



# ON THE BALLOT

A Report from the Bureau  
of Governmental Research

## NEW ORLEANS BOND AND TAX PROPOSITIONS, NOVEMBER 16, 2019


### INBRIEF SUMMARY

On November 16, New Orleans voters will decide three separate propositions that would authorize the City of New Orleans (City) to:

- Issue up to \$500 million in bonds for capital improvements.
- Levy a new 3-mill property tax that would yield \$12 million annually for maintenance of City infrastructure, facilities and equipment.
- Levy a new occupancy tax on short-term rentals that would yield several million dollars annually to fund infrastructure of the City and Sewerage and Water Board (S&WB) and promote tourism.

The propositions are part of the City's effort to increase funding for infrastructure improvements and other municipal needs. For example, the City faces a \$5.8 billion funding gap to fix its streets and drainage (exclusive of the S&WB's needs). Voters will decide the new propositions at a time when the City's financial picture has several unresolved questions. These include the extent of any "roll forward" of property tax rates the City Council may adopt for 2020 and the potential for local tax rededications and cost savings within the City's own budget. In addition, the City lacks a long-range financial strategy to organize future spending priorities and possible funding sources. Voters must weigh these concerns against the magnitude of the City's unmet needs, the urgency to address them and the reality that some new funding may be necessary in the meantime.

BGR's report is intended to help voters make an informed decision on the bond and tax propositions. While BGR has consolidated the three propositions into one report, the report provides a separate overview, relevant background information, and an analysis for each proposition grounded in BGR's mission of promoting the efficient and effective use of public resources. For each analysis, BGR examines whether the proposition is necessary, whether it is appropriately sized to the need and how likely it is that the proceeds will be spent effectively.

The following pages summarize BGR's analysis and provide its position on each proposition. 

#### 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.

## INBRIEF SUMMARY CONTINUED

### \$500 Million Bond Proposition

If voters approve this proposition, the City could issue up to \$500 million in new capital improvement bonds, supported by an existing property tax for City debt. Unlike other bond authorizations in recent years, the proposition does not identify specific projects, nor does it set dollar amounts for the permissible categories of improvements. Instead, City administrators said they intend to use the bond proceeds as follows: \$250 million for drainage and streets; \$225 million for public facilities and public safety equipment; and \$25 million for affordable housing. The City will allocate bond proceeds to projects through its annual capital planning process, which aligns with recommended practices and requires public input and City Council approval.

BGR's analysis finds a clear need for the infrastructure bonds but a less-detailed case for the proposed allocations to public facilities and affordable housing. Unanswered questions remain about their size, scope and priority. The public must rely on the City's use of the capital planning process to determine specific projects and prioritize the spending of bond proceeds. Effective outcomes will also depend on the City's execution of a strategy to obtain tax-exempt status for the new bonds, which could lower interest rates and save taxpayers approximately \$112 million in borrowing costs over time. The City has not been eligible for tax-exempt status for several years because of delays in spending bond proceeds. The specificity of past ballot propositions contributed to those delays by limiting the City's flexibility to reallocate bond proceeds if a project becomes unnecessary or unfeasible. The new proposition is designed to avoid that.

Based on its analysis, BGR takes the following position on the bond proposition:

### BGR POSITION ON \$500 MILLION BOND PROPOSITION

**FOR.** The new bonds would provide critical funding for necessary improvements to the City's streets and drainage system. They would leverage local dollars to maximize the benefits of FEMA funding to repair damage from Katrina. The City's spending plan, while nonbinding, also includes a major investment in non-infrastructure projects, though questions remain about the necessary public investment level for those projects and the appropriate size of the proposed allocations given the size and urgency of the infrastructure needs. Therefore, the City's capital planning process must provide the necessary due diligence, checks and public accountability needed to help ensure effective outcomes. The City should recognize the potential necessity for the bond spending plan to allocate more funding to drainage and streets.

Unlike past bond propositions, the current bond proposal comes to voters without specific dollar allocations for the items to be funded, or specific projects. They do not have assurances about how the City will spend the \$500 million bond proceeds other than a nonbinding allocation plan that is not part of the proposition. While voters deserve more details on funding priorities before an election, there are factors that mitigate the concern in this case. The City will use its capital planning process established in the City charter to prioritize projects for bond proceeds. And the proposition's flexibility is intended to help the City to qualify for and maintain tax-exempt status for the new bonds and avoid \$112 million in unnecessary interest costs for taxpayers. BGR strongly urges the City to follow through with a careful review process for future investments of bond proceeds. Furthermore, if voters approve the proposition, the City should not issue bonds until it has qualified for tax-exempt status or can demonstrate an urgent need that justifies the substantially higher costs of taxable bonds.

### 3-Mill Property Tax Proposition

Voters will consider a 3-mill, 20-year property tax that would provide about \$12 million a year to maintain City infrastructure and public facilities and to purchase vehicles and equipment. The proposed millage would be a new tax, although City administrators designed the proposition to capture and repurpose a recent 3-mill reduction in the property tax that supports existing bonds. The proposition does not specify allocations of the new tax revenue. City administrators currently plan to spend most of the millage revenue to maintain and repair street and drainage infrastructure (50%) and facilities (35%). They plan to spend the remaining 15% to maintain, repair and replace vehicles and equipment. As with the bond proposition, this is a nonbinding spending plan.

BGR's analysis finds the new tax would meet some of the City's significant needs for infrastructure and vehicle maintenance. The City estimates street and drainage maintenance will require \$30 million to \$35 million a year, well above the average \$4.6 million a year it has spent during the past decade. The average age of City vehicles is 12 years, with many police cars, fire trucks and ambulances in need of replacement. However, BGR reiterates its concerns that the City has missed opportunities to direct growth in revenue from parking meters, parking citations and traffic camera tickets to street maintenance. [BGR's recent look at City budgets](#) further urged the City to seek opportunities for cost savings. The City owes it to taxpayers to make an effort to increase funding for maintenance through existing revenues or demonstrate why it is not possible to do so. For the new tax, City administrators plan to track its revenue within the City budget to show the public how it will be spent on the intended purposes. They also point to the potential for effective use of the maintenance tax in saving costs for major repairs and replacement. For instance, the City estimates that each dollar invested in preventive maintenance of streets can save four or five dollars on future capital repair costs. It would also help safeguard FEMA's major investment in restoring New Orleans streets damaged as a result of the Hurricane Katrina disaster.

Based on its analysis, BGR takes the following position on the 3-mill tax proposition:

### BGR POSITION ON 3-MILL PROPERTY TAX PROPOSITION

**FOR.** The City's chronic underfunding of infrastructure maintenance is directly linked to the poor state of New Orleans' streets and drainage system. BGR has repeatedly urged the City to increase funding for maintenance by redirecting existing revenues, including increases in parking and traffic camera tickets. But the City has not done so. The administration's proposed 2020 budget includes \$20 million in new spending, with just a small fraction of it allocated to maintenance needs. There are also indications that the City has not exhausted potential opportunities to reduce costs so it can reallocate revenues to maintenance. On the other hand, responsibly funding preventive maintenance can itself serve as a cost-cutting measure by reducing future repair and replacement expenses. In addition, the City's maintenance needs are so great that it is not possible to satisfy them with existing revenues alone. For these reasons, BGR supports the proposed tax, which would also provide funding to maintain public facilities and update the City's aging vehicle fleet. As an accountability measure, it is imperative that the City follow through on its promise to fully account for how it uses the tax proceeds. Because the tax will not satisfy all maintenance needs, the City should continue to assess options to reallocate existing revenues to maintenance and other high-priority needs. This includes both parishwide tax dedications and revenues within the City's own General Fund.

### Short-Term Rental Tax Proposition

This proposition would authorize the City to levy a permanent tax, beginning January 1, 2020, on short-term rentals of overnight lodging not to exceed 6.75% of the rent. State legislation requires the City to dedicate 75% of the future tax revenue to a special infrastructure fund for the City and S&WB and 25% to New Orleans & Company, a private, nonprofit organization, to promote tourism. The City has informally agreed to provide 75% of the infrastructure money to the S&WB and keep the remaining 25% for its Department of Public Works. While the ballot proposition estimates the tax will yield \$10.5 million annually, City officials expect the stricter regulations on short-term rentals taking effect December 1, 2019 will reduce that estimate by an undetermined amount.

The short-term rental tax is part of the larger “fair share” funding package negotiated this spring by the mayor, the governor, State legislators and the tourism industry to provide an infusion of funding for City and S&WB infrastructure needs. BGR’s analysis finds that both the City and S&WB have developed detailed plans for spending the short-term rental tax and other recurring “fair share” revenue. These include street and drainage maintenance, federal repayment obligations for major drainage works, and improvements to water meters and billing. A special Infrastructure Advisory Board will help oversee those expenditures. The 25% share for tourism promotion (\$2.7 million) would not represent new spending, but rather would partially offset about \$8 million in local hotel tax revenue redirected to infrastructure and public transit. BGR’s report also discusses opposition from short-term rental operators, whose guests would pay slightly more in taxes and fees than they would if they stayed at a hotel. However, BGR finds economic support for charging visitors for the cost of public services and infrastructure, as well as tourism promotion. BGR raises concern about the permanent tax, which means voters would not have a regular opportunity to reconsider it, and stresses the need for ongoing accountability.

Based on its analysis, BGR takes the following position on the short-term rental tax proposition:

### BGR POSITION ON SHORT-TERM RENTAL TAX PROPOSITION

**FOR.** Economic research supports visitor taxes, such as the proposed short-term rental tax, to help offset the cost of public services and infrastructure they use and fund the cost of tourism promotion, from which short-term rental operators benefit. The revenue from the proposed tax, which may be less than projected due to new restrictions on short-term rental activity, will help the City and S&WB make progress in meeting their infrastructure needs. Both the City and the S&WB have set forth plans for spending the tax revenue. While the tax would also fund some tourism promotion, it partially offsets other tourism dollars redirected to infrastructure.

The permanency of the tax will hinder public accountability. To mitigate this, the City administration, S&WB and the mayor’s Infrastructure Advisory Board should establish clear accountability reporting on the uses of the infrastructure money. The City administration and City Council should assure accountability and public reporting for the 25% share for tourism promotion through their future cooperative endeavor agreement with the private New Orleans & Company.

**A Note on The Proposed Charter Amendment.** While this report focuses on the bond and tax propositions, there is a fourth proposition on the November 16 ballot in New Orleans to establish the City’s Human Rights Commission in the home rule charter. BGR is not producing a ballot report on this proposition because it selected the propositions that are more closely related to BGR’s recent body of research on local government finance issues.

