BGR
We report to you.

ON THE BALLOT

A Report from the Bureau of Governmental Research

JEFFERSON PARISH WATER AND SEWER TAXES, MARCH 20, 2021

INBRIEF

Jefferson Parish voters will decide two property tax propositions on March 20: one for the water system and one for the sewer system. Jefferson Parish Government (Parish) manages both systems.

The 10-year taxes would each have a maximum rate of 5 mills. They would take effect in 2023, replacing two existing water and sewer taxes that have lower maximum rates and expire at the end of 2022:

- The proposed water tax would replace an existing 3.33-mill tax, resulting in $6.1 million in new revenue for the water system if the new tax is levied at the maximum rate (a 50% increase to $18.4 million a year). The proposed tax will go before voters only in the geographic district served by the water system: the unincorporated portion of the parish, the municipalities of Kenner, Harahan, Jean Lafitte and Grand Isle, and the Timberlane subdivision in the City of Gretna.
- The proposed sewer tax would replace an existing 3.36-mill sewer tax, resulting in $5 million in new revenue for the sewer system if the new tax is levied at the maximum rate (a 49% increase to $15.2 million a year). The proposed tax will go before voters only in the geographic district served by the sewer system: the unincorporated portion of the parish, the Town of Jean Lafitte and the Timberlane subdivision in the City of Gretna.

Residents of municipalities outside the districts do not pay the taxes or vote on the propositions.

The Parish has levied property taxes for water and sewer for several decades. For most of that time, voters authorized up to 5 mills for each. But voters rejected that approach in 2013 and instead continued the taxes at lower maximum rates of 3.54 and 3.58 mills, respectively. The Parish now levies the taxes at slightly lower rates due to rollbacks from higher property assessments. At the 5-mill rate, homeowners subject to both taxes would pay $100 annually on each $100,000 of property value above the homestead exemption, $33.10 more than at the current rates. The Parish Council would decide annually how much of the 5 mills to levy for each system.

The water system relies on user fees and its property tax for recurring revenue, while the sewer system's recurring revenue comes from user fees, its property tax and dedicated sales taxes.

INBRIEF CONTINUED ON NEXT PAGE

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.

REPORT HIGHLIGHTS

To analyze the propositions, BGR considered four questions that address the efficient and effective use of public resources: (1) Has the Parish carefully planned how it will spend the tax revenue and displayed financial stewardship of taxpayer dollars? (2) Are the taxes appropriately sized to meet the needs specified in the plans? (3) Are the taxes an acceptable way to fund the purposes in light of alternative funding options? (4) Is there evidence indicating effective outcomes would result from the taxes? Based on this analysis, BGR found the following:

- The Parish plans to continue using the water tax to fund water system capital projects, and the sewer tax to supplement user fees and sales tax revenue for sewer system operations.

- The Parish has a clear plan for spending revenue from the proposed taxes, which fits into larger plans for maintaining and improving its aging water and sewer systems. It has assessed the costs of water and sewer operations and identified high-priority capital projects for both systems.

- The Parish developed its 10-year water system capital plan based on projected revenue from the proposed tax, initially levied at the maximum 5-mill rate. Therefore, the tax's size aligns with the plan's cost. However, even at the 5-mill rate, the tax would not be sufficient to meet the system's broader infrastructure needs. Tapping current user fee revenue that supports water system operations would widen existing gaps between operating revenue and costs.

- The Parish's projections for annual sewer system operations revenue and expenditure during the 10-year millage cycle reasonably align with recent trends. And in combination with other sewer operations revenue, the proposed tax, initially levied at 5 mills, would be appropriately sized to meet projected system operating needs. Without the tax, the Parish would have to direct more sales tax revenue to sewer system operations. This would create funding gaps in other budgets supported by the sales taxes. On the capital side, only $7.7 million a year in sales tax revenue is available for the $719 million in sewer infrastructure needs the Parish has identified as essential during the next 10 years.

- Although the taxes would fall short of fully funding both systems' identified needs, this does not mean that a larger tax is necessary. The administration plans to develop proposals for water and sewer user fee increases, which, if adopted by the Parish Council, would provide additional revenue to address the deterioration of the systems. While property taxes are a common funding source for public goods, which the water and sewer systems also provide, user fees have the important quality of connecting payment with private consumption and allocating system costs among all consumers, including those that are tax-exempt. Overall, supplementing user fees with limited property taxes such as those proposed by the Parish is an acceptable means of funding the systems' private and public dimensions.

- The proposed taxes account for a critical portion of the funding required to operate, maintain and upgrade Jefferson Parish's water and sewer systems. The Parish's plans for the systems reflect the findings of multiple studies and prioritize investments that are necessary to sustain residents' predictable access to clean water and a sanitary environment. For example, water treatment plant and subsurface pipe replacements would decrease the chance of boil water advisories and other service interruptions. Overall, the proposed taxes would help drive successful outcomes for two systems that are essential to all residents and businesses. But without additional funding to address identified water and sewer infrastructure needs, the systems may no longer be able to provide the level of service residents expect.

BGR POSITION

FOR BOTH PROPOSITIONS. The taxes would provide revenue necessary to maintain and improve Jefferson Parish's water and sewer systems. The Parish has clear plans for implementing infrastructure projects that would address critical needs and reduce risks of system disruption and environmental hazards. However, while the taxes are crucial to the systems' continued functionality, the Parish must commit to securing other revenue to fully fund planned infrastructure improvements and sustain high water and sewer service levels. Raising user fees, which can more fairly distribute system costs among consumers, offers the best opportunity for closing the funding gap. The Parish has not yet implemented BGR's 2013 recommendation for shifting to a heavier reliance on user fees, and this step is overdue as a better practice to adequately fund the water and sewer systems.

