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BGR MEDIA RELEASE

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BGR Report Reveals Startling Gaps in Infrastructure Funding

Today BGR releases *The Price of Civilization: Addressing Infrastructure Needs in New Orleans*. The report – the second installment in a series examining the city's financial situation – is available on BGR's website, www.bgr.org.

In the report, BGR provides information on New Orleans' core infrastructure needs and assesses the community's capacity to fund those needs. The picture that emerges, while incomplete, is sobering. The greatest challenges relate to streets and the drainage, sewerage and water systems upon which every aspect of city life relies.

The City's Department of Public Works – which is responsible for most streets in New Orleans and part of the drainage system – anticipates needing \$1.4 billion to reconstruct poor to failing streets and related drainage infrastructure. If Public Works fails to secure the estimated \$40 million needed annually for regular maintenance of streets, the amount needed for street reconstruction could rise as neglected streets deteriorate.

The Sewerage & Water Board – which is charged with the construction, operation and maintenance of New Orleans' sewerage and water systems and most of the drainage system – anticipates capital funding shortfalls for

the next five years totaling \$941 million. It is currently reassessing its long-term needs, which past estimates suggest could run into the billions.

With massive shortfalls in funding for infrastructure, the immediate question is: What capacity does New Orleans have to cover the funding gaps? To shed light on that question, BGR looked at several key factors that influence local capacity to finance infrastructure. These include the debt burden of government entities in Orleans Parish; bond ratings; absolute and relative tax rates; and the level of service charges for water and sewer. The indicators flag the difficulty that the community will face in financing infrastructure.

- *Current Debt Burden.* To start, tax recipient bodies in Orleans Parish already have approximately \$2 billion in outstanding debt. The burden is well above average under various metrics used to assess a community's debt capacity.
- *Future Debt Service Obligations.* Compounding the problem is the fact that the community's annual debt service obligations will not ease significantly until 2022. Any responsible effort to address infrastructure needs prior to that date is likely to require significant tax or rate increases. Rough calculations indicate that servicing a new \$1 billion bond issue would require a 27.3-mill increase in property taxes or an additional 1.14% sales tax.
- *Relative Tax Rates.* The ability of government entities to raise taxes or rates depends on a number of factors, including the willingness of residents to approve them and the tax rates in surrounding areas. Unfortunately, compared to their neighbors in most of the surrounding parishes, Orleans Parish residents already pay high property and sales taxes, and far higher rates for sewer and water service.
- *Bond Ratings.* Bond ratings for the two entities with the greatest unmet infrastructure needs – the City of New Orleans and the Sewerage and Water Board – are mediocre and poor, respectively. This increases the cost of borrowing.

- *Systemic problems.* The chronic underassessment of property and excessive property tax exemptions severely limit the community's revenue-raising capacity. They reduce tax collections and drive up tax rates for non-exempt property owners.

The serious funding gaps and the profound limitations on debt capacity point to the need for careful prioritization of capital needs within and among agencies. Without prioritization and coordination, New Orleans risks making substantial investments in streets, only to have the work undone by leaking subsurface infrastructure. The city could end up with leafy neutral grounds flanked by neighborhoods that flood too easily.

The gaps and limited capacity also underscore the importance of carefully spending available resources, such as the remainder of the \$411 million in disaster CDBG funds allocated to the City government following Katrina. Interestingly, of the \$291 million that the City government has contractually committed to specific projects, only 2.3% is targeted for core infrastructure.

The new City administration has inherited dire needs, but it also has the opportunity to improve the situation. BGR recommends that the City administration fully assess and prioritize the needs of the City government. It should then take the lead in conducting a cross-agency evaluation that takes into account the needs of the S&WB, the public school system and the justice system. All government entities should cooperate to produce a plan that reflects the most critical needs of the community and commit to implement that plan. The City administration should take a stand against funding initiatives that do not reflect the top priorities.

In addition, given the tightly constrained financial picture in New Orleans, BGR recommends that the City administration re-evaluate the planned expenditure of remaining disaster CDBG funds in light of the city's pressing infrastructure problems. It should also work with other local entities to pursue additional federal and state monies for unmet infrastructure needs. Finally, it should pursue the policy changes needed to address fundamental problems that limit the local tax base, such as the underassessment of properties and excessive property tax exemptions.

"New Orleans faces an enormous gap between its capital needs and the funds necessary to meet them," BGR Chairman Hans B. Jonassen said. "City leaders must come together to execute a plan that marshals and deploys available resources with care and precision."

Future installments in BGR's fiscal issues series will include an analysis of New Orleans' property tax base, a study on property tax exemptions for nonprofit organizations and a review of the city's capital budgeting process.

BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information call 525-4152 or visit BGR's website, www.bgr.org.

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