## INTRODUCTION TO THE PROPOSITIONS

On November 16, New Orleans voters will decide three separate propositions that would authorize the City of New Orleans (City) to:

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- Levy a new 3-mill property tax that would yield \$12 million annually for maintenance of infrastructure, facilities and equipment.
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The propositions are part of the City’s effort to increase funding for infrastructure improvements and other municipal needs. As shown in Table 1, the City has access to \$2.3 billion in Federal Emergency Management Agency (FEMA) reimbursements and existing bond proceeds to address street and drainage capital needs totaling \$8.1 billion, leaving a \$5.8 billion unfunded gap. These figures do not include the future capital and maintenance requirements of the S&WB’s water, sewerage and drainage works, which are still being determined. Beyond infrastructure, City officials have attempted in recent years – with varying levels of voter support – to direct new resources to public safety, affordable housing, elderly services, parks and recreation, and other public services.

As the City continues to seek funding for municipal needs, it is important that policymakers also take steps toward optimal deployment of existing resources. To help inform this process, BGR issued reports this year

analyzing the [\\$1.25 billion in total local tax revenues in Orleans Parish](#) and the [past 10 years of City budgets](#).

The first report released in April urged the City to lead a comprehensive review of Orleans Parish taxes to identify options to rededicate taxes to high-priority needs.<sup>1</sup> Because tax rededications typically require action by the State Legislature, BGR also asked the Legislature to consider the most clearly justified tax rededication options. This included the restoration of the City’s long-suspended 1% hotel tax, which the Legislature approved effective July 1.<sup>2</sup> The tax, which will generate \$12.3 million in its first year, is part of an infrastructure funding package that includes the proposed short-term rental tax discussed later in this report. In addition, the City Council has formed a special committee of the whole council to review Orleans Parish tax dedications and develop a strategy for funding high-priority needs. The committee plans to report its findings by March 1, 2020.<sup>3</sup>

Another step toward better use of existing resources is for the City to seek opportunities to redirect revenues within its own budget. BGR’s October analysis of a decade’s worth of City budgets found that General Fund revenues grew by 33% since 2010, net of inflation. This significant revenue growth enabled the City to absorb

**TABLE 1: CITY OF NEW ORLEANS CAPITAL INFRASTRUCTURE NEEDS AND AVAILABLE REVENUES**

Needs	Estimated cost
Streets: Fix 1,000 miles in poor condition or worse	\$5 billion
Drainage: Replace undersized pipes	\$3.1 billion
<b>TOTAL</b>	<b>\$8.1 billion</b>
Revenue sources	Amount
FEMA reimbursements	\$2.1 billion
Federal grants	\$0.1 billion
City-issued bonds	\$0.1 billion
<b>TOTAL</b>	<b>\$2.3 billion</b>
<b>FUNDING GAP</b>	<b>\$5.8 billion</b>

major new public safety costs for federally-mandated police and jail reforms, as well as legal judgments owed to firefighters and their pension system. Once the costs were funded, they effectively became recurring expenditures built into future budgets. Also during the period, the City demonstrated it could achieve cost savings as it renegotiated sanitation contracts and avoided new debt. Directing future revenue growth to high-priority needs and seeking additional cost savings are two strategies the City could use to meet new service costs.<sup>4</sup>

Both BGR reports further recommended that the City develop a long-term financial plan to give citizens a clear perspective on its service and infrastructure needs and possible funding sources to address them. The plan would help to organize future spending priorities into a cohesive funding strategy. A long-term plan is particularly important when a community faces multi-billion dollar needs that could take at least 20-30 years to address. It could also give the public important context for considering future tax proposals or renewals of existing taxes, such as property taxes for streets, capital projects, housing and economic development, and libraries that will expire in 2021. The risk with a piecemeal approach to tax proposals is that policymakers may diminish taxpayers' tolerance for tax increases or renewals and face a weaker case each time they return to voters, despite the underlying merits of the proposal.

In addition, a more immediate question for taxpayers is the extent to which the council will roll millage rates forward based on the recent property reassessment. Numerous property owners have received substantial increases in their assessments and expressed concern about paying a higher property tax bill. The City administration has requested a partial roll-forward. Under the City's charter, the City Council must reach a decision on rolling forward and approve next year's budget by December 1, two weeks after voters decide the tax propositions.

Thus, voters will head to the polls at a time when the City's financial picture has several unresolved questions. These include the extent of any "roll forward" of property tax rates the City Council may adopt for 2020

“**Under the City's charter, the City Council must reach a decision on rolling forward and approve next year's budget by December 1, two weeks after voters decide the tax propositions.**”

and the potential for local tax rededications and cost savings within the City's own budget. In addition, the City lacks a long-range financial strategy to organize future spending priorities and possible funding sources. Voters must weigh these concerns against the magnitude of the City's unmet needs, the urgency to address them and the reality that some new funding may be necessary in the meantime.

Against that backdrop, this report is intended to help voters make an informed decision on the bond and tax propositions. While BGR has consolidated the three propositions into one report, the report provides a separate overview, relevant background information, and an analysis for each proposition grounded in BGR's mission of promoting the efficient and effective use of public resources. BGR follows each analysis with its position on the proposition.

### **A Note on The Proposed Charter Amendment**

While this report focuses on the bond and tax propositions, there is a fourth proposition on the November 16 ballot in New Orleans to establish the City's Human Rights Commission in the home rule charter. BGR is not producing a ballot report on this proposition because it selected the propositions that are more closely related to BGR's recent body of research on local government finance issues.<sup>5</sup>

**\$500 MILLION BOND PROPOSITION**

**OVERVIEW AND BACKGROUND**

The proposition would authorize the City to issue up to \$500 million in bonds for capital improvements. The permissible improvements include constructing, renovating, acquiring and improving the following:

- Roads, streets and bridges
- Public buildings, affordable housing facilities, libraries, and parks and recreational facilities
- Surface and subsurface drainage systems and stormwater management facilities
- Public safety equipment, such as fire trucks

The City also could use bond proceeds to acquire land, equipment and furnishings for any of the permissible capital improvements. Unlike other bond authorizations in recent years, the proposition does not identify specific projects, nor does it set dollar amounts to be spent on the various categories of capital improvements. City administrators said they intend to use the bond proceeds as follows: \$250 million for drainage and streets; \$225 million for public facilities and public safety equipment; and \$25 million for affordable housing.<sup>6</sup> However, this spending plan, shown in Table 2, is nonbinding because it is not part of the proposition. The administration said the City Council will determine the specific projects through the annual capital budgeting process. They indicated this will give the City flexibility to spend the bond proceeds in a timely fashion. As discussed later in this report, this is an important consideration in qualifying to issue tax-exempt bonds, which carry lower interest rates.

The proposition limits the maturity of the bonds to 30 years and the interest rate to 8%. If voters approve the proposition, the City plans to issue the bonds in three phases: \$150 million each in 2020 and 2021 and \$200 million in 2022. However, the City could change the size and tim-

ing of those issues. The bonds would be payable from the property tax that the Board of Liquidation, City Debt levies to service all of the City’s general obligation bonds. In 2019, this tax is levied at a rate of 22.5 mills. Voter approval of the bond proposition would not increase this existing tax rate above 22.5 mills in the first year.<sup>7</sup> For more details and the impact on taxpayers, see the sidebar “The Taxpayer’s Bottom Line.”

**ANALYSIS**

In this section, BGR analyzes the bond proposition on the basis of three questions related to the efficient and effective use of public resources: Is the proposed bond issue necessary? Is it appropriately sized to the need? And, will the City spend the bond proceeds effectively?

**Are the Bonds Necessary?**

Determining that the bond proposition is necessary requires a demonstration that it addresses clear, high-priority needs and is the best approach for doing so. The following discussion assesses the extent to which the permissible uses for bond proceeds satisfy these criteria.

*Streets and Drainage.* New Orleans faces enormous costs for critical improvements to its street network and drainage system. The City has estimated it would cost \$5 billion to repave or reconstruct the roughly 1,000 miles of New Orleans streets – two-thirds of the total – that are in poor condition or worse.<sup>8</sup> It has about \$2.3 billion for capital street repairs from federal and local

**TABLE 2: PLANNED SPENDING BREAKDOWN FOR BOND PROPOSITION**

Category	Planned expenditures	% of total
Streets and drainage	\$250 million	50%
Public facilities and public safety equipment	\$225 million	45%
Affordable housing	\$25 million	5%
<b>TOTAL</b>	<b>\$500 million</b>	<b>100%</b>

### THE TAXPAYER'S BOTTOM LINE

When a municipality issues or sells bonds, it is borrowing money from the bond purchaser, or bondholder. Similar to a home mortgage, the municipality agrees to pay back the amount borrowed, or the principal, plus interest over a set time period, often 30 years in the case of bonds for capital improvements. The principal and interest payments are collectively referred to as debt service costs.

When voters approve the sale of general obligation bonds, they pledge the City's full faith and credit to the payment of the debt. This commitment triggers the imposition of a property tax sufficient to cover debt service on the bonds. The Board of Liquidation determines the tax rate each year. Because debt service costs vary depending on the payment schedule and interest rate for each bond issue, it is impossible to precisely predict the necessary tax rate. Future changes in property valuations add another layer of uncertainty.

Assuming a 3% interest rate and a 30-year repayment period, the three planned bond issues would carry total annual debt service costs of about \$25.5 million. This would translate to a tax of about 6.4 mills at current property valuations.

Normally, the City's debt service millage would have to increase by this amount to service the new bonds. However, debt service costs on the City's outstanding bonds are declining. In addition, the 2020 reassessment has increased the amount of revenue that a mill of property tax generates by about \$600,000, from \$3.5 million to \$4.1 million.\* This means that the 22.5-mill debt service tax will yield an estimated \$13.5 million more in 2020 than it did in 2019. As a result of these two factors, the City expects that it will be able to cover the costs for the proposed bonds without increasing the current debt service tax rate.

Still, the bond proposition would require about 6.4 mills of the 22.5-mill debt service millage for the duration of the new bonds. A 6.4-mill tax amounts to \$80 per year for the owner of a \$200,000 residence covered by the homestead exemption. The owner of a \$380,000 homestead-exempt residence – the average sales price for a single family home in New Orleans – would pay \$195.20 per year.\*\* For each additional \$100,000 of value, the tax would be \$64 per year. Commercial property owners would pay \$89.60 per \$100,000 of value.\*\*\*

If voters reject the bond proposition and the City does not issue new bonds, the debt service millage would begin to decline as the existing bonds mature.

\* Figures on the amount of revenue per mill are from the City of New Orleans Revenue Estimating Conference's presentation at its October 16, 2019, meeting.

\*\* BGR calculations. BGR used the average home value of \$380,000 based on data from the New Orleans Metropolitan Association of Realtors, which indicate that the average sale price for a single family home in New Orleans for the 12-month period ending in June 2019 was \$379,881. New Orleans Metropolitan Association of Realtors, "Market Statistics," [www.nomar.org/gsrein-mls-public/market-statistics-public.html](http://www.nomar.org/gsrein-mls-public/market-statistics-public.html).

\*\*\* BGR assumed that land value accounts for 20% of total value.