INTRODUCTION

On March 20, Jefferson Parish voters will decide two property tax propositions: one for the water system and one for the sewer system. Jefferson Parish Government (Parish) manages both systems. The taxes would take effect in 2023 and replace two existing water and sewer taxes that have lower maximum rates and expire at the end of 2022. The taxes would remain in place for 10 years, expiring at the end of 2032.

The proposed water tax would:

- Have a maximum rate of 5 mills for acquiring, constructing, improving, maintaining and operating waterworks facilities.
- Apply only in Consolidated Waterworks District No. 2, a special taxing district governed by the Jefferson Parish Council (Council). It encompasses the unincorporated portion of the parish, the municipalities of Kenner, Harahan, Jean Lafitte and Grand Isle, and the Timberlane subdivision in the City of Gretna. The rest of the City of Gretna and the City of Westwego are not in the district, and their residents do not pay the tax or vote on the proposition.
- Replace an existing tax for the same purposes currently levied at 3.33 mills, resulting in $6.1 million in new revenue if levied at the maximum rate (a 50% increase to $18.4 million a year).[1]

The proposed sewer tax would:

- Have a maximum rate of 5 mills for acquiring, constructing, improving, maintaining and operating sewer works and facilities.
- Apply only in Consolidated Sewerage District No. 1, a special taxing district governed by the Council. It encompasses the unincorporated portion of the parish, the Town of Jean Lafitte and the Timberlane subdivision in the City of Gretna. The rest of the City of Gretna and the municipalities of Kenner, Harahan, Westwego and Grand Isle are not in the district, and their residents do not pay the tax or vote on the proposition.
- Replace an existing tax for the same purposes currently levied at 3.36 mills, resulting in $5 million in new revenue if levied at the maximum rate (a 49% increase to $15.2 million a year).

The Parish has levied property taxes for water and sewer for several decades. For most of that time, voters authorized up to 5 mills for each. But voters rejected that approach in 2013 and instead continued the taxes at lower maximum rates of 3.54 and 3.58 mills, respectively.[2] The Council now levies the taxes at slightly lower rates due to rollbacks from higher property assessments. While approval of the March 20 propositions would allow a return to the higher rates for the next 10 years, the Council would decide annually how much of the 5 mills to levy for each system. For details and estimates of the impact on individual taxpayers, see the sidebar “The Taxpayer’s Bottom Line.” If voters do not renew or replace the water and sewerage taxes before they expire, the systems would lose $12.2 million and $10.2 million, respectively, for these purposes.[3]

THE TAXPAYER’S BOTTOM LINE

If voters approve the two propositions, and the Council levies the maximum authorized 5 mills for each, homeowners subject to both taxes would pay $100 annually on each $100,000 of property value above the $75,000 homestead exemption beginning in 2023. That is $33.10 more than at the current rates. For example, the owner of a homestead-exempt property valued at $281,000 would pay $206 per year.*

Historically, the Council has levied the maximum authorized property tax rates at the beginning of the millage cycle, and then rolled back rates as property values increased due to reassessments.

* The average sale price for a single-family home in Jefferson Parish during the 12 months ending December 2020 was $281,000, according to data from the University of New Orleans Institute for Economic Development and Real Estate Research.

The purpose of this report is to help voters make informed decisions on the propositions. The report provides background and current context for the propositions, and analysis grounded in BGR's mission of promoting the effective use of public resources. It also provides BGR's position on the propositions. BGR is analyzing the two propositions in a single report because of their similarities.

BACKGROUND AND CONTEXT

The proposed water millage would support a system that directly serves about 150,000 residential and commercial accounts.[4] The system includes water treatment complexes on both sides of the Mississippi River and nearly 1,800 miles of water distribution pipes.

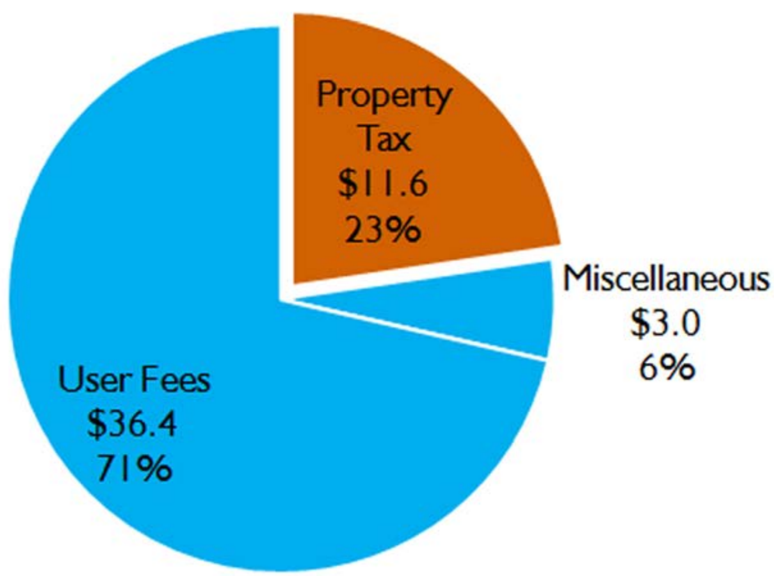
As Chart A shows, the current water millage accounted for 23% of the system's $51 million in total funding in 2020. Historically, the Parish has funded the system's operations with water user fees and directed the millage revenue to capital projects, such as treatment plant and water line improvements.

The proposed sewer millage would provide revenue for a system that serves about 116,000 residential and commercial accounts and includes six sewage treatment plants and more than 1,400 miles of collection pipes and sewer mains. The system's 500-plus sewer lift stations facilitate the flow of wastewater to sewage treatment plants.

