



ON THE BALLOT

A Report from the Bureau
of Governmental Research

FRENCH QUARTER SALES TAX, APRIL 24, 2021

IN BRIEF

As an economic engine, historic landmark and home to more than 3,000 residents, the French Quarter has unique and substantial public safety needs. In an attempt to address those needs, a proposition on the April 24 ballot seeks the approval of French Quarter voters for a 0.245% sales tax to pay for supplemental police patrols and other public safety services. The tax would take effect July 1 and remain in place for five years. It would generate an estimated \$2 million to \$2.5 million in the first 12 months, depending on a potential exemption for hotel room rentals. On December 5, French Quarter voters rejected the renewal of a similar sales tax for enhanced public safety, and it expired at the end of 2020.

The New Orleans City Council proposed the tax as the governing authority of the French Quarter Economic Development District. Only residents of the district vote on the tax, which applies only within the district's boundaries. The ballot proposition directs the first \$2 million in tax revenue each year to supplemental police patrols. Any amount above \$2 million can go toward additional patrols and other public safety programs, including homeless assistance.

The proposition further provides for an administrative and oversight role for the French Quarter Management District (Management District), a State-created entity charged with overseeing the French Quarter's revitalization after Hurricane Katrina. From 2015 until this February, the Management District administered a supplemental patrol program called the French Quarter Task Force (Task Force) that paid off-duty New Orleans Police Department (NOPD) officers to patrol in Smart cars and respond to citizen complaints submitted via an app. The local tourism industry ceased funding the program due to pandemic-related fiscal constraints. After a brief shutdown, the City of New Orleans (City) restarted the program with on-duty, overtime NOPD officers using reserves projected to last until October.

The City administration and Management District have presented similar proposals to use the tax revenue to continue and expand the current supplemental patrols. However, a dispute over which entity would control the tax revenue has prevented the parties from reaching an agreement before the election. Thus, voters have no assurances about how the entities would spend or account for the tax revenue. This repeats the situation from the December 5 tax renewal, when the parties also failed to reach an agreement. In opposing that tax renewal, BGR had urged the parties to establish clear spending and accountability plans before placing another tax proposition on the ballot, but they did not do so.

REPORT HIGHLIGHTS

To analyze the April 24 proposition, BGR considered four questions that address the efficient and effective use of public resources: (1) Have the parties carefully planned how they will spend the tax revenue, and have they

IN BRIEF CONTINUED ON NEXT PAGE ▷

About BGR's *On the Ballot* Series

This report is the latest in BGR's *On the Ballot* series, which provides voters with objective, nonpartisan analysis of significant ballot propositions in the New Orleans metropolitan area. In producing these 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.

IN BRIEF

displayed responsible financial stewardship and accountability for taxpayer dollars? (2) Is the proposed tax an acceptable way to fund the purposes? (3) Is the tax appropriately sized? (4) Is there evidence indicating the tax would result in effective outcomes? Based on this analysis, BGR found the following:

- Dedicated annual funding for supplemental public safety services in the French Quarter has dropped from \$6.7 million before the pandemic to zero, following the expiration of the original sales tax and the withdrawal of tourism industry funding.
- Because a sales tax is paid primarily by visitors, who far outnumber residents, it fairly distributes the tax burden among the beneficiaries of the public safety services. In addition, the amount of revenue the tax generates is linked to the level of economic activity in the French Quarter. This helps to keep the tax receipts aligned with public safety needs, enabling services to expand as tourism and tax revenues recover from the pandemic.
- If the City Council exempts hotel room rentals from the tax, revenue would drop an estimated \$500,000, leaving little or no money for public safety services other than police patrols. Also, an exemption would deviate from norms and best practices for taxation and unfairly concentrate the tax burden on other businesses.
- In response to the City's lapses in accountability for previous tax expenditures on State Police patrols, the City and Management District have proposed an

extensive framework of reporting requirements on the use of tax revenues. However, the absence of a signed agreement leaves voters with no assurances that those measures will be implemented.

- The proposed change to use the tax revenue to fund patrols by NOPD officers, as opposed to State Police, is in line with a Management District security consultant's recommendation to consolidate fragmented public safety services in the French Quarter.
- The Management District contends that the ballot language authorizes it to take receipt of the tax revenue, establish budgets and disburse the funds. City administrators have concerns about ceding control of the tax revenue to the unelected Management District board, which they contend is not accountable to the public. They interpret the ballot proposition differently and propose limiting the district's role primarily to overseeing the City's use of the tax revenue. The impasse over control of the revenue prevents voters from fully assessing the potential effectiveness of the tax and sets up the possibility of a legal dispute that could end up in court.
- The Management District has proposed an administrative fee equal to 7% of tax receipts, capped at \$150,000 a year, while the City administration countered with 3% of tax receipts, capped at \$80,000. The district, which currently has no other funding source, previously received \$150,000 a year from the local tourism industry to cover its administrative expenses for the Task Force.

BGR POSITION

AGAINST. Ensuring adequate public safety is essential to the French Quarter's continued economic, residential and cultural vitality. BGR recognizes that additional resources are necessary to meet this need, but the City administration and French Quarter Management District have not resolved their disagreement over control of future tax revenue. This leaves voters without spending and accountability plans to determine whether the tax will fulfill its intended purposes. Moreover, some options to move past the dispute could diminish coordination and increase fragmentation in French Quarter public safety services. These significant shortcomings undermine confidence that the tax revenue will be well spent and address the French Quarter's public safety concerns.

The findings in this report suggest the best path forward would include: (1) on-duty New Orleans Police Department officers conducting the supplemental patrols to further the consolidation and coordination of police services in the French Quarter; (2) City control of the tax revenue to help it meet its public safety responsibilities; and (3) robust financial and operational oversight by the French Quarter Management District to enhance public accountability and the effectiveness of tax expenditures. However, these outcomes are far from guaranteed by the tax proposition.

If voters approve the tax, the City Council should reconsider its plans to exempt hotel room rentals. The exemption would unfairly concentrate the tax burden on other businesses while significantly reducing or even eliminating the revenue available for public safety services other than policing. In addition, the council should prioritize patrol structures that utilize New Orleans Police Department officers. This is important to reduce the problematic fragmentation of policing in the French Quarter and improve collaboration with NOPD's regular patrols.