



1960



1961



1962

The Lost Penny



1965



1966



1967

An Analysis of the Orleans Parish Hotel Tax Structure



THE LOST PENNY

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1055 St. Charles Ave., Suite 200
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THE LOST PENNY

AN ANALYSIS OF THE ORLEANS PARISH HOTEL TAX STRUCTURE

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THE LOST PENNY

An Analysis of the Orleans Parish Hotel Tax Structure
January 2019

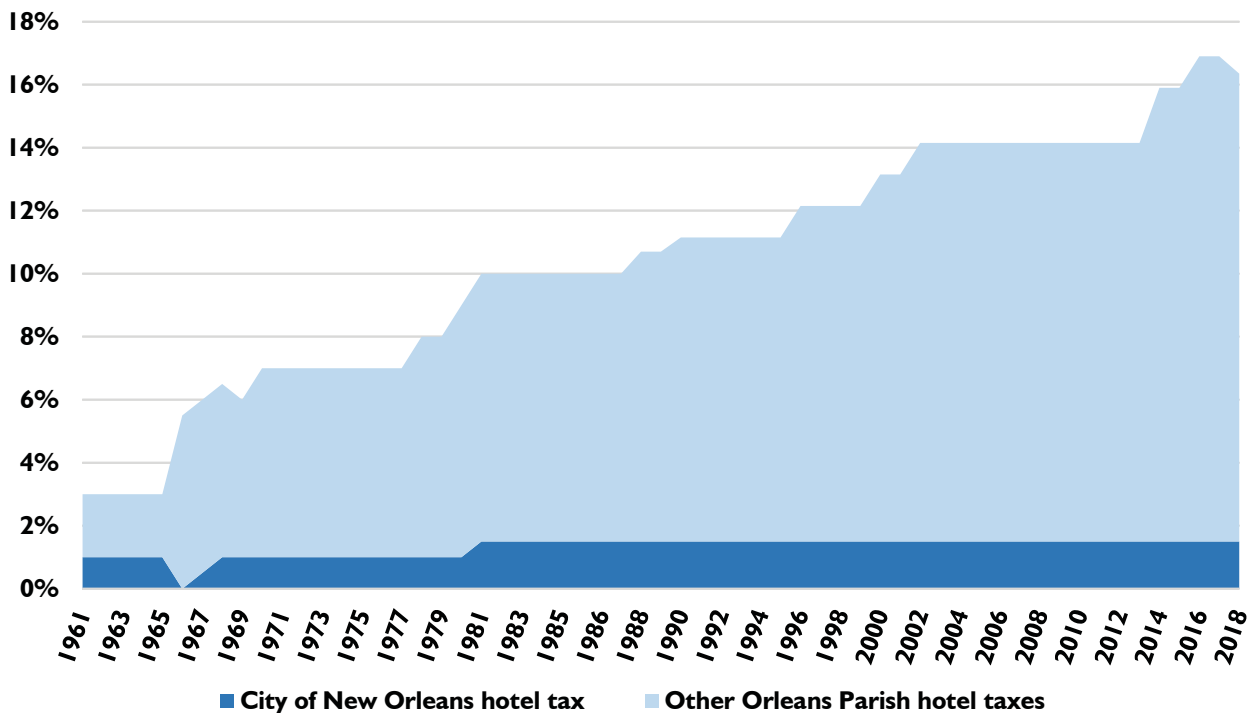
THE “LOST PENNY” AND WHY IT MATTERS

When New Orleans received its National Football League franchise in 1966, voters amended the state constitution to impose a tax on hotel rooms in Orleans Parish to fund construction of the Louisiana Superdome. To ease the burden of the new tax, the City of New Orleans agreed to suspend its then-1% sales tax as applied to hotel rooms. This was envisioned as a temporary measure to boost the fledgling tourism industry in New Orleans. More than half a century later, tourism is thriving. Several new hotel taxes dedicated to tourism marketing and conventions have supported this growth. Yet the City’s tax remains suspended. This means that the City can apply only 1.5 percentage points of its 2.5% sales tax to hotel rooms. This “lost penny” of hotel tax will deprive the City of an estimated \$12.3 million in 2019. That is money the City could have used to address pressing needs, including improvements to drainage, streets and public safety.

Against this backdrop, the report analyzes the hotel tax structure in Orleans Parish, focusing primarily on the share of revenue available for general municipal purposes. It explains the origin and details of the current tax structure and compares it to best practices for taxation as well as state and national norms. It then reviews and recommends options to align the Orleans Parish hotel tax structure with these best practices and norms.

ORLEANS PARISH HOTEL TAX RATE, 1961 TO 2018

Hotel taxes and assessments for entities other than the City have increased by nearly 10 percentage points since the 1966 suspension of the City’s 1% tax.



Note: BGR converted two flat room occupancy taxes into equivalent ad valorem taxes based on the amount of revenue the taxes generate. Sources: Orleans Parish ballot propositions, Louisiana statutes and financial statements for the taxing bodies.