The current sewer millage accounted for 16% of the system's $62.3 million in total funding in 2020, as illustrated in Chart B. The Parish has typically allocated the millage revenue, along with sewer user fees, to system operations, while using dedicated sales tax revenue for sewer capital projects and the majority of the system's debt service.[5] However, it plans to begin directing an additional $4 million in sales tax revenue to the sewer system for operations beginning in 2021 to cover rising costs. Recently, loans from the Louisiana Department of Environmental Quality have also supported sewer capital projects. The system's 2017-2022 capital plan relies on about $128 million in one-time bond funding and $31.4 million in one-time federal funding, which is not included in Chart B.[6]

CHART A. JEFFERSON PARISH WATER SYSTEM FUNDING BY SOURCE, 2020

($ in millions)



Note: The chart does not include fund balance use.

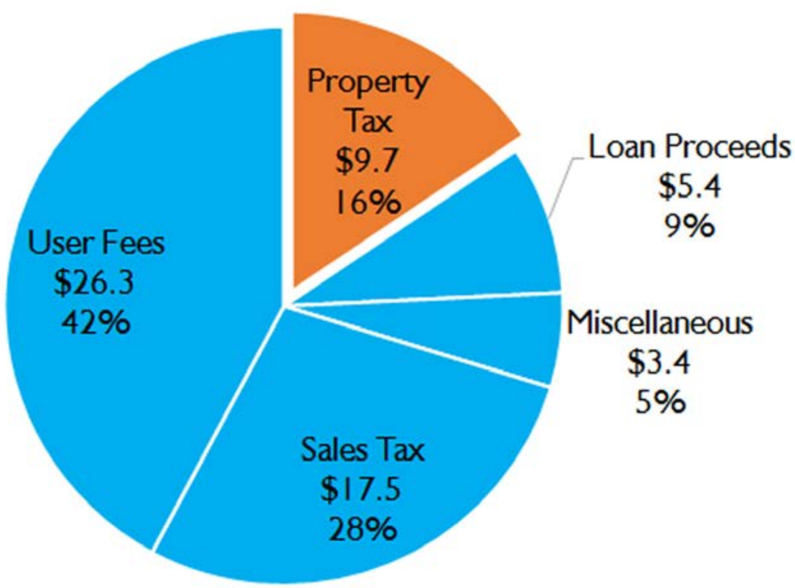
Source: Unaudited 2020 figures provided by Jefferson Parish Government. Miscellaneous funding also includes BGR's estimates for interest and State revenue sharing funds.

Parish officials say the proposed property taxes are essential for operating, maintaining and upgrading the aging water and sewer systems. They say that the sewer and water departments have so far avoided major customer service problems caused by outdated infrastructure. However, they contend that without adequate investment, the systems will continue to deteriorate and their deficiencies will soon manifest themselves to the public. They note that the water department responds to about 200 leaks each week, and, although the responses are rapid, this is not an efficient or sustainable way to manage the system. In addition, the sewer system has five outstanding compliance orders from the State of Louisiana's (State) Department of Environmental Quality, and inadequate investment could put the system at risk of hazardous leaks and penalties from State and federal regulators. Over the next 20 years, the Parish estimates it will need approximately $1 billion for water system infrastructure and $1.8 billion for sewer system infrastructure, including a consolidated West Bank treatment plant outside of residential areas.

If voters do not approve the taxes, the Parish says it will be unable to fund critical water capital projects, such as treatment plant replacements and new water lines. It would also have to defer maintenance necessary to keep the systems fully functional for all users. Parish officials note that the sewer millage accounts for one-quarter of the system's operations budget. Without the tax, officials say the Parish would need to redirect sales tax revenue from planned sewer capital projects to cover essential system maintenance costs.

Officials add that loss of the millage revenue would ultimately increase the likelihood of boil water advisories and lengthen response times for leaks and repairs. They say it could also reduce the water system's ability to meet fire department needs, potentially resulting in higher property insurance rates.[7]

CHART B. JEFFERSON PARISH SEWER SYSTEM FUNDING BY SOURCE, 2020
($ in millions)



Notes: This does not include fund balance use, one-time bond funding or one-time federal funding. BGR estimated the sewer system's portion of sales tax for Special Sales Tax Revenue Bond debt based on the percentage of bond funding allocated to sewer projects and the estimated 2020 revenue for Special Sales Tax Revenue Bonds Series 2017B and 2019B and Special Sales Tax Revenue Refunding Bonds Series 2019A as reported in Jefferson Parish's long-term debt schedule for the year ending December 31, 2019. BGR estimated the sewer system's sales tax revenue for capital projects based on 2019 sales tax revenue for this purpose. All other amounts are unaudited 2020 figures provided by Jefferson Parish Government.

However, Parish officials do not view the taxes alone as adequate funding to sustain the systems. Therefore, the administration plans to advocate for increasing water and sewer user fees to generate the additional revenue required. The Parish Council is responsible for setting user fees. The administration has yet to present any rate increase proposals to the Council, preferring to wait for the outcome of the March 20 elections to determine how much it must seek from higher fees.

ANALYSIS

Dedicating taxes to specific purposes carries risks of constraining future budget allocations and impeding local government's ability to respond to emerging needs. Tax dedications call for special attention in Jefferson Parish, where 85% of the Parish's revenue is dedicated. A government asking voters to approve a tax should be able to demonstrate that:

- It has carefully planned how it will spend the tax revenue and has displayed financial stewardship and accountability for taxpayer dollars.
- The tax is appropriately sized to meet the needs specified in the plan.
- The tax is an acceptable way to fund the purposes in light of alternative funding options.
- There is evidence indicating effective outcomes would result from the tax.

BGR developed this framework from its research on government finance and taxation, as well as consultation with government finance experts.

Has the Parish carefully planned how it will spend the tax revenue and displayed financial stewardship of taxpayer dollars?

