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BUREAU OF GOVERNMENTAL RESEARCH

938 Lafayette St., Suite 200
New Orleans, LA 70113
Phone 504-525-4152
www.bgr.org

BGR Media Release

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Contact: To arrange an interview with President & CEO Celeste Coco-Ewing, call Molly Kramer, (504) 525-4152, ext. 108.

BGR Report Calls for Rethinking Orleans Parish Tax Dedications

Today BGR releases *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?* With the City of New Orleans facing enormous costs to address a host of pressing needs and obligations, the report presents a comprehensive picture of where local tax dollars are going in Orleans Parish. It provides breakdowns of tax dedications by entity and by purpose, setting the stage for a public discussion of how well these dedications align with local needs. The report also provides examples of problems that can arise when tax dedications are established with little planning and accountability. Finally, it makes recommendations for a comprehensive reassessment of dedications to help ensure existing tax revenues are deployed optimally.

A decade after Hurricane Katrina, New Orleans faces a perfect storm of unmet needs and new obligations, from crumbling infrastructure to court-ordered reforms at Orleans Parish Prison. Meeting all of these needs would cost billions of dollars, far exceeding the parish's taxing capacity.

But the scarcity of resources plaguing City government does not extend to all government entities in Orleans Parish. Over the course of several decades, significant new taxes have been imposed and dedicated to special purpose entities. Certain local tax-recipient entities are so flush with revenue that they have been amassing significant surpluses. One of these entities continues to receive substantial tax dedications for a project that never came to fruition.

Local taxes – primarily property, sales and hotel taxes – have grown to the point where they now exceed \$1 billion. However, just a quarter of this tax revenue is available to the City for broad municipal purposes. The rest is dedicated to specific municipal purposes or to other entities.

These tax dedications were approved in piecemeal fashion over the course of many years with little planning and accountability. The allocation of resources that evolved from this ad hoc process has not been re-evaluated in the context of changing conditions and current needs. Given the limited public funds to satisfy those needs, New Orleans cannot afford to continue down this path.

The report shows how the \$1 billion in Orleans Parish tax revenue is divided among more than 60 entities. It also provides a breakdown of taxes dedicated to various purposes, such as public safety and flood protection.

Some of the report's findings are not surprising. For example, two basic governmental functions, education and public safety, receive the largest shares of tax revenues.

Other findings might come as a surprise either because of the relatively large or small shares dedicated to certain purposes. For example, 14% of all local tax revenue goes to tourism, conventions and sports. That is more than one and a half times the percentage for flood protection and drainage. At the lower end of the spectrum, BGR found that the category that includes streets received a mere 3%.

BGR did not conduct a systematic analysis of the appropriateness of every tax dedication currently in effect. However, in the course of the research for this report, BGR came across a number of taxes that stood out because they illustrate the problems that can arise from an ad hoc approach to taxation. They include:

- Two taxes dedicated to a facility that was never built, contributing to a \$200 million surplus for the tax-recipient entity.
- A significant new hotel assessment dedicated to a private tourism marketing entity that came at the expense of a similar hotel tax proposal to support the City.
- The creation and expansion of permanent dedications for an entity during a period when its service level declined 68%.
- A fixed-percentage of parishwide property taxes dedicated to an entity that is realizing significant annual surpluses as a result.

Most of these dedications were never approved by voters or the City Council.

Recommendations

It is time to review current taxes in New Orleans and identify those that are ripe for rededication to basic municipal needs. The City is the only general purpose government entity in the parish and the one in the direst financial straits. Therefore, the mayor must take the lead in pursuing all appropriate changes to local tax dedications.

1. The City should carry out an initial review focused on identifying the most clearly justified opportunities to redeploy funding to meet urgent priorities. The City should complete that review in time to craft an agenda for the 2016 legislative session. The local legislative delegation should cooperate in executing the City's agenda.
2. Next, the City should undertake a comprehensive re-evaluation of tax dedications and develop a broad plan to address the community's priorities in advance of its 2017 budget. All taxes, except those for the most basic infrastructure and services, should be placed on the table for possible rededication. The City should evaluate all such taxes, not in terms of each taxing body's ambitions, but in the larger context of the community's needs. Ultimately, this mayor should present a program for funding and executing the plan.

"BGR's report doesn't take a position against tax dedications in general," BGR Vice Chairman Hardy Fowler said. "Instead, it highlights the kinds of problems that can occur when tax dedications build up over time and aren't reassessed as conditions change. Given the City's financial problems, policymakers owe it to the public to take steps to make sure the tax dedications make sense."

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BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information call 504-525-4152 or visit BGR's website, www.bgr.org.

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