has been delayed by the pandemic. If future revenues prove insufficient to operate all branches and sustain current service hours, City officials have mentioned the possibility of asking voters for a third Library millage. This does not assure voters that the proposed tax will meet the financial needs of a reimagined Library operating model. The possible third millage, if pursued, would also scuttle the City's plan to avoid increasing taxes.

Will the Library Spend the Tax Revenue Effectively? The absence of a clear plan limits voters' ability to assess the Library's priorities, and the recent history of the Library's taxes illustrates what can happen without careful financial planning. After Katrina, the Library rebuilt and expanded the system without a long-term plan that identified recurring revenues to cover new operating costs. When its reserves began to run out, the Library sought approval for a new tax in 2015. BGR opposed the proposition because the Library lacked a strategic plan mapping out what services it would provide and why the tax was necessary to pay for them. Now, if voters approve the new proposition, the Library's budget would significantly decrease, but it does not have a strategic plan to adapt to the funding reduction. As a result, the roller coaster ride of surpluses and deficits could continue.

Since 2015, total visits to New Orleans libraries increased 38% to 1.6 million a year and collection usage more than doubled.

BGR did find that the Library fulfilled key commitments it made to voters when seeking the 2015 tax, including increasing daily hours of operation, expanding programming and upgrading technology. Since 2015, total visits to New Orleans libraries increased 38% to 1.6 million a year and collection usage more than doubled, illustrating positive citizen response following improvements instituted with the supplemental millage revenue.

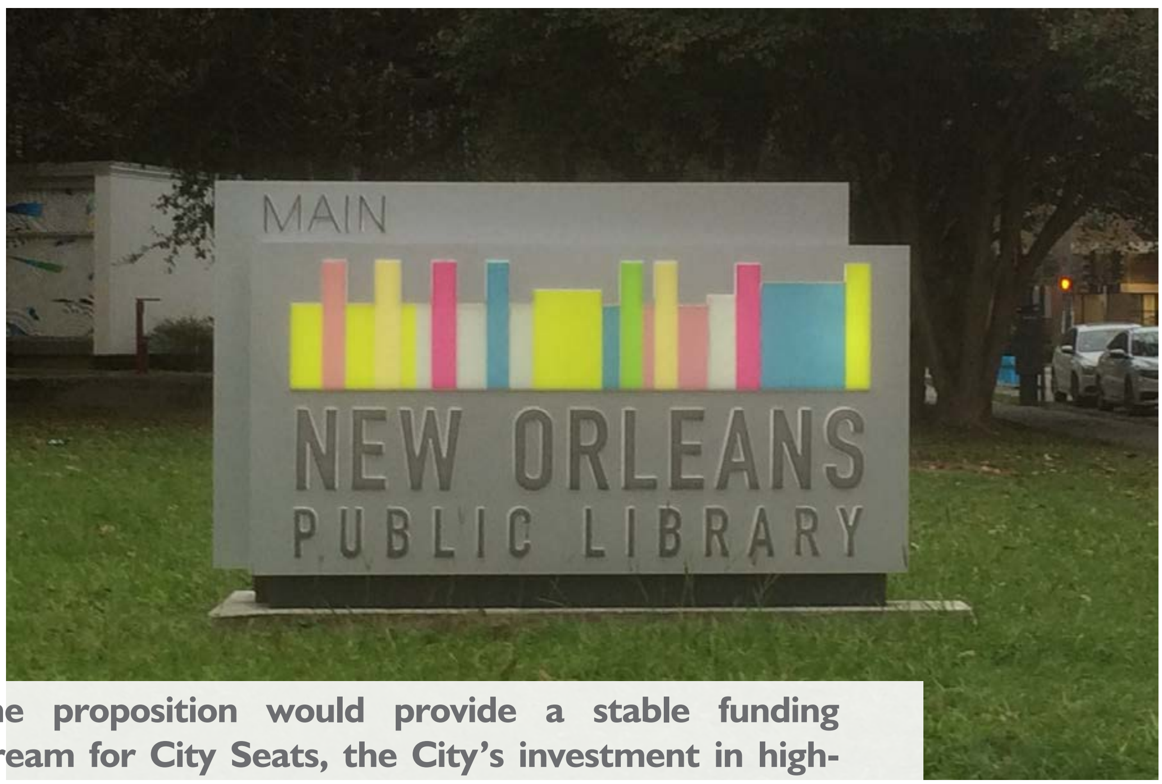
While the proposed reduction in funding could force implementation of new efficiencies and more creative service delivery methods, voters lack sufficient information to judge whether such changes would diminish, sustain or increase the value of the Library to the community.