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sources. This leaves a shortfall of about \$2.7 billion that the bond proposition could help fill. Meanwhile, several significant episodes of flooding in the past few years have revealed major shortcomings in the City's drainage system. City administrators continue to assess the drainage system's needs. They note that in 2012, a consultant estimated the cost of replacing undersized pipes at \$3.1 billion.

Clearly, the street and drainage systems are vital components of the City's infrastructure and, therefore, high-priority needs. This leaves the question of whether

bonds backed by property taxes are the best way to address those needs.

One alternative approach is to fund street and drainage improvements with property-based fees. BGR has found that such fees generally offer a couple of significant advantages over property taxes.<sup>9</sup> First, the fees can apply to properties that are exempt from property taxes, such as those owned by government and nonprofit organizations. This greatly expands the base of payers and helps ensure that property owners who benefit from the drainage and street networks help pay to maintain



them. Second, fees relate to the burdens the property places on the infrastructure in question. For example, street maintenance fees, often called Transportation Utility Fees, are typically based on the number of vehicle trips a property generates. Similarly, a stormwater or drainage fee can be tied to the amount of runoff a property generates, with incentive-based credits for property owners who take steps to reduce runoff.

On the other hand, designing and implementing a street or drainage fee would require a time-consuming process. While this may be a long-term funding solution, the need for infrastructure improvements is urgent. In addition, the funding needs for the street and drainage networks are so great that it may be necessary to take a multipronged approach that could include property-tax-supported bonds as well as other revenue sources, such as potential drainage and street maintenance fees. These fees could also be used to support a bond issue to provide a larger upfront infusion of revenue.

*Public Facilities.* The permissible uses of bond proceeds would include a broad range of public facilities, including police and fire stations, libraries, parks and recreational facilities. The lack of detail about the specific projects to be funded makes it difficult to assess the necessity and priority of these expenditures. City administrators indicated that the City Council would select the projects from the City's rolling five-year capital plan, which prioritizes projects based upon multiple criteria, including necessity.

The current capital plan does not identify what projects would be funded through the bond proposition if voters approve it. City administrators indicated that they, along with the City Council, will review \$1.3 billion in unfunded projects in the capital plan for possible bond funding. The plan indicates that repairing and replacing public safety facilities is an important need that is currently underfunded. This includes the police headquarters building on South Broad Street and 13 fire stations across the City. The plan also notes the importance of

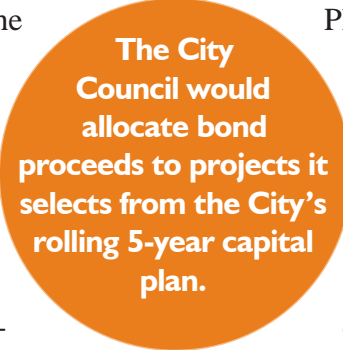
providing funding to finish projects that have received partial funding. Examples include the 4th District police station, the 8th District fire station, Norman Playground, the Main Library Archives and the Fire Department headquarters.<sup>10</sup>

While acknowledging that street and drainage improvements are arguably the City's most critical current need, City administrators indicated that they want to avoid making them a single-minded focus. They said this would increase the risk of neglecting other capital needs that could become more acute if not addressed in a timely fashion. Still, the City has not demonstrated in advance of the election that all of the expenditures on public facilities would address high-priority needs. Voters would have to wait for such a demonstration through the capital planning process.

Bonds have been the City's primary means of funding public facilities. One advantage to this approach is that the repayment periods of up to 30 years contribute to intergenerational equity. This is because those who will benefit from the project in the future will help pay for it. The primary disadvantage to bond financing is interest costs. These costs can be substantial, even at current historically low interest rates. For each dollar that goes toward repaying the principal on a 30-year bond with a 3% interest rate, an additional \$0.53 goes toward interest.<sup>11</sup>

One alternative that eliminates interest costs is to fund some capital projects on a pay-as-you-go basis with current revenues instead of borrowing by issuing bonds. This would require a recurring revenue source, such as a property tax or property-based infrastructure fee, to maintain a pool of revenue from which the City Council could make appropriations for capital projects. One drawback is that it can take longer to accrue sufficient funding for larger projects. However, such an approach is worthy of consideration in the future, especially for less costly projects.

*Affordable Housing.* New Orleans has a higher incidence of renters and homeowners facing severe cost



The City Council would allocate bond proceeds to projects it selects from the City's rolling 5-year capital plan.

burdens than the nation as a whole. As defined by the federal government, a severe cost burden occurs when a household's housing costs (including utilities) consume half or more of gross household income. A recent analysis of housing costs and affordability showed that the percentage of renters in Orleans Parish with severe cost burdens stood at 38% in 2017, a sizeable increase from 24% in 2004. By contrast, the U.S. average rose only slightly over that period from 24% to 25%. The percentage of homeowners in Orleans Parish with severe cost burdens remained steady at 16%, but exceeded the national average of 9%.<sup>12</sup>

City administrators said the bond proposition would provide funding for the City's participation in a future public-private partnership to build a mixed-use affordable housing development. The development would likely be on City- or government-owned land and have commercial uses on the ground floor to improve the project's financial feasibility. Both the builder and the operator would be selected through competitive processes managed by the City. The City has not yet defined its targets for the number of affordable housing units that would be created, including household income eligibility, or identified the timing of this investment. Thus, key details about such a potential project are not known at this time.

Developing affordable housing would be a new use for public bond proceeds in New Orleans. City officials said they have received a legal opinion that such a use is permissible. They added that the proposed bond funding for affordable housing would go through the City's capital planning process.

A number of federal, state and local programs currently exist to provide housing assistance to New Orleans residents. These include, among other things, rental subsidies, low-income housing tax credits, property tax relief and local zoning ordinances that promote development of affordable housing. While the data on housing costs indicate that affordability is a significant public concern in New Orleans, the current lack of details about the planned affordable housing development makes it difficult to assess whether it is the best way to address the

issue at this time.<sup>13</sup> If voters approve the bond proposition, the City should demonstrate this before finalizing a deal for the planned development or asking the City Council to approve the bond issuance to pay for it.

*Public Safety Equipment.* City administrators told BGR they included funding in the bond proposition for public safety equipment because the City's fleet of fire trucks needs updating. They said about half of the 40 frontline apparatus fire trucks are between 11 and 19 years old, putting them at or near the end of their useful lifespan. Ensuring that firefighters have functional vehicles to respond to emergencies is clearly important.

However, depending on the length of the repayment period, there are questions about whether bonds are the best way to pay for fire trucks. BGR has previously recommended that, consistent with government finance best practices, the bond repayment period should not exceed the useful life of the item purchased.<sup>14</sup> Fire engines and ladder trucks generally have a useful life of 15 to 20 years.<sup>15</sup> Most of the City's bond issues in recent years have been for 30 years.

The City's bond counsel noted that a bond issue can fund multiple items with different useful lifespans, such as a fire truck or a building with a useful life beyond 30 years. For such bonds, the City determines the weighted average lifespan of those items. The City's home rule charter provides only that all improvements and equipment financed with general obligation bonds to have a normal life of at least 10 years.<sup>16</sup>

### **Is the Proposed Bond Issue Appropriately Sized?**

The overall size of the bond issue as well as the allocation of the proceeds should be aligned with the identified needs. City administrators indicated that they set the size of the \$500 million bond proposition to keep the property tax for servicing the City's general obligation bonds from exceeding the current rate of 22.5 mills. The City's needs, especially for street and drainage improvements, significantly exceed \$500 million. Thus, the bond proposition is not too large for the identified need.

**TABLE 3: BOND PROPOSITION COMPARISON, 1995 TO 2019**  
(\$ in millions)

Year	Total bond issue	Streets and drainage	Public facilities, equipment, other	Streets and drainage %
2019*	\$500	\$250	\$250	50%
2016	\$120	\$100	\$20	83%
2004	\$260	\$163	\$97	63%
2000	\$150	\$97	\$53	64%
1995	\$147	\$91	\$56	62%
<b>TOTAL (1995-2016)</b>	<b>\$677</b>	<b>\$451</b>	<b>\$226</b>	<b>67%</b>

\*Proposed

Source: City of New Orleans propositions for general obligation bond authorizations. Prior years are not adjusted for inflation.

total capital spending. This makes them the City’s clear top priority among capital projects.

Still, given the magnitude of the City’s infrastructure needs, it would be important for the City Council to carefully evaluate all potential bond allocations to capital projects other than infrastructure. It should demonstrate that such projects are high priorities. The council also should consider its flexibility to change the planned allocations as necessary to direct more revenue to drainage and streets.

The question of whether the City has aligned the proposed allocations of the proceeds with high-priority needs is more complex. As previously noted, the bond proposition does not make specific dollar allocations of the \$500 million bond proceeds. This gives the City discretion to determine the ultimate uses of the money. The City indicated it currently plans to allocate half of the proceeds, or \$250 million, to drainage and street improvements. The City’s demonstrated needs for street and drainage improvements significantly exceed this amount. The other half would go to public facilities, public safety equipment and affordable housing, for which the necessary public investment level is not as well established.

It is important to view the planned bond allocations in the context of the City’s other capital spending. The City has heavily weighted its current five-year capital plan, which does not include the proposed bond proceeds, to drainage and streets. They are budgeted to receive \$900 million, or 88%, of \$1.02 billion in capital expenditures from 2020 to 2024. These expenditures largely involve FEMA funding to repair damage to the City’s streets and subsurface infrastructure during Hurricane Katrina. If voters approve the bond proposition, and the City spends the proceeds as planned, drainage and streets would receive \$1.15 billion, or 76%, of \$1.52 billion in

As Table 3 indicates, the other four bond issues that voters have approved since 1995 allocated a greater portion of the proceeds to streets and drainage than the spending plan for the current proposition. However, the current proposal is significantly larger than any of the other bond authorizations.

### Will the City Spend the Bond Proceeds Effectively?

Satisfying this question requires (1) a clear plan for directing the proceeds to high-priority needs, (2) assurance of appropriate financial stewardship and accountability for taxpayer dollars, and (3) evidence demonstrating the likelihood of effective outcomes.

*Planning for High-Priority Needs.* In other recent bond issues, the City included the allocation of the proceeds in the bond propositions. The propositions also identified many of the specific projects to be funded. This gave the public assurances about how the City would spend the money. However, City administrators indicated that it also limited their flexibility to adapt to changing conditions and needs. As discussed in the next section, this was a factor in the City’s inability to spend bond proceeds within the necessary timeframe to qualify for issuing tax-exempt bonds, which carry lower interest rates.

In an attempt to avoid this problem, the City chose to maximize its flexibility in using the bond proceeds by not specifying projects or categorical allocations in the bond proposition. The City will instead use its capital planning process established in the City charter to prioritize projects for the bond proceeds. City administrators said the annual process will help ensure that bond proceeds go to high-priority needs.