Water System Spending Plan. If voters approve the water tax proposition, the Parish plans to continue using the millage revenue for capital projects. During the 10-year period of the new millage, the plan totals $304 million and includes the projects shown in Table 1.

TABLE 1. WATER SYSTEM PLANNED CAPITAL PROJECTS AND EXPENDITURES
($ in millions)

Project	Total Expenditures 2024-2033	Estimated Completion
East Bank Treatment Plant Replacements and Upgrades	$126.0	2027
Subsurface Pipe Replacement	79.3	ongoing
Automated Meter Reading System	66.7	2035
Routine Annual System Capital Needs	20.0	ongoing
Grand Isle Waterline Improvements	12.0	2024
Total	**$304.0**	

Note: The Parish projected total water capital expenditures of $304 million during the 10-year period and assigned specific expenditure amounts for each of the projects except subsurface pipe replacement. BGR allocated the balance to this project.

Source: Jefferson Parish Government

While the Parish would complete some of the projects within the 10 years, such as the East Bank treatment plant replacements and upgrades and Grand Isle water line improvements, others require additional time.

The Parish prioritized overhauling the East Bank water treatment complex several years ago after studies determined that the Parish should replace three of the four plants that comprise the complex. These plants had reached the end of their useful lives and were at risk of failing. However, raising sufficient revenue for such a large project has taken considerable time. Parish officials told BGR that the water system did not have an adequate revenue stream to support issuing bonds, which would have expedited fundraising for the treatment plant project.

> **"Overall, the Parish has a clear plan for spending revenue from the proposed taxes, which fits into larger plans for maintaining and improving its water and sewer systems. It has assessed the costs of water and sewer operations and identified high-priority capital projects for both systems."**

The Parish plans to implement the total $80 million residential automated meter reading system over the course of 12 years in order to align annual expenditures with available funding. It has piloted different automated meter reading options with a limited number of commercial customers in order to determine the best system to implement parishwide. A 2008 water system infrastructure assessment identified subsurface pipe replacement as a critical need. However, systemwide replacement will require decades to complete due to the scope of the project and funding limitations. The Parish will prioritize replacement according to pipe condition, starting with areas that have high concentrations of old and worn subsurface piping.

The Parish prioritized improving Grand Isle's waterline to ensure that the system can continue to supply water to the town.[8] The improvements include lowering the line to reduce its likelihood of being hit by a ship. Parish officials say this has happened more than once, and the associated repair costs increase every year.

Sewer System Spending Plan. If voters approve the sewer tax proposition, the Parish plans to continue using the millage revenue, along with user fees and $4 million in sales tax revenue, to pay for sewer system operations and a portion of the system's debt service. The millage would cover rising costs of operations and maintenance. The Parish also plans to continue using revenue from another sales tax for sewer capital projects and the majority of the system's debt service. However, Parish officials say only about $7.7 million in sales tax revenue is available annually for sewer capital projects, and the system's current 5-year capital plan will exhaust its remaining bond funding by 2022. Unless the Parish secures an adequate funding stream, it will not be able to implement the $719 million in infrastructure projects that the sewer department has identified as essential during the next 10 years to keep the current system functioning and environmentally compliant. These projects include treatment plant upgrades, lift station improvements, sewer main and pipe rehabilitation and replacement, generator installation and an odor control program.

Overall, the Parish has a clear plan for spending revenue from the proposed taxes, which fits into larger plans for maintaining and improving its water and sewer systems. It has assessed the costs of water and sewer operations and identified high-priority capital projects for both systems.

Assessing Financial Stewardship. Jefferson Parish's capital budgeting process requires the Parish Council to approve all projects, adding a layer of scrutiny and accountability. In addition, Parish law requires sewer user fee revenue to support the sewer system.[9] This helps ensure a consistent funding stream for the system by preventing the Parish from diverting fee revenue to other purposes. While Parish law does not appear to include a similar requirement for water user fee revenue, the Parish has limited its use of this revenue to the water system. The Parish has periodically refinanced bonds to reduce the cost of sewer system debt and pursued low-interest loans from the State of Louisiana and federal funding to complete additional capital projects. Collectively, these structures and strategies have supported financial stewardship of the tax dollars.

Are the taxes appropriately sized to meet the needs specified in the plans?

Both taxes, if approved by voters and levied at their maximum rates, would generate significant new revenue for the two systems. In this section, BGR reviews those increases in the context of the needs in the spending plans.