Summary of Findings on Proposition 2

The proposition would provide a stable funding stream for City Seats, the City's investment in high-quality early childhood education for economically disadvantaged children. Research has shown significant returns on such investments, but in New Orleans the vast majority of economically disadvantaged children under age 3 lack access to publicly funded child care. City Seats increases access, and its focus on quality benefits all children at participating child care centers – not only those children funded through the program. The tax is an acceptable short-term funding option in light of current General Fund constraints, and it is appropriately sized to the program's planned scale. In addition, there is clear planning and accountability for the dollars, and potential to leverage State dollars to double the City's investment in long-term benefits for participating children and the city as a whole.

The case for the proposition is far less conclusive when it comes to the Library. While the Library and the City emphasize a need to make library operations more efficient and responsive to citizens, they have not yet specified what should change or provided a roadmap to get there. This does not assure voters that the proposed tax is appropriately sized to sustain or increase the Library's value to the community. And in recent years, the Library has made strides in improving its collection and public usage – gains that could be lost if Library revenue proves insufficient to support an effective restructuring of services.

For additional detail supporting BGR's analysis of this proposition, click here for the Expanded Report.



"The proposition would provide a stable funding stream for City Seats, the City's investment in high-quality early childhood education for economically disadvantaged children. ... The case for the proposition is far less conclusive when it comes to the Library."

PROPOSITION 3: HOUSING AND ECONOMIC DEVELOPMENT

This proposition would replace a single tax for improving neighborhood housing, alleviating blight, and economic development with two separate taxes:

- 1.05 mills ($4.3 million) for constructing, acquiring, improving, maintaining and operating affordable housing facilities and alleviating urban blight
- 1.164 mills ($4.6 million) for economic development activities in the city

As shown in Chart G, the combined rate of the taxes is 1.304 mills higher than the existing tax. The City would direct the revenue from the proposed taxes to two special funds — the Economic Development Fund and the Neighborhood Housing Improvement Fund (Housing Fund) — just as it does with revenue from the existing tax. The mayor proposes fund appropriations for City Council approval, based on recommendations provided by an advisory committee for each fund. Because the proposition would authorize two separate taxes, BGR analyzes each tax on its own merits.

Proposed Housing Tax

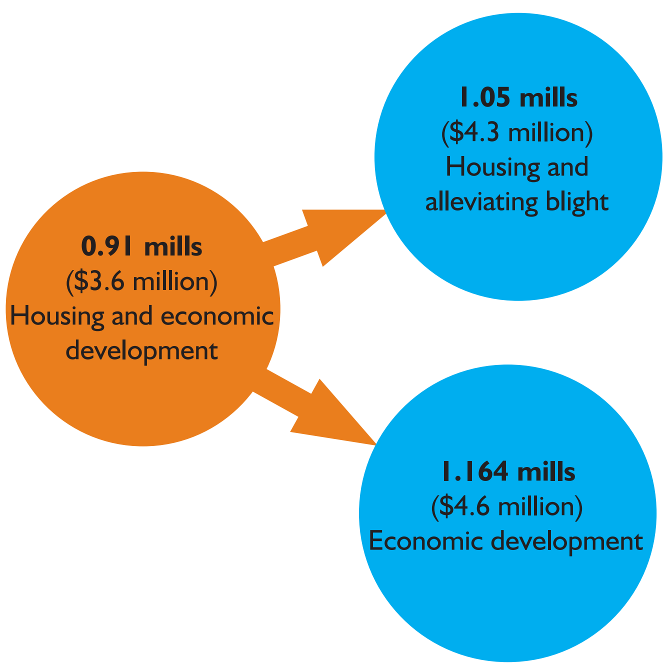
The Housing Fund has recently supported the development and preservation of affordable rental housing, homeless shelter operations, owner-occupied housing rehabilitation and City Office of Community Development personnel. With the onset of the pandemic, the City has used the fund to start renter and landlord assistance programs. The City anticipates keeping the fund focused on affordable housing. It does not plan to use the revenue to address blighted housing, other than to assist with the redevelopment of blighted property into multifamily affordable housing. It will use other local and federal funds to address blight and code violations. Because of this, BGR focuses its analysis on the tax's potential use for affordable housing. Chart H shows that during the past five years, Housing Fund revenue exceeded expenditures, causing an already substantial fund balance to more than double. This has resulted not just from the tax but also a fee on short-term rentals. First implemented in 2017, the fee provided 21% of fund revenue in 2019.