The process begins with the City's various departments submitting capital funding requests. The requests include, among other things: the rationale for the project, a priority rating based on 18 criteria, and estimated costs for construction and operation. The City Planning Commission reviews the requests and certifies whether they are consistent with zoning ordinances and the City's Master Plan as the charter requires. The commission holds public hearings to gather additional background information and obtain public input. It then analyzes the requests and prepares a five-year Capital Improvement Plan. The mayor reviews the plan and proposes projects to include in the annual capital budget, which requires City Council approval.

This charter-driven process aligns with best practices for capital planning. For instance, the Government Finance Officers Association recommends that governments establish a clear capital planning process that links to a master plan, covers multiple years and includes public input.<sup>17</sup> Even so, the City is asking the public to approve the bonds now and rely on this process in the future as the sole means of determining the allocation of this large proposed investment.

BGR has opposed some tax propositions in recent years, in part, because they did not include spending plans to help ensure the revenue would go to high-priority needs.<sup>18</sup> In this case, the City has unique reasons for being less specific about the allocation of bond proceeds in the proposition itself. However, the need for future flexibility does not relieve the City of the obligation to demonstrate to voters in advance of the election that the bond proceeds will go to high-priority needs. It is noteworthy that if voters approve the proposition, the next step in the City's process is for the City Council

to set bond project priorities.<sup>19</sup> These priorities would have been useful information for voters to consider as they go to the polls.

*Financial Stewardship and Accountability.* Assessing the City's financial stewardship and accountability concerning the bond proposition has two components. The first involves the use of taxpayer dollars to cover debt service costs. The second concerns the expenditure of the bond proceeds.

The City currently cannot issue tax-exempt bonds because of delays in spending bond proceeds. With taxable bonds, the bondholders must pay federal income taxes on the interest payments they receive. Therefore, in order to be saleable, the bonds must carry a higher interest rate than if they were tax-exempt. The Internal Revenue Service requires that municipalities spend 85% of bond proceeds within three years to qualify for issuing tax-exempt bonds. According to the City's bond counsel, the City is unable to make the appropriate representations that it can meet the three-year expenditure test. Because the City has not met that threshold in recent years, all of the \$265 million in bonds the City has issued since 2013 have been taxable, which increased borrowing costs.

The extra costs of taxable bonds can be substantial. For example, a Board of Liquidation consultant estimated that \$65 million in taxable bonds that the City issued in 2015 carry an additional \$325,000 in annual interest payments compared to if the bonds had been tax-exempt. The additional costs total \$9.8 million over the 30-year life of the bonds. Meanwhile, in September 2019, the City issued \$50 million in taxable bonds that another consultant estimated will cost an additional \$2.6 million over their 10-year life compared to tax-exempt bonds. The City earns interest on the unspent bond proceeds, but it does not use this revenue to help offset the higher borrowing costs. Instead, it places the money in the General Fund.

The City's delays in spending bond proceeds began in the years after Hurricane Katrina. One contributing factor was that the City received federal reimbursement

**TABLE 4: PROJECTED DEBT SERVICE COSTS FOR \$500 MILLION IN 30-YEAR TAXABLE VS. TAX-EXEMPT BONDS**

	Interest rate*	Annual debt service payments	Cumulative debt service payments
Taxable bonds	3.29%	\$26.5 million	\$794.3 million
Tax-exempt bonds	2.14%	\$22.8 million	\$682.7 million
<b>Difference</b>	<b>1.15%</b>	<b>\$3.7 million</b>	<b>\$111.6 million</b>

\*Based on the City's credit rating for its September 2019 bond issue and interest rates as of October 16, 2019, as tracked by The Municipal Market Monitor (TM3).

ally be supported by a track record of spending bond proceeds in a timely fashion. With this goal in mind, the City is currently increasing spending of existing bond proceeds, while staggering new appropriations for bond-funded projects into planning, design and construction phases. Previously, the City appropriated funds for all phases of a given project at the outset. If there were any delays in the project, the City accumulated

for some capital projects that it otherwise would have funded with bond proceeds. In some cases, the City had difficulty identifying an alternate permissible use for the bond proceeds because of restrictions in the bond propositions.

In 2012, the Board of Liquidation stepped up its tracking of unspent bond proceeds in an effort to help the City spend them within the three-year window. But the delays in spending have persisted. For example, more than four years after issuing the 2015 bonds, the City had spent just 46% of the proceeds as of the end of July 2019. Overall, the City had \$91.5 million in unspent bond proceeds at the end of July. This does not include the \$50 million in bonds the City issued in September. BGR raised concerns about the City's reliance upon more expensive taxable bonds in advance of that sale. The mayor responded that the timing of the sale was important to keep projects moving. She noted that the City reduced the maturity of the bonds from the standard 30 years to 10 years to mitigate the financial impact. She also indicated that the City has a strategy to qualify for tax-exempt bonds in 2020, when it plans to issue the first \$150 million in bonds authorized by the current proposition.<sup>20</sup>

In order to qualify, the City must certify that it reasonably believes it will meet the three-year timeline for spending 85% of the bond proceeds. Failure to reach this threshold after signing a certification could result in an IRS examination and possible loss of tax-exempt status for the new bonds. The certification should ide-

a backlog of unspent bond proceeds. The staggered approach is designed to avoid this. In addition, City administrators said the lack of specific projects identified in the proposition provides greater flexibility to reallocate bond proceeds if a project becomes unnecessary or unfeasible.

If the City does not meet its goal of qualifying for tax-exempt bonds in 2020, City administrators said they would not rule out issuing taxable bonds. The annual debt service costs on the planned first phase of \$150 million in taxable 30-year bonds would be about \$1.1 million more than with tax-exempt bonds, or \$33 million over 30 years. If the City issued all \$500 million of the bonds as taxable, its annual debt service costs would be \$3.7 million more. That would total \$111.6 million over 30 years, as shown in Table 4.<sup>21</sup> These substantial additional costs illustrate the necessity of the City qualifying to issue tax-exempt bonds.

Given the delays in spending previous bond proceeds, the City has set an aggressive timeline for issuing the proposed bonds. If voters approve the proposition, the City plans to sell \$500 million in bonds during the next three years. In order to stay on pace with the IRS requirements for tax-exempt bonds, the City's monthly expenditures of bond proceeds would have to average \$3.5 million in the first year, \$7.1 million in the second year and \$11.8 million in the third year, when the City had issued all of the bonds. The required average monthly spend rate would then drop to \$8.3 million in the fourth year and \$4.7 million in the fifth and final year.<sup>22</sup>

For comparison, the City's bond expenditures have averaged \$2.4 million a month, with a high of \$4.5 million, since the current administration took office in May 2018. However, City officials said they expect the spend rate to increase substantially in the coming months as construction work begins on several large projects. Still, the City should be prepared to adjust its schedule for the second and third bond sales as needed to either retain or qualify for tax-exempt status.

As for the City's financial stewardship and accountability in spending the bond proceeds themselves, City administrators said the capital planning process provides multiple checks to help ensure the money will be well spent. City departments, the planning commission, the mayor, the council and the public all have the opportunity to weigh in on the projects to be funded. In addition, the City has developed an online website on which citizens can track individual street projects.<sup>23</sup>

*Potential for Effective Outcomes.* In selecting infrastructure projects for funding, the City plans to focus largely on drainage improvements because flooding is the most pressing problem. The administration notes that drainage projects typically include street improvements as crews must remove and replace pavement to access drainage pipes. The City also plans to use a 2016 pavement condition survey to identify street projects, with a particular focus on areas adjacent to FEMA-funded repairs. This will help eliminate gaps and maximize the benefits of the large infusion of federal dollars.

The expenditures on public facilities and equipment are unknown, which makes it difficult to gauge their potential for effective outcomes. Certainly, there are pressing needs, such as aging fire trucks and other deteriorating public assets. It is unclear whether and when those needs would be prioritized over less urgent projects. This is a significant concern based on the large share of the bond proceeds that the City plans to spend on this category.

Meanwhile, a determination of the likelihood of an effective outcome for the City's planned investment in an affordable housing development cannot be made until

a specific proposal is on the table. Thus, it would be incumbent upon the City to demonstrate the likely success of such a development before entering into a deal.

### **BGR POSITION**

**FOR.** The new bonds would provide critical funding for necessary improvements to the City's streets and drainage system. They would leverage local dollars to maximize the benefits of FEMA funding to repair damage from Katrina. The City's spending plan, while nonbinding, also includes a major investment in non-infrastructure projects, though questions remain about the necessary public investment level for those projects and the appropriate size of the proposed allocations given the size and urgency of the infrastructure needs. Therefore, the City's capital planning process must provide the necessary due diligence, checks and public accountability needed to help ensure effective outcomes. The City should recognize the potential necessity for the bond spending plan to allocate more funding to drainage and streets.

Unlike past bond propositions, the current bond proposal comes to voters without specific dollar allocations for the items to be funded, or specific projects. They do not have assurances about how the City will spend the \$500 million bond proceeds other than a nonbinding allocation plan that is not part of the proposition. While voters deserve more details on funding priorities before an election, there are factors that mitigate the concern in this case. The City will use its capital planning process established in the City charter to prioritize projects for bond proceeds. And the proposition's flexibility is intended to help the City to qualify for and maintain tax-exempt status for the new bonds and avoid \$112 million in unnecessary interest costs for taxpayers. BGR strongly urges the City to follow through with a careful review process for future investments of bond proceeds. Furthermore, if voters approve the proposition, the City should not issue bonds until it has qualified for tax-exempt status or can demonstrate an urgent need that justifies the substantially higher costs of taxable bonds.

## 3-MILL TAX PROPOSITION

### OVERVIEW AND BACKGROUND

The proposition would authorize the City to levy a new 3-mill property tax dedicated to maintaining infrastructure and public facilities and purchasing vehicles and equipment. The 20-year tax would generate about \$12 million in the first year in 2020.<sup>24</sup> The permissible uses for this tax revenue include repairing, improving, maintaining and operating the following:

- Roads, streets and bridges
- Surface and subsurface drainage systems and stormwater management facilities
- Public buildings and public safety facilities

The City also could purchase vehicles and equipment related to any of these purposes. The proposition does not specify allocations of the tax revenue. City administrators currently plan to spend most of the millage revenue to maintain and repair infrastructure (50%) and facilities (35%). They plan to spend the remaining 15% to maintain, repair and replace vehicles and equipment. Based on this nonbinding spending breakdown, BGR calculated the distribution of the anticipated \$12 million in annual revenue from the proposed 3-mill tax in Table 5.

The proposed millage would be a new tax. However, City administrators said they designed the proposition to capture and repurpose a recent 3-mill reduction in the City’s debt service millage. That millage, which covers principal and interest payments on the City’s general obligation bonds, had been set at 25.5 mills for nearly a decade

### THE TAXPAYER’S BOTTOM LINE

If voters approve the proposition, the new tax would add 3 mills to parishwide property tax rates. The tax amounts to \$37.50 more per year for the owner of a \$200,000 residence covered by the homestead exemption. The owner of a \$380,000 homestead-exempt residence – the average sales price for a single family home in New Orleans – would pay an additional \$91.50.\* For each additional \$100,000 of value, the tax would be \$30 per year. Commercial property owners would pay \$42 per \$100,000 of value.\*\* If voters reject the proposition, tax rates would remain the same.