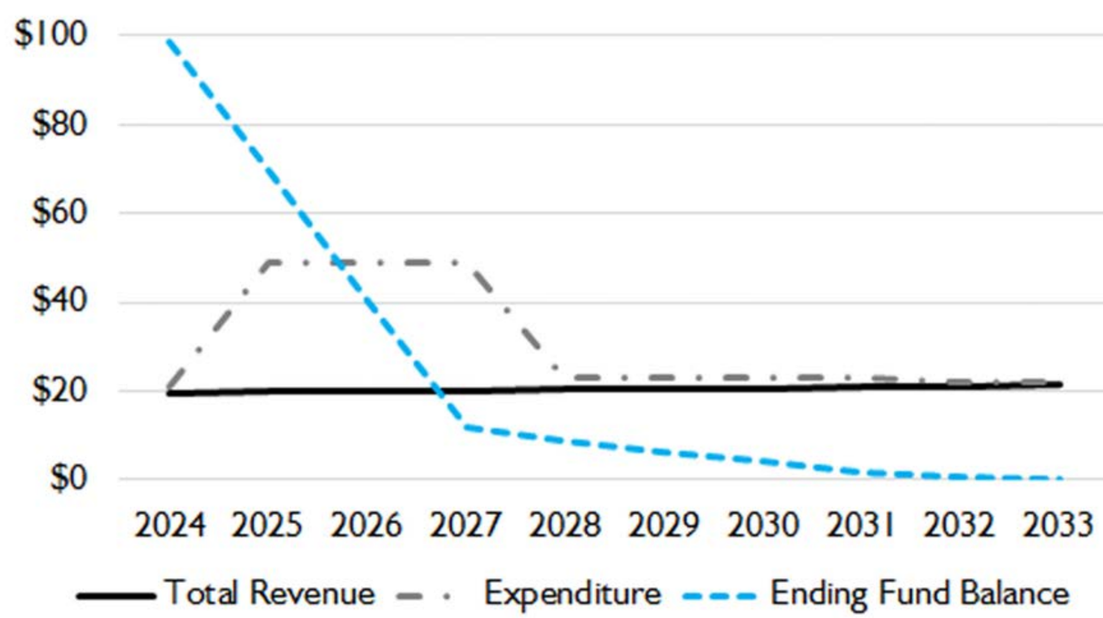
Water System. The tax would cover $186 million (61%) of the water system's projected $304 million capital expenditures during the 10-year millage cycle, if initially levied at the maximum 5 mills and rolled back following parishwide property reassessments. The system's capital fund balance would cover the vast majority of remaining expenditures.[10] The water system built a $100 million capital fund balance over several years in order to fund the planned East Bank treatment plant replacements. As Chart C shows, the Parish intends to keep capital project spending above projected revenue as it completes the treatment plant project. It projects that it will exhaust the fund balance by the end of the 10-year period.

The Parish developed its 10-year water system capital plan based on projected revenue from the proposed tax. Therefore, the tax's size aligns with the plan's cost. On the other hand, the current water tax's 3.33-mill rate, if also rolled back following reassessments, would generate about $61 million less during the 10-year period. Under the lower rate, planned expenditures would exhaust the water system's capital fund balance in 2027.

However, even at the 5-mill rate, the tax would not be sufficient to meet all the system's infrastructure goals. For example, based on the findings of the 2008 infrastructure assessment, the Parish concluded that it should aim to replace 20% of subsurface pipe every 20 years. Parish officials told BGR that meeting this target would cost about $35 million annually – more than $15 million above the amount the proposed tax would provide at the maximum rate.

The Parish cannot redirect current user fee revenue from water system operations and maintenance to increase the pace of pipe replacement without creating even larger gaps between operations and maintenance revenue and expenditures. Parish officials say user fees, which increase annually with the general Consumer Price Index, have not kept pace with rising costs

CHART C. PROJECTED WATER SYSTEM CAPITAL REVENUE, EXPENDITURE AND FUND BALANCE
($ in millions)



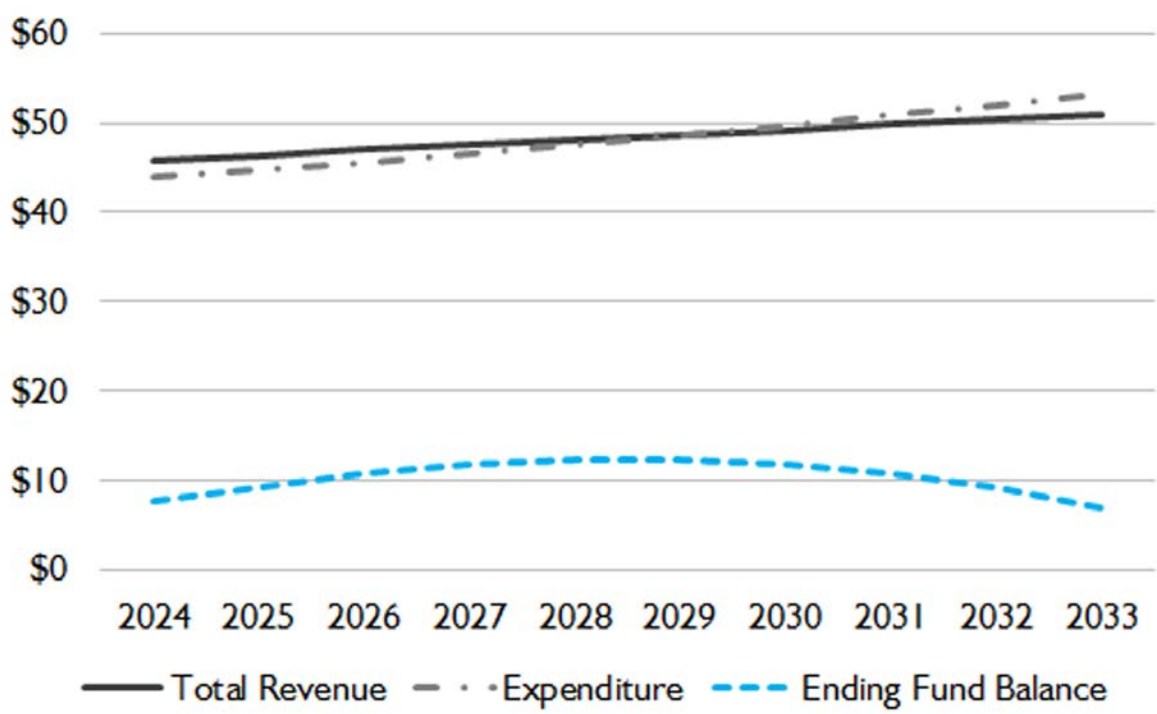
Note: Although the millage would run from 2023-2032, because of the property tax billing system in Jefferson Parish, revenue from the first year of the millage cycle wouldn't be available until the beginning of 2024.
Source: Jefferson Parish Government.

of chemicals and other system inputs. And emergency repair and maintenance costs will continue to increase as the system's infrastructure weakens with age. In 2019, water system operations and maintenance costs exceeded revenues by $2.9 million, and the 2021 budget projects a $4.5 million gap. The system's operations and maintenance reserves have covered the shortfalls, but under current funding, the Parish projects it will exhaust those reserves by the end of 2023.

