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ON THE BALLOT

A Report from the Bureau of Governmental Research

JEFFERSON DRAINAGE PROPERTY TAX RENEWAL, NOVEMBER 6, 2018

INBRIEF

Voters in Jefferson Parish, with the exception of Grand Isle, will decide whether to renew a 5-mill, 10-year property tax dedicated to drainage works. The Parish projects the tax would yield an estimated $16.9 million annually. If voters renew the tax it would run from 2021 through 2030.

Key Background and Findings

- Renewal of the tax would reset its current rolled-back rate of 4.73 mills to the previously authorized maximum rate of 5 mills. This would result in a slight tax increase of 0.27 mills, beginning in 2021. For example, the tax for a homestead-exempt property valued at $220,000 would increase $3.97 from $69.53 to $73.50 a year.

- Jefferson Parish has levied the millage since 2001. Its original purpose was to provide local matching funds for the federal Southeast Louisiana Urban Flood Control (SELA) program, which ran from 1995 to 2018 and resulted in 67 drainage projects with a total investment of $934 million. In 2007 voters expanded the dedication to allow surplus revenue to pay for additional drainage projects that are ineligible under SELA.

- During the next three decades, the Parish must repay certain SELA investments that the federal government funded up front. The Parish estimates annual SELA payback costs of $6.1 million beginning in 2019. The Drainage Department anticipates that it will use the remaining $11 million in annual SELA tax revenue for non-SELA capital projects.

- The Department's five-year capital plan consists of 53 projects with total costs of $237 million. The Department will pay for this work with at least $129 million from its $149 million capital fund balance and the remainder will come from annual drainage tax revenue. In 2017, SELA millage revenue provided just under $16 million, or about 38% of annual revenue for drainage capital projects.

- BGR evaluated whether the tax is necessary. Although the Parish has other sources of drainage funding that it could reallocate to the SELA payback, none of these sources would cover the full cost without taking needed funding from other departments. The Parish would also not be able to make up about $11 million in tax revenue for other capital projects that would be lost without the millage.

- BGR evaluated whether the tax is appropriately sized. The Parish maintains a substantial drainage capital fund reserve to support a continuous flow of drainage projects and to deal with drainage emergencies. Renewing the tax would maintain the Department's current pace of work toward addressing a major infrastructure need in Jefferson.

- Finally, BGR evaluated whether the tax revenue would be well spent. The Department bases its master plan on constantly updated computer models that identify the areas of the parish most at risk of severe flooding. Department officials maintain that completion of these projects could ultimately help lower insurance rates for some areas. Further, the Parish is in discussion with the federal government on additional SELA projects. Renewal of the millage would provide local matching funds for new federal investment.

BGR Position

FOR. The federal government has invested heavily in major drainage projects in Jefferson Parish since the May 1995 floods. Now that those projects are complete, the Parish faces a significant repayment obligation to the federal government. The tax is necessary to meet that obligation. It will also help maintain the current pace of work on numerous neighborhood drainage problems that remain a Parish responsibility. While the Parish's drainage department has a $149 million capital fund balance, $129 million is allocated to projects. Substantial reserves enable it to keep its five-year capital investment plan on track and minimize the costs and impacts of emergency repairs. The department continuously updates the plan using computer modeling to prioritize investments that will reduce flood risks throughout the parish.

INTRODUCTION

On November 6, 2018, voters in Jefferson Parish will consider three 10-year property tax renewal propositions. This report analyzes the drainage tax renewal. BGR's reports on the other tax renewal propositions for juvenile services and for the animal shelter and public health are available on BGR's website, www.bgr.org.

The current millage cycle for the three taxes on the ballot runs through 2020. In seeking voter renewal two years in advance of the taxes' expiration, Parish officials say they are following a Louisiana Secretary of State recommendation that local officials put renewal propositions on the ballot 18 to 24 months ahead of the tax expiration.[1]

This report is intended to help voters make an informed decision. It explains the drainage tax proposition and provides background, current context and an analysis grounded in BGR's mission of promoting the effective use of public resources. The report concludes with BGR's position on the tax.