\* BGR calculations. BGR used a value of \$380,000 based on data from the New Orleans Metropolitan Association of Realtors, which indicate that the average sale price for a single family home in New Orleans for the 12-month period ending in June 2019 was \$379,881. New Orleans Metropolitan Association of Realtors, “Market Statistics,” [www.nomar.org/gsrein-mls-public/market-statistics-public.html](http://www.nomar.org/gsrein-mls-public/market-statistics-public.html).

\*\* BGR assumed that land value accounts for 20% of total value.

until it dropped three mills to 22.5 mills in 2019. The decrease was triggered by excess debt service reserves. The administrators said the proposed 3-mill tax would offset this decrease, effectively bringing the combined levy for capital projects and their maintenance back to the 25.5 mills that was in effect from 2010 to 2018. See the sidebar for the impact on taxpayers.

### ANALYSIS

In this section, BGR analyzes the tax proposition on the basis of three questions related to the efficient and effective use of public resources: Is the proposed tax necessary? Is it appropriately sized to the need? And, will the City spend the tax revenue effectively?

#### Is the Tax Necessary?

Determining that the tax is necessary requires a demonstration that

**TABLE 5: PLANNED SPENDING BREAKDOWN FOR PROPOSED 3-MILL PROPERTY TAX**

Category	Annual spending	% of total
Streets and drainage	\$6 million	50%
Public buildings and public safety facilities	\$4.2 million	35%
Vehicles and equipment	\$1.8 million	15%
<b>TOTAL</b>	<b>\$12 million</b>	<b>100%</b>

(1) it addresses clear, high-priority needs, (2) the City sought efficiencies in current spending and (3) it is the best way to meet the needs.

*Addressing High-Priority Needs.*

The City has estimated that it would cost \$30 million to \$35 million a year to adequately maintain streets and subsurface infrastructure. A recent BGR report found that the City spent an average of just \$4.6 million a year on such maintenance during the past decade.<sup>25</sup> Chronic underfunding of preventive maintenance has contributed to the poor condition of many streets. A 2016 pavement condition study found that 44% of New Orleans' 1,500 miles of streets have either failed or are on the verge of failure. In addition, inadequate maintenance of the drainage system, including a failure to regularly clean catch basins, contributed to flooding in the past few years.

Properly maintaining the street network and drainage system are clearly high-priority needs. BGR has repeatedly called for the City to increase funding for preventive infrastructure maintenance.<sup>26</sup> In doing so, BGR recommended that the City allocate a portion of revenues generated by the street network – such as parking meter fees and tickets for parking and traffic camera violations – to street maintenance. The City has not done so despite significant growth in these revenues.

Proper maintenance of public facilities is also important to maximize their useful lifespan. City administrators said the proposed tax would provide additional revenue necessary to maintain facilities repaired or rebuilt after Hurricane Katrina. The Orleans Parish School Board took a similar approach in 2014 when voters approved a new millage for maintaining schools, many of which were rebuilt or renovated after the disaster. The School Board structured that tax to increase at the same rate as its debt service tax decreases. This has a similar effect to the City's proposed tax in that it repurposes tax dol-



Prior to the purchase of 136 police vehicles in 2017, it had been more than a decade since the City updated the Police Department's 1,050-vehicle fleet.

lars from building facilities to maintaining them.

The City's proposed tax also would provide revenue for vehicle replacement. The average age of the City's fleet of 2,050 vehicles is approximately 12 years old, according to City administrators. They said this is a byproduct of a lack of revenue to replace vehicles on a regular basis. Prior to the purchase of 136 police vehicles in 2017, it had been more than a decade since the City updated the Police Department's 1,050-vehicle fleet. As noted in the section on the bond proposition, about half of the Fire Department's 40 frontline apparatus vehicles are at or near the end of their useful lives. Similarly, about half of the City's 43 ambulances have more than 100,000 miles.

The importance of having reliable vehicles for public safety purposes combined with the higher maintenance costs of aging vehicles make vehicle replacement an important need. Replacement rates will vary by type of vehicle, daily use and other factors, but best practices advise annual budget appropriations for timely replacement of vehicles at the end of their useful lives.<sup>27</sup> If voters approve the tax, the City plans to replace passenger vehicles every five years and heavy equipment every 10 years. Many of these assets do not meet the 10-year minimum useful life necessary for bond financing under the City charter.



*Seeking Efficiencies.* Before asking the public for more money, it is important for government entities to take steps toward optimal deployment of existing resources. In an October 2019 report analyzing a decade's worth of the City's General Fund budgets, BGR found that the City had achieved significant efficiencies in a couple of areas.<sup>28</sup> However, these savings have been fairly isolated as the vast majority of expenditure line items have increased, with an average growth rate of 22% after adjusting for inflation. The report recommended that the City scrutinize the current budget for additional efficiencies, starting with the departments and budget line items that had the largest funding increases as identified in the report.

The administration's proposed \$722 million operating budget for 2020 includes funding for 25 City departments. It would increase funding for all departments, except the Alcoholic Beverage Control Board, which would remain at its 2019 level of \$1,500. Overall, expenditures would increase by \$20 million, or 2.8%. The City has proposed supporting these expenditures by partially rolling forward property taxes to capture about \$6.9 million in new annual revenue from the 2020 reassessment. Meanwhile, the City's budget provides funding to a dozen other local government entities and purposes, primarily in the justice system. Unlike funding for City departments, funding for all of these entities except two would decrease or stay the same under the proposed budget. This dichotomy along with the analysis in BGR's report suggests there are more potential options to reduce costs for certain City departments.

Looking beyond departmental funding levels, administrators said the budget includes \$6.4 million in savings in specific areas. This includes \$2 million each for employee health care and workers' compensation, \$900,000 from the merger of 311 and 911 operator services and \$1.5 million in other savings.<sup>29</sup> The administration plans to further review another \$2.5 million in potential savings that a consultant identified. The City anticipates expanding its search for efficiencies over the next few years and redirecting additional cost savings to address other departmental needs.

BGR's report on the City's budget also showed how the budget absorbed major new costs for court-mandated reforms at the jail and police department through strong growth in revenues. It called for the City to harness a portion of future revenue growth to address unfunded needs, such as maintenance. As previously noted, BGR urged the City a decade ago to allocate a portion of the revenue from parking meters, parking citations and traffic camera tickets to street maintenance. If the City had allocated the subsequent growth in these revenues to maintenance, it would have an additional \$20 million a year – nearly enough to properly fund preventive maintenance.

The \$20 million in increased spending in the proposed budget includes some modest increases for maintenance. Funding for building maintenance would increase from \$1.1 million to \$1.7 million. Also, the budget would allocate \$5.8 million to maintaining streets and the drainage system, or \$680,000 more than in 2019. These increases account for just 6% of the city-wide increase in funding. City officials argue that they cannot reduce the maintenance funding gap in a meaningful way through General Fund budget cuts without impacting other areas of concern, such as public safety, health, economic development and housing.

The proposed budget can change before the council must adopt it by December 1. However, the current proposal perpetuates a trend in which the City spends the bare minimum that it is required to spend on maintenance of streets and drainage. For some years, BGR found that the City did not even spend the minimum amount.<sup>30</sup> The City owes it to taxpayers to make an effort to increase funding for maintenance through existing revenues or demonstrate why it is not possible to do so.

*The Best Approach?* Property taxes are a common funding mechanism when a local government entity seeks new revenue. One reason for this is that they have the potential to generate substantial revenue. Another is that local taxing bodies have greater power to seek new property taxes, as compared to new sales taxes which require approval of the State Legislature. But when it comes to

funding infrastructure, there are alternatives that warrant consideration. As discussed in the analysis of the bond proposition, property-based fees have two key advantages over property taxes as a funding mechanism for infrastructure. Such fees can apply to properties exempt from taxation, and they can be calibrated to reflect the burdens the property places on the street and drainage systems. On the other hand, implementing a fee for streets or drainage would require a time-consuming process, and the City's long-neglected maintenance needs are becoming increasingly urgent. BGR notes that the mayor has expressed interest in exploring a potential drainage fee. Regardless of what voters decide on the 3-mill tax, the City should continue to consider such a fee as a possible source of funding for both maintenance and capital improvements.

The City would have flexibility to direct tax revenue among street and drainage, building and vehicle maintenance.

said that past funding levels for building maintenance were woefully inadequate and that the revenue from the proposed tax is not enough to fully satisfy the need. Similarly, they said the \$1.8 million that the tax would yield for vehicle replacement is less than ideal, given the condition of the City's fleet. If revenues for these two purposes did exceed the need, the City could adjust its spending plan to redirect some of the money to streets and drainage.

### Is the Tax Appropriately Sized?

The size of any tax should be aligned with the identified needs. This is particularly important when the tax is dedicated to specific purposes, as is the proposed 3-mill tax. If the tax is too large, it can generate excess revenue that cannot be used to meet other needs.

Under the City's spending plan, the proposed tax would yield about \$6 million annually for streets and drainage maintenance. The City currently has about \$9.6 million in dedicated funding for streets, drainage and traffic signals. Thus, if voters approve the tax, the City's dedicated funding would increase to about \$15.6 million. This is about half the amount the City estimates it needs for streets and drainage. So the proposed 3-mill tax would take a significant step toward meeting the identified need, but overall funding would remain less than the estimated need. The proposed tax on short-term rentals discussed in the next section could further reduce the gap with voter approval.

The proposed tax would generate about \$4.2 million for maintaining facilities. That is nearly four times the 2019 funding level of \$1.1 million and 2.5 times the proposed 2020 level of \$1.7 million. City administrators

### Will the City Spend the Tax Revenue Effectively?

Demonstrating the likelihood that the tax revenue will be spent effectively requires (1) a clear plan for directing the proceeds to high-priority needs, (2) assurance of appropriate financial stewardship and accountability for taxpayer dollars, and (3) evidence demonstrating the likelihood of effective outcomes.

*Planning for High-Priority Needs.* The City's spending plan would direct the tax revenues to long-neglected needs for maintaining infrastructure and facilities and updating vehicles and equipment. To help ensure the revenue for vehicles is well spent, the City plans to invest in fleet management technology that tracks their mileage and maintenance needs. The City also is conducting an audit of all vehicles for a comprehensive picture of existing replacement needs.

*Financial Stewardship and Accountability.* The revenue from the proposed tax would be deposited in the City's General Fund. This can make it more difficult to track how the City spends the funds. As an accountability measure, City administrators indicated they would identify the expenditures that the tax revenue will cover in the City's annual operating budget so the public can assess whether the money is going to the intended purposes. This should be coupled with an accounting of actual expenditures at the end of the budget year. The City should also account for its use of current revenues dedicated to streets and drainage. This is necessary to demonstrate that the revenue from the new tax does not supplant these other dedicated revenues.