Are There Credible Reasons to Dedicate Funding to Affordable Housing? City officials say the proposed housing tax could help alleviate an affordable housing problem that the economic crisis has exacerbated. As shown in Table 4, pre-pandemic New Orleans had a higher incidence of cost-burdened renters and homeowners than the nation as a whole. An analysis of housing costs and affordability

CHART G: PROPOSED TAX REDEDICATION UNDER PROPOSITION 3

Revenue projections for 2021

CURRENT **0.91 mills ($3.6 million)** **PROPOSED** **2.214 mills ($8.9 million)**



Note: The existing tax can fund both housing and economic development purposes, but none of the 0.91 mills currently fund economic development.

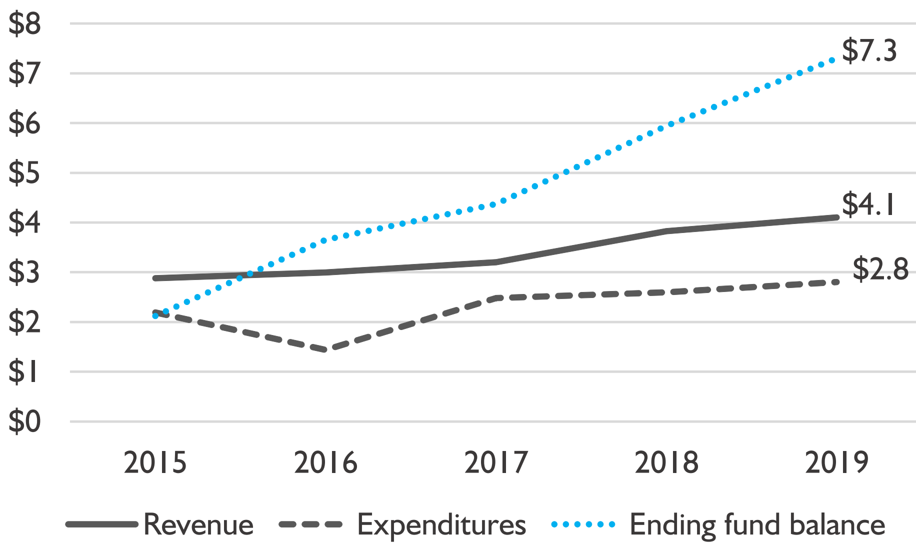


CHART H: HOUSING FUND REVENUE, EXPENDITURES AND FUND BALANCE
($ in millions)

Sources: City of New Orleans Comprehensive Annual Financial Reports 2015-2018 and 2019 unaudited statement of revenue and expenditures provided by the City of New Orleans.

showed that the percentage of renters in New Orleans with severe cost burdens stood at 34% in 2019, a sizable increase from 24% in 2004. The proposed tax, like the existing tax, would give the City a stable discretionary funding source to develop programs and initiatives that could help address New Orleans' significant affordable housing problem.

Is the Proposed Tax an Acceptable Way to Fund Affordable Housing? Cities typically employ multiple strategies and funding sources to address affordable housing priorities. However, New Orleans' non-tax sources, such as federal funding and short-term rental fees, cannot match the flexibility and stability of the proposed tax. In light of this, the tax is an acceptable funding source.

