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IN BRIEF

How Has 'Fair Share' Fared?

The Impact of the 2019 Deal to Increase Tourism Taxes for New Orleans Infrastructure

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INBRIEF

Given its population, New Orleans draws an outsized number of tourists, who spend billions of dollars each year during their visits. Despite the economic benefits, the city's infrastructure has suffered due to chronic underfunding. Asserting that part of the problem is that the City of New Orleans does not receive a "fair share" of tourism taxes, City officials struck a deal with the governor and Louisiana Legislature in 2019 to direct new tourism dollars to infrastructure. Five years later, BGR analyzes the deal's impact, tracking the revenue generated and where it went.

THE BOTTOM LINE

BGR finds that the Fair Share deal is fulfilling its promise of providing **significant recurring revenue for essential infrastructure improvements**. As the table shows, the deal yielded $27.6 million for infrastructure and $3.2 million for tourism promotion in 2023. The infrastructure funding is divided between the Sewerage & Water Board ($21.9 million) and the City's Department of Public Works ($5.7 million). The tourism funding goes to New Orleans & Company, a private nonprofit organization of hotels, restaurants and other businesses.

A citizen advisory board provides **effective oversight** of the Sewerage & Water Board's Fair Share expenditures. Its role could be expanded to include reviewing the water board's use of any new funding obtained from New Orleans residents and businesses for its infrastructure needs. This additional oversight could help **build public trust** in the long-troubled utility.

BGR also identified some shortcomings. There is **insufficient transparency** in the use of Fair Share revenue by the City and New Orleans & Company. Also, a March 2024 City ordinance on Fair Share funding could be interpreted as **limiting future funding** for the Sewerage & Water Board to drainage projects, despite critical unmet needs for its water and sewer systems. The good news is that **these issues can be fixed** by local policymakers.

New Orleans still faces enormous costs for long-term infrastructure reconstruction. But the Fair Share deal has made significant progress on meeting preventive maintenance needs at **little or no cost to local ratepayers and taxpayers**.

2023 RECURRING FAIR SHARE REVENUES (in $ millions)

Funding Source	Infrastructure	Tourism promotion	Total
Restoring the 1% 'Lost Penny" hotel tax BGR called on Legislature to reinstate City tax suspended since 1966 to offset a tax to fund construction of the Louisiana Superdome	$12.7		$12.7
A new 6.75% tax on short-term rentals 75% for infrastructure and 25% for tourism promotion	$9.9	$3.2	$13.1
City of New Orleans allocation To offset a hotel tax the City did not redirect to infrastructure	$5.0		$5.0
Total recurring revenue	**$27.6**	**$3.2**	**$30.8**

KEY FINDINGS

- The Sewerage & Water Board is using its Fair Share revenues to help fund critical upgrades to its electrical power, water meters, water treatment and other systems. It has so far committed $84 million of its Fair Share funding to these projects through 2025.
- However, a March 2024 City Council ordinance on Fair Share funding lacks clarity and could be interpreted as limiting the Sewerage & Water Board's funding to drainage projects, starting in 2025. Such a restriction could hinder the use of this revenue for essential water and sewer system improvements. BGR brought these issues to the attention of the ordinance's author, who plans to work with City administrators on a clarifying amendment.
- The City's Department of Public Works has used its Fair Share revenue to double annual funding for street maintenance to about $15 million a year. Still, this is less than a third of the $50 million a year the City estimates it needs to adequately maintain streets.
- The Infrastructure Advisory Board provides effective oversight of how the Sewerage & Water Board uses its funding. The advisory group of citizens is formed by a mayoral executive order. Its members are appointed by the mayor and the governor.
- By contrast, there are no public reporting requirements for the City's use of Fair Share revenue by Public Works. Also, the City's operating budget does not clearly track Fair Share spending. BGR had to conduct its own analysis to determine where the money went.
- New Orleans & Company's annual reports to the City on its use of short-term rental tax revenue lack sufficient detail on where the money went and the unspent balance.
- Both the City and Sewerage & Water Board have substantial infrastructure maintenance needs that Fair Share cannot meet. These needs include adequately funding street and subsurface drainage maintenance, as well as fixing water pipe leaks and deferred maintenance on major drainage works.
- As the Sewerage & Water Board seeks additional funding sources from New Orleans residents and businesses for its unmet needs, the Infrastructure Advisory Board's role could expand to include oversight of these new investments. This could help the Sewerage & Water Board increase public buy-in on providing more money to the utility.
- The transfer of the "minor" drainage system to the Sewerage & Water Board from Public Works, planned for 2025, warrants a reassessment of the revenue split between the two entities.
- Besides recurring revenue, the Fair Share deal provided $57 million in one-time funding from the New Orleans Ernest N. Morial Convention Center ($28 million), the State ($24 million) and the Downtown Development District ($5 million). The Convention Center and State funding went to the Sewerage & Water Board to help with emergency repairs and cash-flow problems in 2019. The DDD's contribution will pay for drainage improvements in downtown New Orleans after Mardi Gras 2025.