“**In general, money spent on maintaining infrastructure and facilities tends to be effective as it saves on costs for major repairs and replacement. For instance, the City estimates that each dollar invested in preventive maintenance of streets can save four or five dollars on future capital repair costs.**”

*Potential for Effective Outcomes.* In general, money spent on maintaining infrastructure and facilities tends to be effective as it saves on costs for major repairs and replacement. For instance, the City estimates that each dollar invested in preventive maintenance of streets can save four or five dollars on future capital repair costs. It would also help safeguard FEMA’s major investment in restoring New Orleans streets damaged as a result of the Hurricane Katrina disaster. Moreover, City officials have indicated that FEMA might not cover future damage to the City’s street and drainage networks if it does not properly maintain them. This is because it might not be possible to determine whether the damage was caused by a storm or neglect.

City administrators said the vehicle replacement strategy would increase productivity because roughly 70% of City workers depend on functioning vehicles and equipment to do their jobs.

### **BGR POSITION**

**FOR.** The City’s chronic underfunding of infrastructure maintenance is directly linked to the poor state of New Orleans’ streets and drainage system. BGR has repeatedly urged the City to increase funding for maintenance by redirecting existing revenues, including increases in parking and traffic camera tickets. But the City has not done so. The administration’s proposed 2020 budget includes \$20 million in new spending, with just a small fraction of it allocated to maintenance needs. There are also indications that the City has not exhausted potential opportunities to reduce costs so it can reallocate revenues to maintenance. On the other hand, responsibly funding preventive maintenance can itself serve as a cost-cutting measure by reducing future repair and replacement expenses. In addition, the City’s maintenance needs are so great that it is not possible to satisfy them with existing revenues alone. For

these reasons, BGR supports the proposed tax, which would also provide funding to maintain public facilities and update the City’s aging vehicle fleet. As an accountability measure, it is imperative that the City follow through on its promise to fully account for how it uses the tax proceeds. Because the tax will not satisfy all maintenance needs, the City should continue to assess options to reallocate existing revenues to maintenance and other high-priority needs. This includes both parishwide tax dedications and revenues within the City’s own General Fund.

## SHORT-TERM RENTAL TAX PROPOSITION

### OVERVIEW AND BACKGROUND

Voters will decide whether to authorize the City to levy a permanent tax, beginning January 1, 2020, on short-term rentals of overnight lodging.<sup>31</sup> The tax would not exceed 6.75% of the rent or fee charged for such occupancy.<sup>32</sup> State legislation enabling the proposed tax requires the City to dedicate its future revenue to two purposes:<sup>33</sup>

- 75% to a special City infrastructure fund.<sup>34</sup> The City has informally agreed to provide 75% of that revenue to the S&WB, while the City's Department of Public Works (Public Works) would retain 25%. The City and S&WB plan to enter into a formal agreement to govern the revenue distribution.<sup>35</sup>
- 25% to New Orleans & Company to promote tourism in the city, pursuant to a multi-year cooperative endeavor agreement with the City Council that is not yet approved. New Orleans & Company is a private, nonprofit organization that promotes tourism, meetings and conventions.

This spring, the City estimated that the tax, if levied at the maximum 6.75% rate, would yield about \$10.5 million annually.<sup>36</sup> However, the City Council subsequently adopted stricter regulations for short-term rentals that will take effect December 1, 2019. City officials expect the new regulations to lower the revenue estimate by an undetermined amount, as described in the sidebar.<sup>37</sup>

### ANALYSIS

In this section, BGR analyzes the short-term rental tax proposition on the basis of three questions related to the efficient and effective use of public resources: Is the proposed tax necessary? Is it appropriately sized to the need? And, will the tax revenue be spent effectively?

#### Is the Tax Necessary?

The short-term rental tax would be a new dedicated tax in New Orleans. In general, tax dedications restrict

“The City and the S&WB face enormous costs for critical improvements to streets and subsurface infrastructure, especially the drainage and drinking water systems. Both entities also face unmet needs for system maintenance.”

revenue to the uses authorized in the ballot proposition approved by voters, even if the tax recipient's needs change over time. Changing the dedication would require new action by voters. For this reason, a local government proposing a dedicated tax bears a burden of proof to voters that (1) there is a clear, high priority need for additional revenue, (2) it sought efficiencies in current spending, and (3) the proposed tax is the best way to meet the need.

*Addressing High-Priority Needs.* The City and the S&WB face enormous costs for critical improvements to streets and subsurface infrastructure, especially the drainage and drinking water systems. Both entities also face unmet needs for system maintenance. Even with the availability of FEMA funding and, if voters approve, new City bonds and 3-mill maintenance tax revenue, substantial unmet capital and maintenance needs remain. BGR notes that those City funding sources would not be available for the needs of the S&WB.

Furthermore, the S&WB entered 2019 with a major funding shortfall in its drainage system. The system has also faced difficulties managing flooding during significant storms in the past few years. The S&WB also faces the challenge of planning and funding the replacement of its aging network of water distribution pipes. New Orleans residents and businesses have struggled with periodic boil water advisories following water main breaks.

In an effort to shore up the S&WB's finances and narrow the overall gap in funding local infrastructure needs, the mayor, governor, tourism industry and State

### SHORT-TERM RENTAL REGULATION AND TAXATION IN NEW ORLEANS

In fall 2016, the City Council legalized short-term rentals in New Orleans. Before then, thousands of property owners in the city had begun using online short-term rental platforms to rent their homes and other properties to visitors for periods of less than 30 days.\* The City Council, following a study by the New Orleans City Planning Commission, established new zoning laws to define short-term rentals as an eligible land use and where they can exist and set standards for their operation. It also created a licensing and enforcement process managed by the City's Department of Safety and Permits. The new City laws took effect April 1, 2017.

At the time, short-term rentals were untaxed. In 2017, the Legislature amended State law to apply certain State and local sales taxes to short-term rentals. These taxes now collectively total 9.45% of the rental rate, with most of the State's share directed to the City for enforcement purposes.\*\*

The proposed 6.75% tax would increase the sales tax on short-term rentals to 16.2%. Guests at short-term rentals also pay \$.50 per rental night to the City for tourism promotion. In addition, guests pay \$1 per night to the City "to offset the cost of enforcement and other costs borne by the city."\*\*\* City ordinance dedicates this revenue to the Neighborhood Housing Improvement Fund (NHIF), which supports a variety of purposes such as affordable housing development.\*\*\*\*

In August 2019, the City Council passed ordinances to impose stricter zoning requirements for short-term rentals and strengthen the licensing and enforcement process. It revamped permit categories for residential and commercial short-term rentals. The new ordinances include a cap on commercial short-term rentals in most areas and a requirement that a residential short-term rental property must have a homestead exemption. The ordinances are set to take effect December 1, 2019.

The ordinance amending the licensing and enforcement process also replaces the \$1 per night fee with fees of \$5 per night for residential short-term rentals and \$12 per night for commercial short-term rentals.† The City Council has not taken action to allocate the additional fee revenue to the NHIF, nor has it otherwise dedicated the money, e.g., to offset lower-than-expected revenue from the new 6.75% tax. The council has established only an "interim" short-term revenue fund to hold the revenue for future budget appropriation.

A full discussion of the new ordinances is beyond the scope of this report, and BGR has not taken a position on short-term rental regulation and enforcement.

\* Litten, Kevin, "New Orleans City Council legalizes short-term rentals, limits whole-home listings," Nola.com | The Times-Picayune, October 21, 2016. The council gave preliminary approval to the practice in October 2016. It followed that in December 2016 with two ordinances establishing a licensing and enforcement process (Ord. No. 27,204 MCS) and zoning laws applicable to short-term rentals (Ord. No. 27,209 MCS). For more information, see the City of New Orleans' online [short-term rental information](#).

\*\* They consist of 4.45% for the State, 2.5% for the City, 1.5% for the Orleans Parish School Board, and 1% for the Regional Transit Authority. The State dedicates 3.97 percentage points of its tax to the City to enforce ordinances governing short-term rentals. The City can use any excess revenue for any purpose.

\*\*\* City of New Orleans Code of Ordinances, Sec. 26-617(b), accessed on [municode.com](#), October 8, 2019.

\*\*\*\* City of New Orleans, Code of Ordinances, Sec. 70-415.1.

† New Orleans City Council, Ord. No. 28,157 MCS, adopted August 8, 2019.

legislators negotiated a package of new State and local funding earlier this year. Commonly referred to as the "fair share" funding, it includes more than \$100 million of one-time funding and multi-year State funding for the S&WB.<sup>38</sup> As shown in Table 6, it also includes \$30.3 million a year in recurring revenue from new or rededicated taxes, based on the City's estimates this spring for the first full year of revenue (2020). The

short-term rental tax would provide about one-third of the total. Most of the recurring revenue would fund infrastructure.

The fair share funding for the S&WB would give it substantial flexibility to respond to pressing needs of its water, sewerage and drainage systems. The S&WB has developed an itemized plan for spending its 75% share

**TABLE 6: RECURRING “FAIR SHARE” FUNDING SOURCES, ESTIMATED 2020 REVENUE**  
(\$ in millions)

	S&WB and City Infrastructure	Tourism Promotion	Total Revenue	Status
Restoration of City’s 1% hotel tax	\$12.0		\$12.0	In effect as of July 1, 2019
Short-term rental tax	7.8	2.7	10.5	Pending November 16 election
Redirection of City’s per-night hotel fee from tourism promotion	5.3		5.3	Pending completion of proposed merger between New Orleans & Company and the City-owned New Orleans Tourism Marketing Corp., effective January 1, 2020
Downtown Development District property tax increase*	2.5		2.5	Approved by the district’s governing board on October 24, 2019
<b>Total recurring revenue</b>	<b>\$27.6</b>	<b>\$2.7</b>	<b>\$30.3</b>	

\*Tax revenue must be spent in the downtown area in accordance with the voter tax dedication.

Source: City of New Orleans, “Update on Infrastructure Projects & Drainage Analysis,” presentation to the Infrastructure Advisory Board, September 26, 2019, p. 11, and BGR research.

of recurring infrastructure revenue through 2022.<sup>39</sup> It would fund, among other things, the development of a master plan for future improvements to its systems, required annual payments of the S&WB’s share of federal drainage projects built under the Southeast Louisiana Urban Flood Control Project (SELA), the implementation of automated water meters to improve water and sewer billing accuracy, and other water and drainage projects not funded with federal dollars. The S&WB notes that the spending plan is subject to change based on new needs that emerge, the potential receipt of other funding sources and recommendations of the Infrastructure Advisory Board. The mayor created the board by executive order. Table 7 summarizes the projected expenditures from 2019 to 2022. The 2019 figures represent a partial year of revenue.