THE TAXPAYER'S BOTTOM LINE

If voters approve the renewal proposition, property owners could pay 0.27 mills more in taxes dedicated to drainage works than they currently pay. This is the difference between the current rate of 4.73 mills and the renewal rate of 5 mills. However, passage of the renewal proposition does not mandate that the Parish Council levy the full 5-mill rate. The council could levy the full 5 mills, or it could levy a lower rate.

If the council sets the rate at 5 mills, the owner of a homestead-exempt property valued at $220,000 would pay $3.97 more per year, an increase from $69.53 to $73.50.* BGR estimates that a commercial property owner would pay $3.78 more annually per $100,000 of property value.** If voters do not approve the renewal, property owners will not pay any property taxes dedicated to drainage capital projects after the current millage cycle expires at the end of 2020. However, they will continue to pay the separate property tax dedicated to drainage operations and maintenance through the end of its millage cycle in 2026.

* BGR calculated the homeowner impact using a value of $220,000 based on data from the New Orleans Metropolitan Association of Realtors, which show the average sale price for a single family home in Jefferson Parish during the 12 months ending June 2018 was $221,926. See New Orleans Metropolitan Association of Realtors (NOMAR), "Market Statistics," http://www.nomar.org/gsrein-mls-public/market-statistics-public.html.

** BGR assumes that land value accounts for 20% of total value for commercial properties.

OVERVIEW OF THE PROPOSITION

Jefferson Parish (Parish) is asking voters parishwide, with the exception of Grand Isle, to approve a 5-mill, 10-year property tax renewal dedicated to drainage works.[2] According to the proposition, the tax would yield an estimated $16.9 million at the full 5-mill rate.[3] The Parish must use the revenue for acquiring, constructing or improving drainage works related to the federal Southeast Louisiana Urban Flood Control (SELA) Project. It can use any surplus revenue for additional drainage projects that are ineligible under SELA. The current SELA millage cycle runs through 2020, and if voters renew the tax it would run from 2021 through 2030.

Jefferson Parish has levied the SELA millage since 2001. Voters last renewed it in 2011 at a rate of 5 mills. It has decreased to the current rate of 4.73 mills as the Jefferson Parish Council rolled back the rate to offset increases in property values. Renewal of the millage would restore the previously authorized maximum rate of 5 mills, resulting in an increase of 0.27 mills over the current levy. For estimates of the tax renewal's impact on individual taxpayers, see the sidebar "The Taxpayer's Bottom Line."

BACKGROUND AND CONTEXT

Department of Drainage Responsibilities

Jefferson Parish's Department of Drainage (Department) is responsible for administration, direction, coordination and implementation of major drainage and flood control programs throughout the parish, except for Grand Isle. The Department maintains and operates the Parish's drainage pump stations, canals and pipes. It also oversees planning and construction of new drainage infrastructure.

The federal government introduced the SELA program after torrential rains inundated southeastern Louisiana in May 1995. The improvements implemented under the program provide flood risk reduction up to 10-year storm level.[4] SELA has paid for capital improvements to the Parish's pump stations and major drainage canals. The program does not fund minor drainage canals and underground pipes, which remain the responsibility of the Parish.