RECOMMENDATIONS

There is a significant opportunity to enhance Fair Share's impact on New Orleans' infrastructure needs and improve the framework for transparent and accountable fiscal management. To those ends, BGR makes the following recommendations:

- **The City Council should amend its March 2024 ordinance on the Sewerage & Water Board's Fair Share funding allocation to avoid misinterpretation.** The council should clarify that (1) the ordinance's dedication to drainage projects applies to only the City's annual contributions and not the "lost penny" or short-term rental taxes, and (2) the full amount of the City's contributions, not 75%, is paid to the Sewerage & Water Board. Amending the ordinance before it takes effect in 2025 will make sure the utility can prioritize Fair Share money across its water, sewer and drainage systems. This would continue to maximize the benefits of Fair Share as a flexible resource to respond to important needs.

What would it take to generate $30.8 million from property owners, instead of tourists? BGR estimates 5.5 mills, which would cost $55 for every $100,000 of a home's market value after applying the homestead exemption. At the average Orleans Parish sale price of $494,000, the tax would be $230.

- **The Sewerage & Water Board and the City should review the current 75%-25% split of Fair Share tax revenues between the utility and the Department of Public Works.** The review would help inform upcoming decisions on how to fund the Sewerage & Water Board's operations of the City's catch basins and drainage pipes, which it will take over from Public Works after the 2024 hurricane season. The review should also consider Public Works' street maintenance needs. BGR has no position on the optimal split but makes two related recommendations that follow here.

- **If the City redirects some or all of its Fair Share revenue to the Sewerage & Water Board, it should allocate a commensurate amount of additional General Fund revenues to Public Works.** This would help Public Works sustain the street maintenance gains it has made. Effective maintenance will reduce transportation problems for residents and businesses and extend the useful life of street construction projects.

- **If Public Works retains its Fair Share revenues, the mayor and City Council should subject it to the same transparency and accountability measures that the Sewerage & Water Board faces.** This should include quarterly and annual reports to the Infrastructure Advisory Board that clearly show how Public Works used its Fair Share revenues. It should incorporate these City obligations into the cooperative endeavor agreement that establishes the Sewerage & Water Board's reporting requirements. Greater accountability for Public Works would help ensure its effective use of Fair Share funding and build public understanding of its street maintenance program.

- **New Orleans & Company should expand its annual reports to the City to fully account for its use of short-term rental taxes.** It should include a detailed breakdown of annual spending and updates on any unspent balance. The City and New Orleans & Company should amend their cooperative endeavor agreement to require these transparency enhancements, which would support effective investments in tourism promotion.

- **As the Sewerage & Water Board and City seek additional funding from New Orleans residents and businesses for unmet infrastructure needs, they should consider using the Infrastructure Advisory Board to provide oversight of those funds.** The Advisory Board could provide an important layer of transparency and accountability to these new public investments by incorporating them into its quarterly meetings and reports and making recommendations on the Sewerage & Water Board's spending proposals. This oversight approach could help build and maintain public trust while not interfering with the primary decision making of the utility's board of directors and management.

- **Future mayors should continue the executive order establishing the Infrastructure Advisory Board as long as it provides effective oversight of Fair Share dollars.** Each mayor would have the opportunity to review the performance of the Advisory Board and consider any necessary revisions to the executive order. One area, for example, could be considering relevant experience requirements for future appointees. The additional accountability provided by the Advisory Board can support the effective delivery of infrastructure improvements in the years ahead.

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