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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 *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.

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.

$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 propostion 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.