Is the Housing Tax Appropriately Sized? The Housing Fund's reserves of more than $7 million raise questions about whether a larger tax is appropriate. Housing advocates say the accumulation of reserves is troubling, but it does not indicate a lack of need for affordable housing. City officials say the reserves increased because previous administrations were slow to direct revenue from the tax to housing needs. They say that much of the fund balance is now committed to multiple housing developments, and they anticipate that all remaining reserves will be committed by the end of this year. The City's ability to direct the reserves to new projects suggests it will be able to fully utilize the projected tax revenue. The tax would still not fully assist New Orleans' large population of residents having difficulty covering their housing costs. The City will have to explore other options to address remaining needs, keeping in mind taxpayers' limited tolerance for additional increases. But the tax would make meaningful progress toward ameliorating the problem.

TABLE 4: PERCENTAGE OF COST-BURDENED HOUSEHOLDS IN NEW ORLEANS AND NATIONWIDE

	Households Paying 30% or More of Income in Housing Costs		Households Paying 50% or More of Income in Housing Costs	
	Orleans Parish	**U.S. Average**	**Orleans Parish**	**U.S. Average**
Renters	62%	50%	34%	24%
Owners	32%	23%	14%	8%

Figures for households paying 30% or more of income in housing costs are BGR calculations based on U.S. Census Bureau, 2014-2018 American Community Survey 5-Year Estimates. Figures for households paying 50% or more of income in housing costs are from The Data Center, *Who Lives in New Orleans and Metro Parishes Now?*, October 9, 2020.

Will the City Spend the Housing Tax Revenue Effectively? BGR found evidence indicating the City is likely to use the revenue effectively. The City annually sets priorities for projects seeking support from the Housing Fund, and it is commissioning a housing market assessment to guide development of a new housing plan. It also seeks to leverage other project funding sources with Housing Fund dollars, and it limits fund awards to $1.5 million. For projects receiving awards in 2018 and 2019, the fund covered between 2% and 11% of total development costs. Once the City makes an award, it sets performance goals for the project and enters into a regulatory agreement to define the affordable units. It monitors performance during the term. The City recently began awarding housing tax funding to projects as a no-interest loan, rather than a grant that did not require repayment. This is an effective way to stretch the value of the tax revenue and should allow the City to create more affordable housing. BGR notes that the City can spend housing tax revenue outside of this framework and urges it to develop a comprehensive housing plan to carefully direct resources where they are most needed.

Proposed Economic Development Tax

The Economic Development Fund has supported a wide variety of purposes during the past 30 years, from business grants to City economic development staff. During the past 10 years, the majority of the revenue has gone to the New Orleans Business Alliance (Business Alliance), a public-private partnership dedicated to economic development. The City administration is restructuring economic and workforce development operations to make its new Office of Business and External Services the lead agency. With this move, the City would keep a larger share of the future economic development tax revenue with the intent of streamlining and enhancing those services. It plans to continue providing tax funding to the Business Alliance on a smaller scale than the $2.5 million the public-private partnership has received for the past three years. The allocations and scope of services remain under negotiation, but the City's decision to resume control of the workforce development reverses the 2018 transfer of these responsibilities to the Business Alliance.

The proposed tax would continue to be the only source of revenue for the Economic Development Fund. In 2020, the City directed all new revenue from the existing tax to the Housing Fund. As shown in Chart I, increased use of the Economic Development Fund since 2017 has decreased its balance. This year's expenditures will further reduce the fund balance to about $750,000, most of which will be obligated to various initiatives.

