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ON THE BALLOT

A Report from the Bureau of Governmental Research

NEW ORLEANS LIBRARY AND HOUSING TAXES, DECEMBER 11, 2021

INBRIEF

On December 11, New Orleans voters will decide whether to approve two property tax propositions. The first proposition would reauthorize the library system's dedicated tax that voters approved in 1986. The second would replace an existing tax for housing and economic development with a tax dedicated to housing only. Both taxes would take effect in 2022 and run for 20 years, expiring at the end of 2041.

Voters are asked to authorize:

- **Up to 4 mills for libraries**
- **0.91 mills for housing**

The propositions will go before voters about a year after they rejected a larger proposal by the City of New Orleans (City) to replace and rededicate both existing taxes and two others for streets and capital improvements. Most notably, the package would have kept the same combined rate but redirected a significant portion of the library tax to fund an expanded range of purposes. All four taxes are set to expire at the end of 2021, and the City administration did not seek to put them back on the ballot. However, the City Council proceeded with ballot propositions for the two millages that separately support libraries and housing.

If voters approve both propositions, and the City levies 2.58 mills for the library tax as library officials recommend, homeowners will pay $34.90 annually on each $100,000 of property value above the $75,000 homestead exemption – the same amount they currently pay for the taxes. However, if the City levies the library tax at the maximum 4 mills the proposition allows, homeowners will pay an additional $14.20 on each $100,000 of property value above the homestead exemption.

The report analyzes the two propositions separately, but applies the same four questions that address the efficient and effective use of public resources:

1. Have policymakers carefully planned how they will spend the tax revenue and provide financial stewardship and accountability for taxpayer dollars?
2. Is the tax appropriately sized to meet the needs specified in the plan?
3. Is the tax an acceptable way to fund the purposes in light of alternative funding options?
4. Is there evidence indicating the tax would result in effective outcomes for the public?

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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 *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.

REPORT HIGHLIGHTS: LIBRARY TAX

The proposed tax would reauthorize the New Orleans Public Library system's (the Library) original dedicated millage that voters approved for library operations, but it would expand the permissible uses to capital needs, such as buildings. The proposition would allow a maximum rate of 4 mills, an increase from the 2.58 mills levied since 2020. Library officials have requested only 2.58 mills for operations in 2022, but the City Council will decide what portion of the maximum rate to levy each year. In 2020, the original millage provided about 52% of the Library's $20.6 million in recurring revenue. Other revenue comes mostly from a 2.33-mill tax that voters approved in 2015.

Based on its analysis, BGR found the following:

- The Library has planned its use of the tax revenue to ensure that the system will continue providing the current service level while also offering new programs and resources that align with its new strategic plan. The 10-year plan, developed with extensive community input, envisions initiatives to develop children's creative and thinking skills, expand the library's role in workforce development and improve access to library resources for all residents. In addition, the Library's proposed expenditures will reduce its $13.3 million reserve, or fund balance, to an acceptable level of $8 million.
- Although the tax's 20-year duration would limit voters' ability to hold the Library accountable for its use of the revenue through the tax renewal process, the City Council can use its authority to annually review the Library's budget and set the millage rates as an accountability lever.
- The Library's requested 2.58-mill rate aligns with the needs of its spending plan. However, voters are asked to allow the City Council to levy up to 4 mills for the tax. At that rate, the tax would produce $5.5 million more in 2022 than the Library needs for its spending plan.
- The tax is an acceptable way to fund the Library. A property tax is a common funding mechanism for public library systems and would provide a stable revenue stream.
- There is evidence indicating that the Library will use the tax to meet residents' library service expectations and implement new initiatives that address high community priorities for the system. But the Library's board of directors should adopt requirements for public reporting on progress toward annual strategic objectives and commit to conducting an annual performance review of the library director.

BGR POSITION

FOR. BGR supports the tax based on the Library's request to continue its dedicated millage revenue at the existing level. At the current rate of 2.58 mills, the tax provides about half of the system's budget. The Library has used its existing tax revenue to increase its value to residents by expanding services. Continuing this revenue stream will allow the Library to sustain its current service level and implement its new strategic plan. The plan reflects community priorities and seeks to extend the Library's value to more residents. In addition, it has developed a spending plan based on current tax revenue that would reduce its substantial fund balance to an acceptable level. Without the tax, the Library would be unable to implement the strategic plan and, after initially reducing services, would have to make substantial cuts to operations once it exhausted its fund balance.