Sewer System. Voter approval of the proposition would allow the Parish to generate about $5 million a year in new revenue for sewer operations at the maximum 5-mill rate, adjusted following parishwide property reassessments. As Chart D shows, the Parish projects this would cover the costs of operations during the first half of the 10-year millage cycle. During the second half, costs would outpace revenue. The rates would keep the fund balance within the best-practice range of 15% to 25% of operating costs until the last year of the cycle.[11]

Based on the Parish's projections for sewer system operations revenue and expenditure, the proposed tax, initially levied at 5 mills and rolled back after reassessments, would be appropriately sized to meet sewer operating needs. The Parish's projections assume annual growth of 1% for millage revenue, 1.5% for user fee revenue, 3% growth in personnel expenditures and 2% growth for most other expenditures, which are reasonably in line with recent trends.[12] Under these same assumptions, but starting with the current 3.36-mill rate, total revenue would lag expenditure each year, with the gap reaching $7.3 million by 2033. The entire fund balance would be exhausted by the end of 2025.

CHART D. PROJECTED SEWER SYSTEM OPERATIONS REVENUE, EXPENDITURE AND FUND BALANCE
($ in millions)



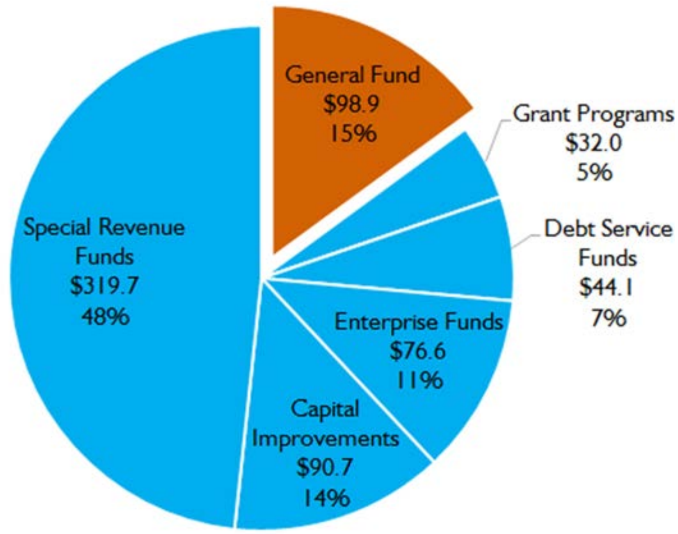
Note: Although the millage would run from 2023 through 2032, revenue from the first year of the millage cycle would not be available until the beginning of 2024 because of the property tax billing system in Jefferson Parish. Expenditures include debt service payments paid from the sewer system's operations budget.
Source: Jefferson Parish Government.

Without the proposed millage, the Parish would have to direct more sales tax revenue to sewer system operations. This would create funding gaps in other budgets supported by the two sales taxes, including drainage operations, drainage capital, sewer capital and roads capital. As it stands, the $7.7 million in sales tax revenue annually available for sewer capital cannot come close to funding the system's $719 million in critical infrastructure needs during the next 10 years.

Thus, the proposed taxes would increase revenue for both systems but would fall short of fully funding the systems' identified needs during the next decade. However, this does not mean that a larger tax is necessary. The administration plans to develop proposals for water and sewer user fee increases, which, if adopted by the Council, would provide additional revenue to address the deterioration of the systems.

CHART E. JEFFERSON PARISH REVENUE, 2021 BUDGET

($ in millions)



Source: Jefferson Parish Government.

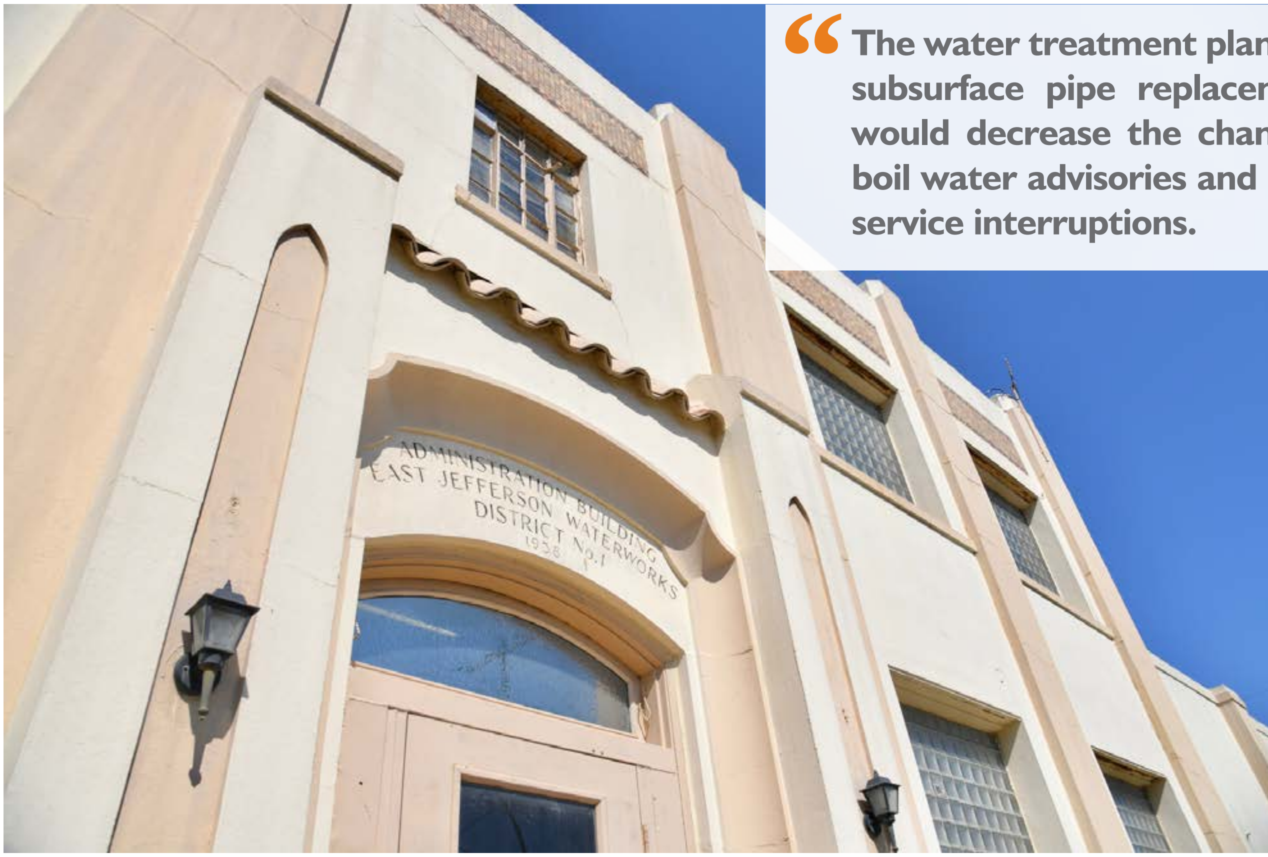
Are the taxes an acceptable way to fund the purposes in light of alternative funding options?