Are There Credible Reasons to Dedicate Funding to Economic Development? The proposed tax can allow the City to address changing priorities. For example, this year's rising unemployment and business losses from the pandemic have spurred the City's efforts to retool economic and workforce development services. The U.S. Bureau of Labor Statistics reported 12.7% unemployment for Orleans Parish in August 2020, more

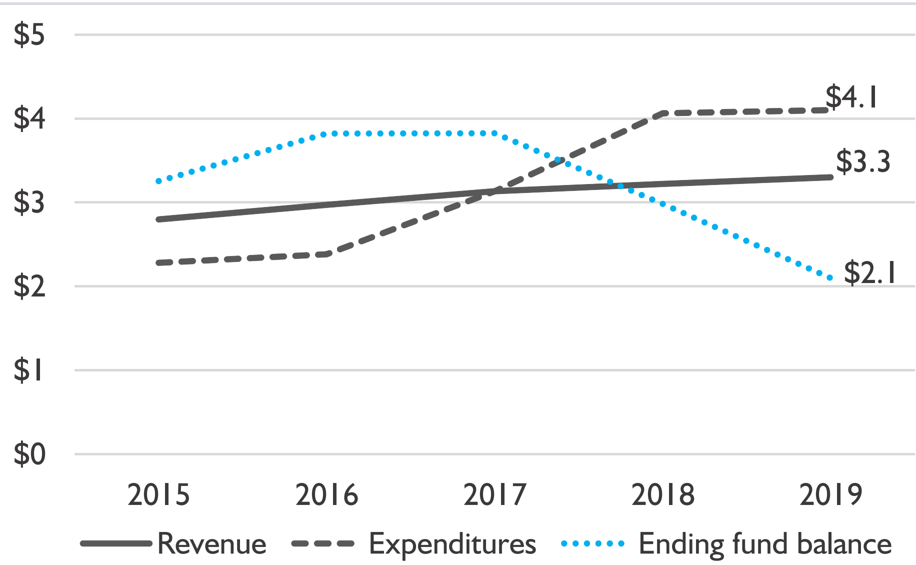


CHART I: ECONOMIC DEVELOPMENT FUND REVENUE, EXPENDITURES AND FUND BALANCE
($ in millions)

Sources: City of New Orleans Comprehensive Annual Financial Reports 2015-2018 and 2019 unaudited statement of revenue and expenditures provided by the City of New Orleans.

"A clear spending plan is especially important with the economic development tax, where numerous possibilities for using the revenue exist. Considering the City's position that the tax is essential to respond to urgent economic and workforce development issues, it should be able to demonstrate readiness and capacity to direct revenue to well-developed initiatives. The lack of information does not assure voters that the tax revenue will be spent effectively."

than twice the 5.5% recorded one year earlier. The pandemic hit employment among low-wage workers particularly hard. City officials also say the tax revenue will support longer-term efforts to strengthen and diversify New Orleans' economy.

Is the Proposed Tax an Acceptable Way to Fund Economic Development? The proposed tax would complement other public and private sources of funding to support local economic development. Other available sources cannot match the tax's flexibility as a source of direct funding for the City and the Business Alliance to spur economic activity and enhance the labor force. While the City's General Fund has covered the salaries of some economic development staff, the ongoing fiscal crisis and budget cuts make it an unlikely replacement for a dedicated tax.

Is the Economic Development Tax Appropriately Sized? The appropriate size of the tax is difficult to gauge because economic development funding needs are not easy to quantify. Economic development efforts do not guarantee a set reduction in unemployment, nor do business attraction efforts ensure the arrival of a given number of companies. This does not necessarily mean they are ineffective, only that it is difficult to judge the optimal amount of funding. The City's recent deployment of accumulated fund reserves gives some indication that it will be able to fully utilize the projected tax revenue. However, BGR could not further evaluate the appropriate size of the tax due to the absence of a spending plan or a current assessment of strategic economic and workforce development needs.

Will the City Spend the Economic Development Tax Revenue Effectively? The City is developing a new strategic plan for economic development, focusing on economic mobility and wealth creation citywide. It also seeks to use City assets and programs to spur investment and create jobs in low-income communities. The plan was not published at the time of this report, preventing further analysis. The City also has not presented a specific plan for how it will allocate revenue from the tax to projects or programs that might advance the economic development plan's objectives or otherwise allow voters to assess the merits of the tax. A clear spending plan is especially important with the economic development tax, where numerous possibilities for using the revenue exist. Considering the City's position that the tax is essential to respond to urgent economic and workforce development issues, it should be able to demonstrate readiness and capacity to direct revenue to well-developed initiatives. The lack of information does not assure voters that the tax revenue will be spent effectively.