Public Works plans to allocate its 25% share of recurring funds to expand its capacity to maintain streets, catch basins and subsurface drainage pipes for which it is responsible.<sup>40</sup> Key objectives of its spending plan include:<sup>41</sup>

- Adding 42 employees to more than double its maintenance staff by the end of 2022, with new crews spread citywide
- Purchasing 28 pieces of equipment, including

- vacuum trucks, pothole patchers and dump trucks
- Cleaning the City’s 72,000 catch basins on a two-to three-year cycle
- Dedicating three crews to maintain drainage ditches and culverts
- Increasing capacity for restoring pavement cuts and spot replacement of asphalt and concrete panels

Public Works’ maintenance has historically suffered from underfunding. This investment in Public Works’ maintenance capacity would lessen its preventive maintenance need of \$30 million to \$35 million a year for streets and drainage. The City has budgeted \$5.1 million for maintenance in 2019.<sup>42</sup>

The tourism component of the proposed short-term rental tax – \$2.7 million per year – would not represent new spending on tourism promotion. It partially offsets about \$8 million in local tax revenue that New Orleans & Company agreed to forego in its proposed merger with the New Orleans Tourism Marketing Corp., another component of the fair share negotiations. This revenue consists of \$2.7 million of Regional Transit Authority (RTA) hotel tax revenue,<sup>43</sup> which the RTA will retain, and \$5.3 million of the City’s per-night ho-

**TABLE 7: S&WB PROPOSED USES OF RECURRING REVENUE FROM FAIR SHARE AGREEMENT**  
(\$ in millions)

	2019	2020	2021	2022	Total
SELA Debt Repayment	\$0	\$5.5	\$5.5	\$10.7	\$21.7
Automated Meter Infrastructure	1.0	2.0	5.0	5.0	13.0
Water and Drainage Projects (Not Eligible for FEMA Funding)			9.5	2.5	12.0
Cross Connection Remediation*	2.5	9.0			11.5
Master Plan	1.0	2.0			3.0
Drainage Canal Cleaning and Maintenance		1.0	1.0	0.3	2.3
Other Projects		1.0		2.5	3.5
<b>Total</b>	<b>\$4.5</b>	<b>\$20.5</b>	<b>\$21.0</b>	<b>\$21.0</b>	<b>\$67.0</b>

\* This project would eliminate the use of treated water to cool the power plant turbines.

Source: Sewerage and Water Board of New Orleans, Presentation to the Infrastructure Advisory Board, September 26, 2019

tel room charge, which will go to S&WB and City infrastructure as described above.

*Seeking Efficiencies.* The lack of funding to address current infrastructure failures clearly took precedence in this spring’s negotiations on the fair share funding package. However, opportunities remain for the City and S&WB to identify new efficiencies in infrastructure management as they add capacity and technology.

As noted above, tourism promotion will see a net decrease in public funding as a result of the fair share negotiations. New Orleans & Company will primarily rely upon State hotel tax funding and a 1.75% hotel assessment that its member hotels charge their guests. New Orleans & Company will retain its share and the Tourism Marketing Corp.’s share of the assessment following the merger.

*The Best Approach?* Short-term rental proprietors oppose the new short-term rental tax. They argue that the combination of the 16.2% ad valorem tax and the higher nightly fees they will pay will result in a higher effective tax rate than hotels pay. Taking all taxes and fees into account, short-term rentals currently pay an effective tax rate of 10.03%, compared to 17.35% for hotels. In Table 8, BGR estimates that new tax and fees would increase the effective tax rate on short term rentals to 18.32% for residential permits and 21.02% for commercial ones.

Despite the market impacts, a July 2019 study of poten-

tial short-term rental revenue-raising options prepared for the City by two consultants found that equalizing the occupancy tax for short-term and hotel rentals is a common practice in U.S. cities. A few cities, including Seattle, Portland and Nashville, have adopted additional fees on short-term rentals. New Orleans’ tax and fee structure on short-term rentals would be higher than Portland and Nashville but lower than Seattle.<sup>44</sup>

Short-term rental owners have also objected to the proposed tax’s revenue allocation to New Orleans & Company. They have concerns that the organization would use the new funds to promote hotel stays rather than vacation rentals in New Orleans. They further expressed concern about being left out of the negotiations this spring on the short-term rental tax legislation. New Orleans & Company acknowledged that the short-term rental owners were not involved in the fair share negotiations, but it told BGR that its tourism marketing efforts promote the city as a whole, rather than individual businesses. The Tourism Marketing Corp., which targets domestic leisure travelers, follows a similar approach.

Some affordable housing advocates oppose the tax because revenue from the proposed tax would not fund any investment in neighborhood housing. They point to housing affordability problems in New Orleans, where the number of renters who pay more than half of their income in rent and utilities has increased from 24% in 2004 to 38% in 2017.<sup>45</sup> They have raised concerns about the proliferation of short-term rentals in some neighbor-

**TABLE 8: EFFECTIVE TAX RATES FOR SHORT-TERM RENTALS AND HOTELS IN NEW ORLEANS**

Taxes and Fees	All Short-Term Rentals (Current Rates)	Residential Short-Term Rentals (Proposed Rate)	Commercial Short-Term Rentals (Proposed Rate)	Hotels
Occupancy Tax	9.45%	16.20%	16.20%	16.20%
Nightly Fees*	0.58%	2.12%	4.82%	1.15%
Effective Tax Rate	10.03%	18.32%	21.02%	17.35%

\* For hotels, these fees total \$1 to \$3 per night depending on the size of the hotel. They generate combined revenue that is equivalent to another 1.15% occupancy tax. Short-term rentals pay one of those fees at a rate of \$.50 per night. Guests at short-term rentals also pay \$1 per night fee to the City. These are equivalent to a total 0.58% occupancy tax at current revenue levels. Effective December 1, the \$1 per night fee will increase to \$5 per night for residential short-term rentals and \$12 per night for commercial short-term rentals.

BGR calculations based short-term rental revenue figures provided by the City to the State Legislature in spring 2019 and BGR research on hotel tax rates.

hoods reducing the supply of units and driving up rents. The July 2019 study found that short-term rentals make up 3.5% of all occupied housing units in New Orleans, one of the highest rates in the nation. It also found the rentals are concentrated in neighborhoods such as Faubourg Marigny, Bywater and Tremé, where they represented between 10% and 16% of occupied housing units, and 46% in the Central Business District.<sup>46</sup> In the view of housing advocates, the neighborhood impacts of short-term rentals justify the use of the tax revenue for affordable housing, more so than tourism promotion.

However, the neighborhood impacts of short-term rentals will likely decrease as a result of the new tax, fees and regulations. The July 2019 study estimated that the 6.75% increase in the tax rate alone would result in an 11% decrease in the number of financially-feasible short-term rental units. It further estimated that higher nightly fees (assuming a \$10 target) would result in an additional 8% decrease.<sup>47</sup> Short-term rental owners believe the number of units will fall even further as a result of the new City regulations.

Supporters of the new short-term rental tax argue that owners of short-term rentals benefit from tourism marketing efforts, so they should help offset them. And the new infrastructure investment would help support neighborhoods and, in turn, the City’s overall ability to manage the impacts of visitors. In a report earlier this year, BGR found economic support for charging visitors for the costs of public services and infrastructure they utilize during

their visits, as well as the cost of tourism promotion.<sup>48</sup>

While there is debate over the effectiveness of the tax for supporting tourism promotion, the proposed tax would boost funding for infrastructure improvements and maintenance. And the two purposes – infrastructure and tourism promotion – are a package deal for the tax, as set forth in State legislation. Further, a short-term rental tax is an appropriate mechanism for acquiring that revenue. The growth of short-term rentals in New Orleans has extended the impacts of tourism further into residential neighborhoods and allowed the operators of those rentals to benefit from citywide tourism promotion efforts. The new tax would help offset the impacts of those visitors on public infrastructure and the cost of marketing New Orleans as an attractive destination.

### Is the Proposed Tax Appropriately Sized?

The size of any dedicated tax should be aligned with the identified needs. A misalignment between a tax’s size and the recipient’s revenue needs can lead to inefficiencies.

For the City and the S&WB, this is not the case with the short-term rental tax. The potential revenue it would generate for the capital improvement and maintenance needs would represent only a small step toward solving their problems. The component of the tax for tourism promotion would offset the loss of an existing revenue stream that the RTA plans to redirect to public transit purposes,



thus not producing new tax revenue for that purpose.

It is difficult to determine the impact of the stricter regulations and the higher taxes and fees on short-term rental activity and thus the new tax revenue. Thousands of short-term rental units that currently pay sales taxes will no longer meet the stricter eligibility requirements come December 1.<sup>49</sup> Short-term rental owners note that these tend to be larger, more lucrative units than the largely commercial short-term rental and residential accessory units that will continue after December 1. The short-term rental owners are pursuing litigation in an attempt to grandfather in existing licensed units. The City expects a revenue loss from units ceasing operation as short-term rentals, but it also expects higher fees to help offset the reduction in rental units.<sup>50</sup> It does not have a clear estimate of the net effect on General Fund or NHIF revenue.

The tax would be levied in perpetuity, which means that voters would not have an opportunity to reconsider the tax and its uses, as is the case with most property taxes. A future change in the tax dedications would require action by the Louisiana Legislature and New Orleans voters. BGR has previously flagged the lack of periodic re-evaluation of hotel taxes – 15 of the 16 levies are permanent – as a hindrance to public accountability for that tax structure.<sup>51</sup> Because hotel taxes are the primary source of funding for tourism promotion, the addition of another permanent revenue stream compounds the concern.

### **Will the Tax Revenue Be Spent Effectively?**

To minimize the risk that a dedicated tax could lead to revenue not well aligned with pressing needs and reduce taxpayers' tolerance for future funding requests, a dedicated tax proposal should offer voters:

- A clear plan for directing the proceeds to high-priority needs
- Appropriate financial stewardship and accountability for taxpayer dollars
- Evidence that demonstrates the potential for effective outcomes

*Planning for High-Priority Needs.* The City and the S&WB will plan to use their shares of the short-term rental tax proceeds to address infrastructure maintenance and improvements. The City has assessed its preventive maintenance need, and it will allocate all of its tax proceeds to that effort. Likewise, the S&WB has mapped out an immediate spending plan through 2022, which includes funding a long-range master plan to guide future system improvements.

*Financial Stewardship and Accountability.* The proposition includes enhanced provisions to support financial stewardship and accountability. The mayor has established a seven-member Infrastructure Advisory Board to review and make recommendations on future City and S&WB expenditures of the short-term rental tax revenue and other recurring funding under the fair share agreement.<sup>52</sup> The advisory board members, four of whom are appointed by the mayor and three by the governor, will review spending on S&WB projects from the Infrastructure Maintenance Fund as provided by a future cooperative endeavor agreement between the City and S&WB. It will also review the City's own proposed uses of funding.