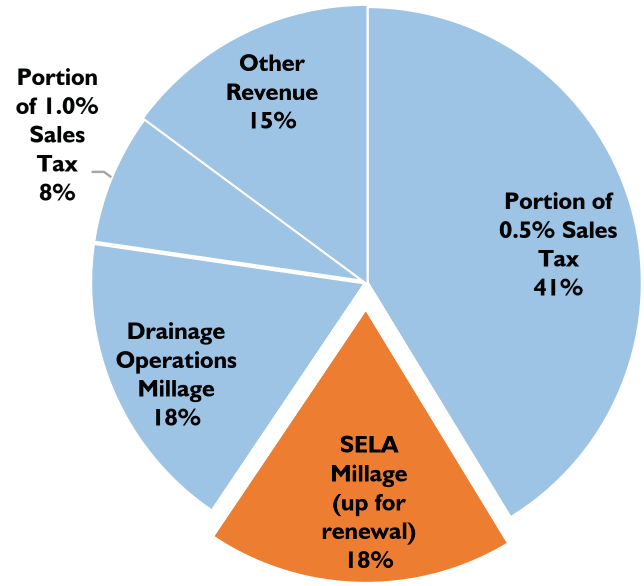
When the SELA program began, the federal government required the Parish to pay a 25% match, with federal funds covering the rest of the SELA project costs. Parish voters approved the SELA millage to pay the local cost share. Following Hurricane Katrina, the federal government provided $100 million for SELA projects without requiring matching funds. In 2009, it provided additional funds under a new cost-sharing arrangement. In order to expedite the remaining SELA projects, the federal government agreed to provide the funding needed to complete them up front. The Parish agreed to reimburse the federal government for 35% of the project costs, plus interest, over 30 years.[5] Repayment begins upon completion of projects in each of seven drainage basins identified in the parish. In 2007 voters expanded the SELA millage's dedicated purposes to allow any surplus tax proceeds not needed for SELA to fund other drainage works.

In April 2018, the U.S. Army Corps of Engineers (Corps) completed construction on the Jefferson Parish SELA projects. In all, SELA included 67 projects totaling $934 million. The Harahan Pump-To-The-River Project, completed in 2018, was the final SELA project in the parish. The Parish is currently discussing the possibility of additional drainage project studies with the federal government.

Department of Drainage Finances

The Department funds its operations and maintenance and capital projects through several sources. Besides

CHART 1. REVENUE FOR PARISH DRAINAGE



BGR analysis of drainage-related operating, capital and debt service funds in Jefferson Parish's annual financial report for the year ended December 31, 2017.

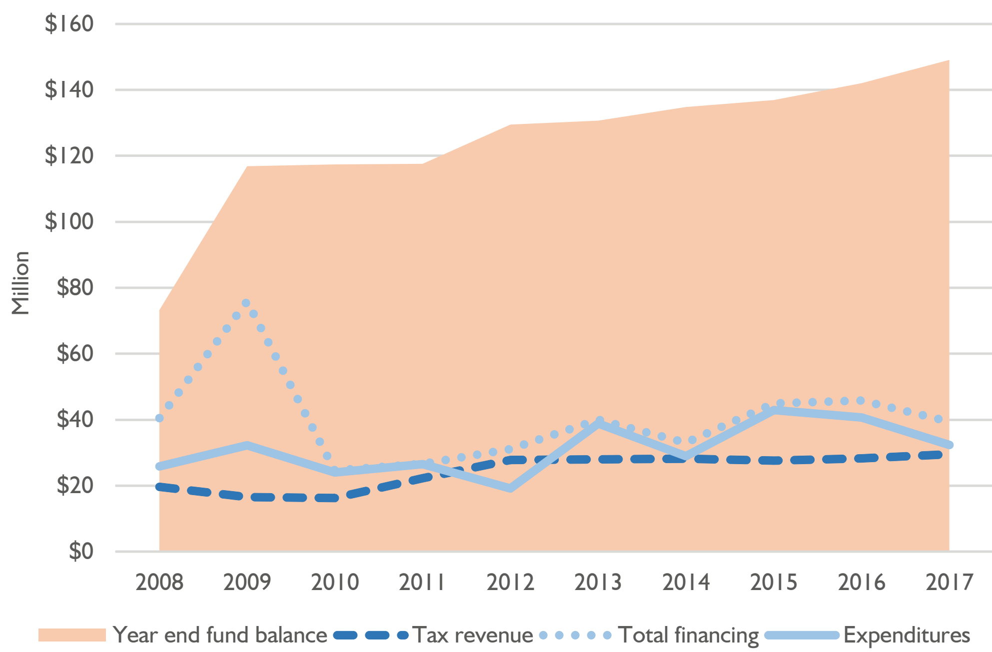
the SELA millage up for renewal, the Department receives:

- A property tax for drainage operations and maintenance that is currently levied at the rate of 4.64 mills parishwide, except for Grand Isle.
- A substantial portion of a 0.5% sales tax that the Parish can use for drainage operations, maintenance and capital projects.[6]
- A small portion of a 1% sales tax that the Parish can use for drainage operations, maintenance and capital projects.[7]
- Other revenue consisting of federal and state grants and interest income.