Summary of Findings on Proposition 3

In summary, there is little doubt that New Orleans faces significant challenges in the areas of housing and economic development. This proposition aims to step up the City's direct financial investment to address them. The new taxes have the potential to complement other resources with stable, flexible revenue. While established planning and evaluation processes would guide most usage of the housing tax revenue, the lack of a clear spending plan for the economic development tax makes it difficult for voters to assess its potential for effective outcomes.

For additional detail supporting BGR's analysis of this proposition, click here for the Expanded Report.

CONCLUSION

Although the proposed replacement taxes are separate ballot propositions, the City designed them to work in concert with one another to rededicate revenue to new priorities while avoiding an increase in the overall tax rate. Thus, it is important for voters to assess them collectively. As this report has demonstrated, the merits of the tax propositions vary significantly. The proposed infrastructure tax would sustain essential funding for streets and drainage while expanding the scope of purposes 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, 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 lacks the backing of adequate strategic and financial planning, and could continue the Library's roller coaster ride of surpluses and deficits. If voters approve the tax reduction, the Library 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 Library 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 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.

ENDNOTES

1 See Bureau of Governmental Research, *The $1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?,* November 2015; *The Lost Penny: An Analysis of the Orleans Parish Hotel Tax Structure*, January 2019; *The $1 Billion Question Revisited: Updating BGR's 2015 Analysis of Orleans Parish Tax Revenues*, April 2019; and *A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities*, October 2019.

2 BGR found that 78% are for 10 years, 3% are less than 10 years and 19% are for more than 10 years.

3 In Orleans Parish, BGR found that 13% are for 10 years, 4% are for less than 10 years, and 83% are for more than 10 years.

4 This is the net change from an anticipated 3-mill reduction in the tax supporting payments on the City's general obligation bonds and a voter-approved 1.57-mill increase in the City's portion of a consolidated parks and recreation millage.

5 As property assessments have risen over the years, the maximum rate for the library millage has decreased from the original 4 mills to 3.14 mills due to rollbacks.

6 City of New Orleans Revenue Estimating Conference, Presentation of official General Fund revenue forecast, October 26, 2020. One-time revenue in 2020 included, among other things, pandemic-related cost reimbursements under the federal CARES Act ($58.4 million) and a payment from Harrah's New Orleans Casino ($48 million).

7 The more generous pension benefits will increase the City's actuarially determined pension contributions by $1.7 million in 2022 and a total of $115 million over the next 30 years. The Segal Group, Inc., Presentation to the New Orleans Municipal Employees' Retirement System, May 28, 2020, pp. 16-17. The council's action reversed reforms enacted just two years ago to put the City's pension system on a more sustainable footing and bring benefits in line with best practices and national norms. For more information on pension reform options, see BGR, *Reducing the Cost of Tomorrow: A Practical Guide to Pension Reform in Jefferson, Orleans and St. Tammany Parishes*, October 2016.

8 See Jorge Luis García, et al., "Quantifying the Life-Cycle Benefits of an Influential Early-Childhood Program," *Journal of Political Economy*, Vol. 128, No. 7 (July 2020). See also Sneha Elango, et al., "Early Childhood Education," National Bureau of Economic Research, Working Paper No. 21766, November 2015, and Lawrence J. Schweinhart, et al., *Lifetime Effects: The High/Scope Perry Preschool Study Through Age 40* (Ypsilanti, Mich.: High/Scope Press, 2005). As defined by Act No.136 of the 2017 Regular Session of the Louisiana Legislature, "economically disadvantaged" includes children eligible for free or reduced-price school meals, the Supplemental Nutrition Assistance Program, Temporary Assistance to Needy Families or Medicaid, as well as English Language Learners and children who are homeless, incarcerated or in custody of the State.