The board must also provide quarterly reports to the mayor and the S&WB's board of directors and make recommendations as needed for improvements or reforms to ensure the S&WB is a high-performing utility.

Citizens can access the advisory board's meetings and reports online.<sup>53</sup> The City administration is creating an online dashboard to track expenditures from the Infrastructure Maintenance Fund. It will appear on the City's website, [roadwork.nola.gov](http://roadwork.nola.gov).

The City would provide the remainder of the short-term rental tax revenue to New Orleans & Company for use in tourism promotion in accordance with a cooperative endeavor agreement. As a private organization, New Orleans & Company is not subject to the same transparency and accountability as is the City-owned Tourism Marketing Corp. However, the cooperative endeavor agreement presents an opportunity to develop accountability measures for New Orleans & Company's use of the money.

The organization told BGR it plans to manage the short-term rental tax revenue in a special account, which would be subject to City audit. It also has proposed presenting its marketing plans to the City Council.

*Potential for Effective Outcomes.* While the short-term rental tax provides only a fraction of the revenue needed to improve and maintain New Orleans' infrastructure, it has potential when combined with other fair share funding to help both Public Works and the S&WB to make meaningful progress in addressing critical needs. Public Works projects that its increased maintenance funding will enable it to clean catch basins on a more regular basis and expand its citywide street maintenance efforts. The S&WB's share of the revenue will allow it to meet its impending obligation to repay the federal government for its share of the cost of SELA drainage improvements, improve water meters and billing, and begin planning strategically for its future.

## **BGR POSITION**

**FOR.** Economic research supports visitor taxes, such as the proposed short-term rental tax, to help offset the cost of public services and infrastructure they use and fund the cost of tourism promotion, from which short-term rental operators benefit. The revenue from the proposed tax, which may be less than projected due to new restrictions on short-term rental activity, will help the City and S&WB make progress in meeting their infrastructure needs. Both the City and the S&WB have set forth plans for spending the tax revenue. While the tax would also fund some tourism promotion, it partially offsets other tourism dollars redirected to infrastructure.

The permanency of the tax will hinder public accountability. To mitigate this, the City administration, S&WB and the mayor's Infrastructure Advisory Board should establish clear accountability reporting on the uses of the infrastructure money. The City administration and City Council should assure accountability and public reporting for the 25% share for tourism promotion through their future cooperative endeavor agreement with the private New Orleans & Company.

**ENDNOTES**

- 1 BGR, [The \\$1 Billion Question Revisited: Updating BGR's 2015 Analysis of Orleans Parish Tax Revenues](#), April 2019.
- 2 For more about this tax, see BGR, [The Lost Penny: An Analysis of the Orleans Parish Hotel Tax Structure](#), January 2019.
- 3 New Orleans City Council, Motion No. M-19-194, adopted May 9, 2019.
- 4 BGR, [A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities](#), October 2019.
- 5 See the following BGR reports, available at bgr.org: *The \$1 Billion Question* (November 2015), *On the Ballot* (April 2016), *Beneath the Surface* (February 2017), *Paying for Streets* (May 2017), *The Lost Penny* (January 2019), *The \$1 Billion Question Revisited* (April 2019), and *Looking Back to Plan Ahead* (October 2019).
- 6 City of New Orleans, "City Updates Residents on Spending Priorities for \$500M Bond Sale and 3 Mill Maintenance Proposition," media release, October 9, 2019.
- 7 City Council Resolution R-19-285, which places the bond proposition before voters, explicitly allows the City to use some revenue from the tax supporting the new bonds to pay obligations under State law to certain public employee retirement systems. BGR notes that the City has allocated revenue from the existing bond tax to pay those costs in previous years. BGR also notes that the question of whether the City can use dedicated property tax proceeds to pay those retirement system obligations is currently under litigation.
- 8 BGR, [Paying For Streets: Options for Funding Road Maintenance in New Orleans](#), May 2017, p. 3.
- 9 See BGR's reports *Paying for Streets* and *Beneath the Surface*.
- 10 City of New Orleans Planning Commission, [2020-2024 Capital Improvement Plan](#), September 24, 2019.
- 11 BGR calculation based on interest rates ranging from 4% to 5%.
- 12 BGR, *On the Ballot: Housing Tax Exemptions in New Orleans*, October 12, 2019, p. 2.
- 13 The City Planning Commission is currently preparing a Housing Opportunities Study at the mayor's request to provide recommendations on ways to increase affordable housing units. If voters approve the proposition, the commission expects the study will inform investments of future bond funds for this purpose. City Planning Commission, Draft 2020-2024 Capital Improvement Plan, September 24, 2019, p. 20.
- 14 Government Finance Officers Association, *Structuring and Sizing the Bond Issue: How to Develop an Optimal Financing Approach*, 1995, p. 12.
- 15 National Fire Academy Executive Fire Officer Program, *Amortization of Fire Equipment – A Planning Tool*, November 2001, p. 8. The report recommends that fire trucks be replaced after 20 years – 15 years in front-line service and five years of reserve status. Also, the Louisiana Legislative Auditor recommends that local government entities assign a 15-year useful life to fire trucks for depreciation purposes. <https://www.la.gov/auditResources/auditTools/documents/sugguse.pdf>
- 16 City of New Orleans Home Rule Charter, Sec. 3-119.
- 17 Government Finance Officers Association, [Capital Planning Policies](#), September 2013.
- 18 BGR, *On the Ballot: Orleans and St. Bernard Parishes, May 2, 2015*, and *On the Ballot: New Orleans Elderly Services Tax Proposal, March 30, 2019*.
- 19 See City administration's July 25, 2019, presentation to the City Council entitled *Bond Sales and 3 Mills for Maintenance*, p. 5.
- 20 See also City of New Orleans, "City Updates Residents on Spending Priorities for \$500M Bond Sale and 3 Mill Maintenance Proposition."
- 21 BGR calculations using the City's credit rating at its September bond sale and interest rates on October 16, 2019, as tracked by The Municipal Market Monitor (TM3).
- 22 BGR calculations assuming the City spaced the three bond sales at 12-month intervals.
- 23 See [roadwork.nola.gov](http://roadwork.nola.gov).
- 24 The ballot proposition indicates the tax would yield about \$10.2 million in the first year. However, this estimate is based on property tax yields prior to the 2020 reassessment. The reassessment increased the amount that each mill generates from \$3.4 million to about \$4 million.
- 25 BGR, [A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities](#), October 2019.
- 26 See BGR, [Street Smarts: Maintaining and Managing New Orleans' Road Network](#), October 2008, and [Paying For Streets: Options for Funding Road Maintenance in New Orleans](#), May 2017.
- 27 American Public Works Association, *Guidance Position Statement: Timely Replacement of Fleet Assets*.
- 28 Sanitation costs dropped by \$7 million as the City twice renegotiated garbage contracts, and debt service costs declined \$26 million as the City used its improved financial position to avoid issuing new debt. BGR, [A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities](#), October 2019.
- 29 See page 13 of the administration's October 17, 2019, [presentation on the proposed 2020 budget](#) to the City Council.

- BGR did not include \$1 million in expenses that moved from the General Fund to other funds.
- 30 BGR, *Paying For Streets: Options for Funding Road Maintenance in New Orleans*, May 2017, pp. 9-10.
- 31 La. R.S. 47:338.220, which authorizes the tax, defines short-term rentals as “the rental of all or any portion of a residential dwelling unit for dwelling, lodging, or sleeping purposes to one party with a duration of occupancy of less than 30 consecutive days.” It further prohibits the tax from applying to hotels, motels, bed and breakfasts, and other land uses explicitly defined and regulated separately from short-term rentals. The State Legislature created this statute pursuant to La. Acts, 2019 Reg. Sess., No. 169.
- 32 New Orleans City Council, Resolution No. R-19-308, adopted August 8, 2019.
- 33 La. R.S. 47:338.220. The proposition also provides for the payment of a “reasonable” tax collection fee.
- 34 The Infrastructure Maintenance Fund was created pursuant to City Council Ord. No 27,986 M.C.S.
- 35 Information provided by the S&WB and the City.
- 36 At the time, the City based the estimate on existing revenue from a 3.97% sales tax applicable to short-term rentals. The estimate assumed \$156.2 million annual sales multiplied by the proposed 6.75% occupancy tax. See Office of Legislative Auditor, Fiscal Note on HB 43 (Enrolled), May 31, 2019. The bill became La. Acts, 2019 Reg. Sess., No. 169.
- 37 City of New Orleans, “Short Term Rental Enforcement,” presentation to the New Orleans City Council Governmental Affairs Committee, August 29, 2019, p. 8.
- 38 One-time funding consists of \$28 million from the New Orleans Ernest N. Morial Convention Center and \$23.5 million in other State allocations of FEMA and Hazard Mitigation Grant Program funds. The multi-year funding consists of \$54 million in State capital outlay appropriations for the S&WB’s power plant, plus \$17.5 million in State deferrals of the S&WB’s repayment of a post-Katrina borrowing. Other funds also include an anticipated \$2 million a year in payments in lieu of taxes (PILOT) from the Convention Center’s proposed hotel project, although it is unclear how this would be allocated. City of New Orleans, “Update on Infrastructure Projects & Drainage Analysis,” presentation to the Infrastructure Advisory Board, September 26, 2019, p. 11.
- 39 Sewerage and Water Board of New Orleans, Presentation to the Infrastructure Advisory Board, September 26, 2019, p. 14.
- 40 Public Works and the S&WB split responsibility for managing New Orleans’ drainage system. Public Works is responsible for maintaining the drainage lines less than 36 inches in diameter, while the S&WB is responsible for larger drainage lines, canals and pumping stations.
- 41 City of New Orleans, “Update on Infrastructure Projects & Drainage Analysis.”
- 42 For more information on historical street maintenance funding, see BGR, *A Look Back to Plan Ahead: Analyzing Past New Orleans Budgets to Guide Funding Priorities*, October 2019, p. 34.
- 43 See BGR, *The Lost Penny: An Analysis of the Orleans Parish Hotel Tax Structure*, January 2019, p. 34.
- 44 HR&A and Urban Focus, *New Orleans Short Term Rental Affordable Housing Study: Using STRs to Support Affordable Housing*, July 2019, p. 53.
- 45 See BGR, *On the Ballot: Housing Tax Exemptions in New Orleans, October 12, 2019*, p. 2.
- 46 HR&A and Urban Focus, p. 2.
- 47 *Ibid.*, p. 69.
- 48 See BGR, *The Lost Penny: An Analysis of the Orleans Parish Hotel Tax Structure*, January 2019, p. 20.
- 49 City of New Orleans, “Short Term Rental Enforcement,” p. 8.
- 50 *Ibid.*
- 51 BGR, *The Lost Penny: An Analysis of the Orleans Parish Hotel Tax Structure*, p. 21.
- 52 The board is created by Mayor Cantrell’s executive order No. LC-19-02, August 6, 2019.
- 53 The website is <https://roadwork.nola.gov/fair-share/>.

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