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BGR Media Release

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BGR Report Raises Concerns about Orleans Parish's Hotel Tax Structure

Today, BGR releases *The Lost Penny: An Analysis of the Orleans Parish Hotel Tax Structure.* The report explains the origin and details of the tax structure. It then compares Orleans Parish hotel taxes to best practices for taxation as well as state and national norms, focusing primarily on the share of revenue available for general municipal purposes. BGR's analysis results in two key findings: (1) Orleans Parish hotel taxes for general municipal purposes should increase by at least the equivalent of a 1% tax (currently $12.3 million) and (2) the hotel tax structure lacks accountability and transparency. The report makes recommendations for addressing both findings, while minimizing any impacts on tourism-related entities that rely on hotel taxes.

The report shows that the City of New Orleans receives a relatively small share of hotel tax revenue for general municipal purposes, such as public services and infrastructure. This is largely the result of the City's 1966 agreement to suspend its then-1% sales tax as applied to hotel rooms. This was envisioned as a temporary measure to ease the burden of a new hotel tax to build the Louisiana Superdome. But the suspension remains in effect more than half a century later. This "lost penny" of hotel tax will deprive the City of $12.3 million this year that it could have used to address pressing needs, such as improvements to drainage, streets and public safety.

Since the suspension of the City's tax, hotel taxes for other entities have increased, with most of the revenue going to tourism-related purposes. The overall hotel tax now stands at 16.35% and will generate an estimated $200 million in 2019. About 75% of the revenue goes to supporting tourism marketing, conventions and professional sports. By comparison, the City receives 9.5% for general municipal purposes.

The report shows that the share for general municipal purposes falls below the level suggested by norms and best practices. As a result of its 1966 tax suspension, the City is in the unusual position of having a tax rate on hotel room rentals (1.5%) that is lower than its general sales tax rate (2.5%) on other goods and services. The full sales tax applies to hotel rooms in the vast majority of other large parishes and peer cities analyzed in the report. The 9.5% share of hotel taxes for general municipal purposes in New Orleans is significantly lower than the median 16.1% share for a dozen peer cities. To reach the median share, the 1.5% hotel tax for general municipal purposes in New Orleans would have to nearly double. In addition, economic research indicates that hotel taxes are an effective way for municipalities to charge visitors for their use of public services and infrastructure. However, the suspension of the City's tax on hotels suggests that New Orleans is not fully realizing this fiscal benefit.

The report calls on the Legislature to increase hotel taxes for general municipal purposes in New Orleans by at least the equivalent of a 1% tax (currently $12.3 million). It recommends that legislators strongly consider using a recent drop in the overall hotel tax rate to restore at least a portion of the City's suspended 1% sales tax on hotel rooms. To make up any difference, the report suggests lawmakers first look to redirect a portion of any excess hotel tax revenues to minimize or avoid negative impacts on the current operations of other hotel tax recipients.

The report also finds a lack of accountability and transparency in aspects of the hotel tax structure. Most notably, all but one of the 16 hotel tax levies in Orleans Parish are permanent or have an indefinite duration. This hinders public accountability as the recipient entities never have to make the case to voters or legislators to renew the taxes. Also, a complex web of laws and revenue-sharing agreements that are not readily accessible make it difficult for the public to understand where hotel tax dollars are going and for what purposes. Orleans Parish hotel taxes are divided into 29 revenue shares that go to a dozen public and private entities. The report makes a series of recommendations to the Legislature to address these issues, including imposing definite sunset dates on hotel taxes so citizens or legislators can periodically reassess them.

BGR President & CEO Amy Glovinsky said *The Lost Penny* is a follow-up to BGR's 2015 report *The $1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?* That report identified a potential misalignment within the hotel tax structure in New Orleans.

"This new report provides insight into a cause of the misalignment and offers solutions for correcting it," Glovinsky said. "Citizens and policymakers are now engaged in an important community dialogue about funding sources for critical needs. Our goal is to help guide them toward outcomes that align with norms and best practices and move us closer to the optimal deployment of limited public resources."

Glovinsky said BGR will continue its analysis of local tax revenues in the coming months by looking at the City's general fund growth in recent years to understand budget priorities. "We expect that this work will similarly inform the ongoing discussion about prioritization and funding of critical needs," Glovinsky said

The report and a summary are available on BGR's website, www.bgr.org.

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