9 In 2018, 61 of Louisiana's 68 public library systems had dedicated property taxes.

APPENDIX A: OVERVIEW OF THE EXISTING AND PROPOSED TAXES

Property taxes	First levied	Original levy	2019 levy*	2020 levy**	Proposed 2021 levy	Proposed change from 2020
Proposition 1						
Streets and traffic signals	1992	1.9 mills	1.9 mills	1.77 mills	2.619 mills (combined)	+0.289 mills
Capital improvements	1996	2.5 mills	1.82 mills	0.56 mills		
Subtotal		*4.4 mills*	*3.72 mills*	*2.33 mills*		
Proposition 2						
Public libraries	1987	4 mills	3.14 mills	2.58 mills	0.987 mills (combined)	-1.593 mills
Early childhood education***	N/A	N/A	N/A	N/A		
Subtotal		*4 mills*	*3.14 mills*	*2.58 mills*		
Proposition 3						
Housing	1996	1.25 mills	0.91 mills	0.91 mills	1.05 mills	+0.14 mills
Economic development	1996	1.25 mills	0.91 mills	0 mills	1.164 mills	+1.164 mills
Subtotal		*2.5 mills*	*1.82 mills*	*0.91 mills*	*2.214 mills*	
TOTAL		**10.9 mills**	**8.68 mills**	**5.82 mills**	**5.82 mills**	**0 mills**

* These are the maximum authorized rates that the City can levy.
** These are rolled-back rates due to an increase in property valuations from the 2020 reassessment.
*** The City currently does not have a dedicated tax for early childhood education.

APPENDIX B: THE BALLOT PROPOSITIONS

This appendix states the tax propositions as they will appear on the December 5 ballot:

CITYWIDE MILLAGE PROPOSITION 1
(PUBLIC INFRASTRUCTURE MILLAGE)

In lieu of separate millages previously approved by voters in the City of New Orleans ("City") in the amount of 1.900 mills for street and traffic control device maintenance and 2.500 mills for the Capital Improvements and Infrastructure Trust Fund (collectively, "Prior Taxes"), shall the City be authorized to levy a special tax of 2.619 mills ("Tax") for twenty years, January 1, 2021 - December 31, 2040 (estimated at $10,500,000 in the first year) with the proceeds of the Tax dedicated first to payment of debt service obligations secured by any of the Prior Taxes and then solely to public infrastructure in the City, to be used for the purposes of repairing, improving, maintaining and operating (i) roads, streets, and bridges, (ii) surface and subsurface drainage systems and stormwater management facilities, and (iii) public buildings and public safety facilities of the City, including purchasing related equipment and vehicles for any of the foregoing, provided that a portion of the monies collected shall be remitted to certain state and statewide retirement systems in the manner required by law?

CITYWIDE MILLAGE PROPOSITION 2
(LIBRARY AND EARLY CHILDHOOD EDUCATION MILLAGE)

In lieu of a separate millage previously approved by voters in the City of New Orleans ("City") in the amount of 4.000 mills for the support of public libraries in the City ("Prior Tax"), shall the City be authorized to levy a special tax of 0.987 mills ("Tax") for twenty years, January 1, 2021 - December 31, 2040 (estimated at $4,000,000 in the first year) with the proceeds of the Tax to be used for the purposes of constructing, improving, maintaining and operating public libraries and early childhood education facilities and related programs in the City, including the purchase of equipment therefor, title to which shall remain in the public, provided that a portion of the monies collected shall be remitted to certain state and statewide retirement systems in the manner required by law?

CITYWIDE MILLAGE PROPOSITION 3
(HOUSING AND ECONOMIC DEVELOPMENT MILLAGE)

In lieu of a separate millage previously approved by voters in the City of New Orleans ("City") in the amount of 2.50 mills to fund the Housing and Economic Development Trust Fund in the City ("Prior Tax"), shall the City be authorized to levy for twenty years, January 1, 2021 - December 31, 2040, special taxes of (a) 1.05 mills (estimated at $4,250,000 in the first year) to be used for the purpose of constructing, acquiring, improving, maintaining and operating affordable housing facilities and alleviating urban blight, and (b) 1.164 mills (estimated at $4,600,000 in the first year) to be used to support economic development activities in the City, provided that a portion of the monies collected shall be remitted to certain state and statewide retirement systems in the manner required by law?

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