BGR's report on the taxes when they were last on the ballot in 2013 noted the advantages to raising user fees as an alternative to the millages.[13] User fees connect the cost of water and sewer services to actual consumption and can fairly allocate the systems' costs among residential, commercial, industrial and other types of users. Property taxes and other Parish revenue sources, on the other hand, are not related to usage. In addition, property taxes are subject to a number of exemptions, including the homestead exemption, exemptions for public and nonprofit property and business tax subsidies. Based on the assessor's valuations, exemptions remove approximately 27% of the total assessed value of property from Jefferson Parish's tax rolls.[14] As a result, some system users pay taxes at lower effective rates than others or pay no taxes at all.

Parish officials note that combining user fees with the tax creates a more diversified funding structure that can mitigate the impacts of a decline in one revenue stream. They also maintain that property taxes provide a more stable revenue stream than user fees, and stability is particularly important for funding large capital projects. However, adjusting user fee rates based on regularly conducted rate studies that account for trends in usage generally can help ensure consistent revenue.

Regardless, water and sewer systems provide public goods, such as a clean environment and water for fire protection and parks. Public goods benefit all residents and businesses, helping to justify the use of taxes to a limited degree for the systems.[15] Also, water and sewer systems add value to all properties, even vacant lots, regardless of how much water the owner or occupant uses. A national survey of public wastewater agencies found that user fees accounted for 65% of respondents' total funding in 2016, while taxes contributed only 6% – an indication of their more limited funding role. The majority of remaining funding came from non-recurring sources, such as bonds and loans.[16]

Other existing Parish revenue sources provide very limited opportunity for replacing the water and sewer systems' millage funding. As Chart E shows, 85% of Parish government revenue is dedicated to specific purposes defined by various special revenue funds. In addition, the Parish uses a large portion of its General Fund revenue to cover criminal justice and other expen-



“The water treatment plant and subsurface pipe replacements would decrease the chance of boil water advisories and other service interruptions.”

ditures mandated by the State. In 2021, 42% of budgeted General Fund expenditures are for State mandates.[17] Even if the General Fund had more revenue available, it would not offer a stable alternative funding source for the water and sewer systems because of competition from other Parish priorities.

This leaves an increase in user fees as the only realistic alternative to the property tax. While property taxes are a common funding source for public goods, which the water and sewer systems also provide, user fees have the important quality of connecting payment with private consumption and allocating system costs among all consumers. Overall, supplementing user fees with limited property taxes such as those proposed by the Parish is an acceptable means of funding the systems' private and public dimensions. In addition, eliminating the tax and moving toward complete reliance on user fees would require careful planning, outreach and education to ensure community support, attention to affordability issues and no interruption in adequate system funding.

Is there evidence indicating effective outcomes would result from the taxes?

The proposed taxes account for a critical portion of the funding required to operate, maintain and upgrade Jefferson Parish's water and sewer systems. The Parish's plans reflect the findings of multiple studies and prioritize investments that are necessary to sustain residents' predictable access to clean water and a sanitary environment. The water treatment plant and subsurface pipe replacements would decrease the chance of boil water advisories and other service interruptions. Parish business leaders, for example, point to the importance of reliable, functional water and sewer infrastructure in maintaining the value of business and personal property and promoting economic development.

The Parish's plans also include significant expenditures on preventive maintenance, which is generally a prudent investment because it reduces costs of future major repairs. In addition, the planned automated meter reading system would increase billing efficiency and accuracy. The automated system would complement the Parish's recent efforts to improve customer service through bill-pay apps and reduce costs by eliminating bill payment centers. The sewer department strategically targets its resources by using a computer model to determine whether a proposed capital project will deliver an adequate benefit-to-cost ratio.

However, while there is ample evidence that the Parish's plans for its water and sewer systems would improve outcomes, it does not have adequate funding to implement many of the critical infrastructure projects it has identified for the next millage cycle. This funding deficiency is particularly acute for sewer capital projects. Without the revenue from the proposed taxes, water and sewer service levels would certainly fall, but the taxes alone will not produce the most effective outcome: system sustainability. The U.S. Environmental Protection Agency advises that full cost pricing – pricing that recovers the costs of building, operating and maintaining a system – is necessary to ensure system sustainability.[18] This underscores the importance of the Parish's commitment to securing the revenue its water and sewer system needs.