Department revenue totaled $87.2 million in 2017, of which 18% came from the SELA millage. Chart 1 shows the breakdown of Department revenue by source.

The Department manages the SELA millage revenue in the drainage capital fund. In 2017, drainage capital fund revenues totaled $41.2 million, consisting of: $15.8 million from the SELA millage, $13.7 million from the 0.5% sales tax, $9.9 million in intergovernmental revenue (pri-

CHART 2. DRAINAGE CAPITAL FUND



BGR analysis of drainage capital fund financial data in Jefferson Parish's annual financial reports for the years ended December 31, 2008 through December 31, 2017.

The Parish uses a mix of pay-as-you-go and bond financing for drainage capital improvements.[10] The Parish most recently issued bonds for drainage capital projects in 2009. Revenues for the Parish's drainage debt service funds totaled $11.6 million in 2017, of which $6.8 million came from the drainage portion of the 1.0% sales tax, $4.6 million from the 0.5% sales tax and $0.2 million from other sources. The Parish will retire most of its drainage bond debt at the end of 2019, which will allow the Department to put the sales tax revenue that had been used for debt service towards either operations and maintenance or capital projects.[11] Parish officials told BGR that only the revenue from the 0.5% sales tax will be redirected towards drainage operations, maintenance and capital projects as the bond debt is retired.

marily from federal and State grants) and $1.8 million from interest income. The Department used $32.3 million of this revenue for capital projects in 2017, including federal SELA paybacks of about $1.9 million.

The unspent $8.9 million of revenue remained in the drainage capital fund, which ended the year with a fund balance of $149.1 million. Of this amount, $129 million is already allocated to projects in the Department's five-year plan. Chart 2 shows the 10-year trend in the drainage capital fund's year-end fund balance, as well as tax revenue, total financing (including tax revenue and other sources), and expenditures.[8]

While capital expenditures have typically exceeded tax revenue, the Department has kept spending within its annual total financing, which includes federal and State grants and transfers from other departments. This has led to the growth in the capital fund balance.[9] However, Department officials do not believe federal and State grant funding will continue at past levels, nor do they anticipate issuing any bonds in the near-term.

Projected Need

The Department anticipates spending $237 million during the next five years to complete the projects in its current capital plan. The Department will use at least $129 million from its capital fund balance, with the remaining portion paid for with annual drainage tax revenue. In addition, beginning in 2019, the Department will use about $6.1 million from its capital fund annually for SELA payback costs.

Now that all SELA projects are complete, the Parish will see its annual repayment obligation grow. Repayments began at approximately $1 million per year upon the completion of projects in the initial drainage basins in 2015. By 2019, repayments will reach the full annual debt service amount of approximately $6.1 million at current interest rates. In 2020, the federal government will implement the first interest rate recalculation, which will occur every five years during the 30-year payback period. This could increase the annual debt service costs.[12] In addition, the current repayment estimate assumes the Corps will approve all credits requested by the Parish for work in kind it performed on the SELA projects. If it denies any of those credits, the annual repayment obligation would grow.[13]

Based on the current repayment estimate of $6.1 million a year, the Department will have nearly $11 million a year in surplus tax proceeds that it can invest in non-SELA drainage projects during the next 10-year millage cycle if voters approve the tax renewal. The Department will combine that surplus revenue with a variety of other sources to fund capital improvements to pump stations as well as interior drainage canals and underground pipes not eligible for the SELA program, which represent the vast majority of the Parish's drainage infrastructure.