Voter approval of the proposition would allow the City Council to levy up to 4 mills, which would generate significantly more revenue than the Library's current spending plan requires. This authority could result in an excessive tax when New Orleans faces many demands on its public resources. To respond to this concern, the council should maintain the Library's existing level of tax revenue and consider a request for a rate increase only if the Library demonstrates it is necessary.

Strengthening accountability measures is also important, especially considering that voters will not get another say on the tax for 20 years. The City Council should closely monitor the Library's fund balance to ensure that the tax does not generate surpluses. The City should track the fund balance in its public budget documents. In addition, the Library's board of directors should require regular public reporting on progress toward achieving annual objectives that align with the strategic plan's three focus areas and conduct an annual performance evaluation of the library director.

REPORT HIGHLIGHTS: HOUSING TAX

The proposed 0.91-mill, 20-year housing tax would continue the approach of the existing tax, which the City currently levies at the same rate, by directing revenue to the City's Neighborhood Housing Improvement Fund (Housing Fund). City Council ordinances, as amended since the tax took effect in 1991, govern the fund and allow its revenue to be used for expanding homeownership opportunities, remediating blight, and providing affordable rental housing for low- and moderate-income residents.

Voter approval of the proposed tax would allocate all revenue to the Housing Fund. This would be a key change from the existing tax, which lets the City allocate revenue between the Housing Fund and a separate special fund for economic development in any proportion it chooses.

Based on its analysis, BGR found the following:

- While there are many ways in which the tax can support affordable housing and neighborhoods, the City has not developed a spending plan that shows how it would use the tax to achieve specific housing development or neighborhood improvement objectives.

- In reviewing the City's accountability for the existing tax, BGR found unexplained decreases in the Housing Fund's tax revenue in 2020 and 2021. BGR also found that budget planning processes required by the Housing Fund ordinance were not followed in those years. These findings also raise questions about the effectiveness of the City Council's oversight of the Housing Fund.

- The housing affordability needs of New Orleans' large population of residents with high housing cost burdens far exceed the revenue the tax would generate. But without specific spending objectives from the City for the estimated $3.5 million, BGR cannot determine whether the tax is appropriately sized.

- New Orleans and other cities employ multiple strategies and funding mechanisms to address housing issues. A dedicated property tax has the advantage of providing a stable, locally controlled revenue stream to complement other efforts, leverage state and federal funds and tax incentives, and offer flexibility in meeting priority needs. As alternatives, the City's General Fund and fees from short-term rentals that flow into the Housing Fund provide the same flexibility of the tax but not its stability.

- Initiatives funded by the tax should achieve defined affordable housing or neighborhood improvement objectives. They also should provide assistance efficiently to address as much of New Orleans' housing need as possible. Whether the tax delivers on these outcomes depends on how the City allocates the revenue to specific housing initiatives. BGR could not assess the tax's likelihood of producing effective public outcomes because the City has not developed a spending plan for the Housing Fund. Although there is evidence that some of the Housing Fund's recent initiatives have or will produce effective outcomes, it is unclear how much of the tax revenue the City would direct to these or similar programs.

BGR POSITION

AGAINST. New Orleans' significant housing affordability problems have expanded since the onset of the pandemic and require carefully crafted policy solutions. However, critical gaps in the City's planning and accountability for the tax undermine its potential effectiveness. The City has not developed a plan that shows how it would use the revenue to achieve specific housing creation or preservation targets. The lack of a spending plan committing the tax revenue to specific initiatives diminishes accountability. It leaves the public without a means of assessing whether the tax accomplished defined objectives and holding the City responsible. In addition, unexplained drops in the Housing Fund's revenue from the existing tax and failure to follow required budget planning processes in 2020 and 2021 raise serious accountability concerns and questions about the effectiveness of the City Council's oversight.

Before asking voters to consider another dedicated tax for housing, the City should adopt oversight, planning and evaluation practices that will ensure accountability for – and effective results from – the revenue. In the interim, the Housing Fund will continue to receive revenue from short-term rental fees, and the City could use its General Fund revenue to support high priority housing initiatives and leverage other housing funding sources.