Overall, the proposed taxes would help drive successful outcomes for two systems that are essential to all residents and businesses. But without additional funding to address identified water and sewer infrastructure needs, the systems may no longer be able to provide the level of service residents expect.

BGR POSITION

FOR BOTH PROPOSITIONS. The taxes would provide revenue necessary to maintain and improve Jefferson Parish's water and sewer systems. The Parish has clear plans for implementing infrastructure projects that would address critical needs and reduce risks of system disruption and environmental hazards. However, while the taxes are crucial to the systems' continued functionality, the Parish must commit to securing other revenue to fully fund planned infrastructure improvements and sustain high water and sewer service levels. Raising user fees, which can more fairly distribute system costs among consumers, offers the best opportunity for closing the funding gap. The Parish has not yet implemented BGR's 2013 recommendation for shifting to a heavier reliance on user fees, and this step is overdue as a better practice to adequately fund the water and sewer systems.

ENDNOTES

1 The current tax is levied in Consolidated Waterworks District No. 1, which does not include Grand Isle. Consolidated Waterworks District No. 2 includes both Consolidated Waterworks District No. 1 and Grand Isle, and the Parish has clarified that Grand Isle would be subject to the new tax.

2 In May 2013, voters rejected the Parish's initial propositions to renew the taxes with maximum rates of 5 mills. The Parish put the taxes back on the ballot in October 2013, but this time with lower maximum rates. Voters approved the October tax propositions.

3 These amounts reflect the revenue the existing taxes provide at their current rates based on the Parish's projection for the revenue the taxes would generate at the 5-mill rates.

4 In addition, the water system sells water to Westwego, which the municipality resells to its residents.

5 The Parish receives seven-eighths of a 1% sales tax collected in the unincorporated area, as well as all of the tax collected in the Town of Jean Lafitte. Voters have dedicated the Parish's portion of the tax to maintenance and replacement of sewer facilities, road maintenance and construction and drainage. The Parish uses a portion of the revenue from its seven-eighths of 1% sales tax to pay debt service on multiple bond issues that have funded road, sewer and drainage projects. In addition, the Parish receives two-thirds of a 0.5% sales tax collected in the unincorporated area of Jefferson Parish. Voters have dedicated the Parish's two-thirds portion to drainage and sewer operations, maintenance and capital improvements.

6 Jefferson Parish Government, 2017 Sewer Bond Program Website Status Report, October 9, 2020.

7 According to the Property Insurance Association of Louisiana (PIAL), which assists insurance companies in setting their rates by grading fire protection districts, adequate water supply for firefighting is a key component of the rating. While the failure of a single millage proposition would generally not in and of itself cause an immediate drop in a fire district's rating, a failure to fund the system investment necessary to maintain a district's water supply over time could lower the rating.

8 Water user fees are significantly higher for Grand Isle customers. For example, Grand Isle residents pay $17.78 for bimonthly usage of up to 6,000 gallons, while residents in the rest of Consolidated Waterworks District No. 2 pay $6.28.

9 Jefferson Parish Code of Ordinances, Sec. 27-50.

10 Annual interest income (about $1.3 million) and State revenue sharing funds (about $0.6 million) would contribute the remainder.

11 Tighe & Bond, *A Best Practices Guide for Evaluating Water & Sewer Rates Effectively*.

12 Average annual millage revenue growth between 2014 and 2019 was 1%, while average annual user fee revenue growth was 0.8%. The Parish's assumption for personnel expenditure growth is higher than actual average growth of 2%, while its assumption for other expenditure growth is lower than actual growth of 3.5%.

13 Bureau of Governmental Research, *On the Ballot, October 19, 2013*.

14 BGR calculations based on 2020 assessment data provided by the Jefferson Parish Assessor.

15 Grigg, Neil S., *Water, Wastewater and Stormwater Infrastructure Management*, 2012, CRC Press.

16 National Association of Clean Water Agencies, *Opportunities & Challenges in Clean Water Utility Financing and Management: Financial Survey Executive Highlights*, July 2018. Responses were provided by 111 agencies, with total combined funding of $19.5 billion.

17 Jefferson Parish 2021 Adopted Budget.

18 United States Environmental Protection Agency, *Tools for Financing Water Infrastructure*, 2007.

BGR Review Committee

Steven W. Usdin, *Chair*
Tara Adams
Anne P. Baños
Vanessa Claiborne
Ludovico Feoli
Norma Grace
Gary L. Lorio
Melissa Sawyer
Lamar Villere
Christine Albert
Charmaine Caccioppi
Maureen Clary
Louis M. Freeman, Jr.
Andrew R. Lee
Graham Ralston
Jennifer Schnidman

BGR Project Staff

Amy L. Glovinsky, President & CEO
Stephen Stuart, Vice President & Research Director
Susie Dudis, Research Analyst

This report is available on BGR's web site, **www.bgr.org**.

Become a Member

To preserve its independence, BGR relies on financial support from a diverse membership of individuals, corporations and foundations. To find out how you can become a part of BGR, go to www.bgr.org/membership or call us at 504-525-4152 x108.

BGR We report to you.

The Bureau of Governmental Research is a private, nonprofit, independent research organization dedicated to informed public policy making and the effective use of public resources for the improvement of government in the New Orleans metropolitan area.

BUREAU OF GOVERNMENTAL RESEARCH
1055 St. Charles Ave., Suite 200
New Orleans, LA 70130
Phone 504-525-4152
www.bgr.org
@bgrnola

East Bank Water Treatment Plant Photograph by Kevin Rabalais