The Department will use the capital fund to finance the projects in its five-year plan. Each year the Department updates its five-year plan to reflect project progress and prioritized needs. For example, the Department may delay a project if it awaits Corps approval. The plan currently includes 53 projects with total costs of $237 million. Each of the projects is in some stage of development, ranging from study to construction. Projects in the plan are located in all five council districts, and have estimated individual project costs ranging from $150,000 to $25 million. Almost half of the projects range between $2 million and $5 million, with 13 projects estimated at more than $5 million.

The current five-year plan is a subset of projects identified through the Department's master plan. The master plan is based on a computer model that shows how high water would rise during peak flooding from a rain event. The master plan prioritizes projects that would relieve flooding from areas shown on the model to experience water up to the first floor of buildings during peak flood with the current drainage infrastructure. Completing the projects in the current five-year plan will exhaust the vast majority of the Department's $149 million capital fund balance, and Department officials project that in five years funding for drainage capital projects and SELA paybacks will be limited to drainage tax revenue – about $30 million annually if voters renew the SELA millage.

The Parish's drainage infrastructure built prior to 1981 was not constructed to meet 10-year storm protection standards, and SELA projects did not touch the approximately 1,400 miles of street subsurface drainage systems that are still below the 10-year storm standard. The Department estimates that fully upgrading these systems costs about $10 million per mile, or about $14 billion total.[14] Department officials believe that within 50 years the Department will have upgraded the sections of the system in areas prone to the most serious flooding. The Parish may also pursue up to another $6 billion of additional capital projects during this time to increase capacity, stabilize or enclose existing drainage canals.

ANALYSIS

In this section, BGR analyzes the drainage tax renewal proposition on the basis of three questions related to efficient and effective use of public resources: Is the tax necessary? Is it appropriately sized to the need? And, will the tax revenue be well spent?

Is the Tax Necessary?

With all Jefferson Parish SELA projects now complete, the Department plans to use the SELA millage to pay its share of project costs back to the federal government. It can then allocate the remaining millage revenue to non-SELA capital projects in the five-year plan. If voters do not renew the SELA millage, the Department could initially use its reserves to cover the annual payback costs. However, Department officials told BGR that $129 million of the $149 million capital fund balance is already allocated to projects in the five-year plan. After a few years, the Department would need to redirect a portion of its 0.5% sales tax to SELA payback costs. Diverting

> **"Renewing the tax would maintain the Department's current pace of work toward addressing a major infrastructure need."**

sales tax revenue to cover the annual federal payback costs would require the Department to cut its expenditures on operations and maintenance or construction projects by about $6.1 million.

Further, without the SELA millage, the Department would have about $11 million less annually to spend on new construction projects because the remaining portion of the tax revenue would no longer be available for this purpose. These cuts would likely delay full implementation of the current five-year plan, and significantly slow the pace of drainage construction projects once the Department's capital fund balance is exhausted. In addition, non-renewal of the SELA millage would make it more difficult for the Parish to access any new federal SELA projects that may be authorized and require a local match. Alternatively, the Parish could allocate more revenue from its 1% sales tax to drainage projects, but this would divert funding from important road and sewerage projects.

The Parish Council could also roll forward the existing drainage operations and maintenance millage from its current rate of 4.64 mills to the full 6 mills authorized by voters in 2016. BGR estimates that this would provide about $4.6 million in additional drainage revenue. However, this would not cover the full $6.1 million required for the SELA payback, nor would it offset the $11 million in reduced capacity for capital projects.

Thus, the Department does not have other sources of revenue that could completely fill the gap if voters do not renew the SELA millage. While the Department might be able to maintain its current levels of spending on drainage operations and capital improvements for a few years by drawing down its reserves, it would quickly exhaust its unallocated reserves and be forced to slow the pace of drainage infrastructure improvement throughout the Parish.

Is the Tax Appropriately Sized to the Need?

If voters renew the SELA millage and the council levies the maximum authorized 5 mills, revenue dedicated to drainage capital projects will increase when the new cycle begins in 2021. The SELA millage contributed $15.8 million to drainage capital revenue in 2017 at a rate of 4.73 mills. If voters renew the millage, the Parish estimates it would bring in $16.9 million at the 5-mill rate. Assuming assessed property values continue to rise, the renewed tax would contribute over $1 million more to the Department's capital fund when it takes effect in 2021 than it did in 2017.

Although the fund balance appears quite large at $149 million, all but $20 million is allocated to projects in the five-year plan that are in design or under construction. Construction on some of these projects, including one with estimated costs of $20 million, will begin as soon as FEMA or the State give the Parish final approval. The Department must have the funding on hand in order to put projects out to bid, and thus a substantial fund balance keeps planned projects moving through the pipeline.

Department officials also note that maintaining capital fund reserves allows them to immediately address emergency projects that arise each year. If the Department did not have the funding on hand to commence these unplanned projects, repair costs would likely grow as the infrastructure further deteriorated while the Parish waited to secure sufficient funding.

The Department will use any additional revenue resulting from levying the full 5 mills to fund projects in the five-year plan and keep capital fund reserve levels sufficient to put large projects out to bid. Renewing the tax would maintain the Department's current pace of work toward addressing a major infrastructure need.

Will the Tax Revenue be Well Spent?

Jefferson Parish's Department of Drainage bases its master plan on constantly updated computer models that identify the areas of the parish most at risk of severe flooding. The Department's current five-year plan includes 53 projects informed by the computer models that will cost $237 million to complete. Department officials maintain that completion of these projects could ultimately help lower flood insurance rates for some areas.[15]

Although the SELA program provided the Parish with millions of dollars in essential drainage infrastructure, it did not fund improvements to the majority of drainage canals and neighborhood drainage pipes. The Parish continues to bear the responsibility for improving the approximately 1,400 of miles of street subsurface drainage systems that do not meet 10-year storm protection standards. It estimates full upgrades will cost $10 million per mile. With the completion of SELA in 2018, the Department cannot count on federal funding. And while State capital outlay funding used to support some parish drainage projects, this likely will not be the case going forward. This leaves Jefferson Parish residents billions of dollars away from complete 10-year storm flood protection, and with only local funding to foot the bill.[16]

There is no shortage of vital drainage projects in Jefferson Parish, and completion of these projects requires billions of dollars. The Department of Drainage prioritize the highest impact projects as identified through its computer modeling, and ultimately aims to upgrade all substandard infrastructure in the parish. The Department therefore can prioritize spending its tax revenue on infrastructure projects and improvements that prevent flood-related property damage and move the Parish closer to complete 10-year storm protection. It has leveraged its resources to secure hundreds of millions of dollars' worth of federally funded drainage infrastructure, implement new projects, quickly address emergency repairs and build funding reserves to levels that allow for the implementation of a large-scale five-year plan.

BGR POSITION

FOR. The federal government has invested heavily in major drainage projects in Jefferson Parish since the May 1995 floods. Now that those projects are complete, the Parish faces a significant repayment obligation to the federal government. The tax is necessary to meet that obligation. It will also help maintain the current pace of work on numerous neighborhood drainage problems that remain a Parish responsibility. While the Parish's drainage department has a $149 million capital fund balance, $129 million is allocated to projects. Substantial reserves enable it to keep its five-year capital investment plan on track and minimize the costs and impacts of emergency repairs. The department continuously updates the plan using computer modeling to prioritize investments that will reduce flood risks throughout the parish.

ENDNOTES

1 In 2017, the Louisiana Secretary of State issued this recommendation in an attempt to limit the number of "emergency elections" called by local governing officials when tax renewal propositions fail. The recommendation stated that placing the renewal propositions on the ballot 18 to 24 months in advance of tax expiration gives voters time to understand the issue and local officials time for one more chance if voters reject the renewal the first time. See letter from Louisiana Secretary of State Tom Schedler to Louisiana State Bond Commission members, February 16, 2017.

2 This geographic area is a special taxing district called Consolidated Drainage District No. 2.

3 The Parish estimated the millage revenue based on 2017 Jefferson Parish taxable property value and a 95% collection rate.

4 U.S. Army Corps of Engineers, Southeast Louisiana Urban Flood Control Project – SELA, Updated February 2018. A 10-year storm or 10-year rain event is a rain storm that has a 10% annual probability of occurrence. In southeastern Louisiana this equates to approximately nine inches of rain over a 24-hour period.

5 Project Partnership Agreement Between the Department of the Army and the Coastal Protection and Restoration Authority of Louisiana for the Southeast Louisiana, Louisiana Project, Jefferson and Orleans Parishes, January 16, 2009.

6 The Parish receives one-third of parishwide collections of the 0.5% sales tax. It also receives the remaining two-thirds of the tax collected in the unincorporated area of Jefferson Parish. Municipal governments in the parish receive the two-thirds of the tax collected within their boundaries.

7 The Parish receives seven-eighths of the 1% sales tax collected in the unincorporated area, as well as all of the tax collected in the Town of Jean Lafitte. The Sheriff receives the remaining one-eighth collected in the unincorporated area. Municipalities other than Jean Lafitte receive the 1% tax collected within their jurisdictions. See BGR, *On the Ballot*: *Jefferson Parish Taxes, December 10, 2016*, p. 1.

8 Total financing includes total revenue as well as transfers from other departments into drainage capital, transfers to other departments from drainage capital and proceeds from any bond issues.

9 The jump in the fund balance in 2009 reflected the proceeds of a $50 million bond issue.

10 Jefferson Parish, 2018 Adopted Budget, p. 31. Parish policy requires departments to pay for capital projects with the revenue they have on hand whenever possible.

11 The Department's 2017 Consolidated Drainage District No. 2 revenues, which support drainage operations and maintenance, totaled $34.4 million: $15.6 million from the operations and maintenance millage, $17.7 million from the 0.5% sales tax and $1.1 million from other sources. Its total operating expenditures for the year were $30 million, and its fund balance closed the year at $19.5 million.

12 As of September 2018, the Parish has repaid $6.6 million to the Corps. The Parish began making payments in 2015 for projects completed in two drainage basins. In 2017, it made payments for projects in four basins and in 2018 it will make payments for projects in six basins. In 2019 it will be making payments on projects in all seven drainage basins. It expects to pay a total of $19.8 million through the end of the current millage cycle in 2020. Information provided by the Parish.

13 The Corps currently estimates the Parish's total payback to be about $183 million. This estimate factors in almost $50 million of work-in-kind credits for which Jefferson Parish has applied. However, as of September 2018, the Corps has reviewed and approved only $14 million of work-in-kind credits. The Parish anticipates that it will take at least one more year for the Corps to complete its review process. If the Corps denies any of the work-in-kind credits, the Parish's total SELA payback will increase.

14 This includes drain lines, associated pavement replacement, utility relocation or offset, and sometimes pumps. Information provided by the Department.

15 Under the National Flood Insurance Program, minimum standards are set by the federal government to qualify for flood insurance. In setting flood insurance rates, the federal government looks at numerous factors including, but not limited to, storm surge protection, levee protection, pump station operations and maintenance, interior drainage, catch basins and building permits. FEMA considers all of these things working together when preparing its flood insurance rate maps. FEMA conducts a compliance review on an annual basis and a system recertification review every 10 years. If infrastructure is diminished or there is a reduction in services, FEMA could consider an area at a greater risk of flooding. See 44 C.F.R. Secs. 59.1-75.14.

16 Information provided by the Department.

BGR Review Committee

BGR Project Staff

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

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BUREAU OF GOVERNMENTAL RESEARCH
1055 St. Charles Ave., Suite 200
New Orleans, LA 70130
Phone 504-525-4152
Fax 504-525-4153
www.bgr.org