KEY BACKGROUND AND FINDINGS

- Hotel guests in New Orleans pay 16.35% in hotel taxes on their room charges. Hotel taxes will yield an estimated \$200 million in 2019, accounting for about one-sixth of all local tax revenues in Orleans Parish. Of this amount, 75.5%, or \$150.9 million, goes to entities that support tourism marketing, conventions and professional sports. The share for general municipal purposes is 9.5%, or \$18.9 million.
- The suspension of the City's 1% sales tax on hotels is unusual. In the vast majority of large parishes and peer cities, the full local sales tax applies to hotel room charges. In addition, the annual share of hotel taxes allocated to general municipal purposes in New Orleans would have to increase by the equivalent of a 1.3% tax (\$15.8 million at current revenue levels) to match the median share for the peer cities.
- Economic research indicates hotel taxes are a highly effective means of charging visitors for the cost of municipal services and infrastructure they use. However, the suspension of the City's sales tax on hotels prevents New Orleans from fully realizing these fiscal benefits.
- There are indications that a partial restoration of 0.55 of a percentage point of the City's suspended tax (\$6.8 million currently) would not negatively impact tourism. The overall tax rate would increase from 16.35% to 16.9%. This was the tax rate for two years until mid-2018, and several metrics suggest the higher rate did not depress tourism.
- The New Orleans Ernest N. Morial Convention Center has accumulated \$235 million in unrestricted reserves largely because it continues to receive a 1% hotel tax, two hotel tax dedications, and a city-wide food and beverage tax (\$22 million in total for 2019) that were originally intended for an expansion project it deferred indefinitely after Hurricane Katrina. The center's new five-year \$557 million capital plan could decrease the unrestricted reserves to \$122 million upon completion of the plan in 2022. However, the reserves could begin growing again by \$25 million a year in 2023, according to a financing scenario the center's financial consultant prepared.
- Orleans Parish's hotel tax structure lacks accountability and transparency in certain areas. The permanent or indefinite duration of virtually all hotel taxes deprives citizens and policymakers of the opportunity to periodically reassess the need for taxes through a renewal process. 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.

SUMMARY OF RECOMMENDATIONS

The Legislature should increase hotel taxes for general municipal purposes in New Orleans by at least the equivalent of a 1% tax (\$12.3 million currently). To accomplish this, legislators should strongly consider restoring at least a portion of the City's suspended 1% sales tax on hotel rooms for high-priority needs. To make up any difference, they should 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 makes a series of recommendations to the Legislature to improve accountability and transparency in Orleans Parish's hotel tax structure. These include imposing definite sunset dates on hotel taxes so citizens or legislators can periodically reassess them.

EXECUTIVE SUMMARY

When New Orleans received its National Football League franchise in 1966, voters amended the state constitution to impose a tax on hotel rooms in Orleans Parish to fund construction of the Louisiana Superdome. To ease the burden of the new tax, the City of New Orleans agreed to suspend its then-1% sales tax as applied to hotel rooms. This was envisioned as a temporary measure to boost the fledgling tourism industry in New Orleans. More than half a century later, tourism is thriving. Several new hotel taxes dedicated to tourism marketing and conventions have supported this growth. Yet the City's tax remains suspended. This means that the City can apply only 1.5 percentage points of its 2.5% sales tax to hotel rooms. This "lost penny" of hotel tax will deprive the City of an estimated \$12.3 million in 2019. That is money the City could have used to address pressing needs, including improvements to drainage, streets and public safety.

Against this backdrop, the report analyzes the hotel tax structure in Orleans Parish, focusing primarily on the share of revenue for general municipal purposes. It explains the origin and details of the current tax structure and compares it to best practices for taxation as well as state and national norms. It then reviews and recommends options to align Orleans Parish hotel taxes with these best practices and norms.

Background

The report uses the term "hotel tax" to mean all taxes that apply to the rental of a hotel room. This includes general sales taxes that apply to hotel room rentals as a taxable service. It also includes hotel-specific taxes that apply only to hotel room rentals and not to other goods and services. Hotel taxes have become a popular form of taxation because residents receive the benefits of government expenditures of hotel tax revenues typically without having to pay the tax. Hotel taxes also are an effective way to charge visitors for the costs of public services and infrastructure they utilize.

Prior to 1966, hotel room rentals in Orleans Parish were subject only to the general sales taxes that were in effect – a 1% sales tax for the City and a 2% sales tax for the State of Louisiana. In 1966, voters amended the

Louisiana Constitution to impose the first hotel-specific tax in Orleans Parish (originally 4.5% and later reduced to the current rate of 4%) to fund construction of the Superdome. The City Council agreed to suspend or cease collection of the City's 1% sales tax as applied to hotel rooms to ease the burden of the new tax for the Louisiana Stadium and Exposition District (Stadium District).

The suspended tax will automatically be restored if and when the Stadium District retires all bonds backed by its hotel tax. At that point, the district's hotel tax would terminate. The Stadium District has kept its tax in place by continually pledging it to service new or refinanced debt. As a result, the suspension of the City's tax remains in effect and cannot be lifted without the Legislature's approval.

While the City's tax has remained suspended, hotel taxes for other entities have increased by nearly 10 percentage points. The overall hotel tax in Orleans Parish now stands at 16.35%. In 2019, hotel taxes will generate an estimated \$200 million for a dozen public and private entities. Topping the list of hotel tax recipients are the Stadium District at \$60.5 million and the New Orleans Ernest N. Morial Convention Center (Convention Center) at \$51.2 million. Together, they receive more than half of the parish's hotel tax revenue. Next on the list is New Orleans & Company (formerly called the New Orleans Convention and Visitors Bureau), a private nonprofit organization that promotes tourism and conventions, at \$21.1 million and the City at \$20.8 million.

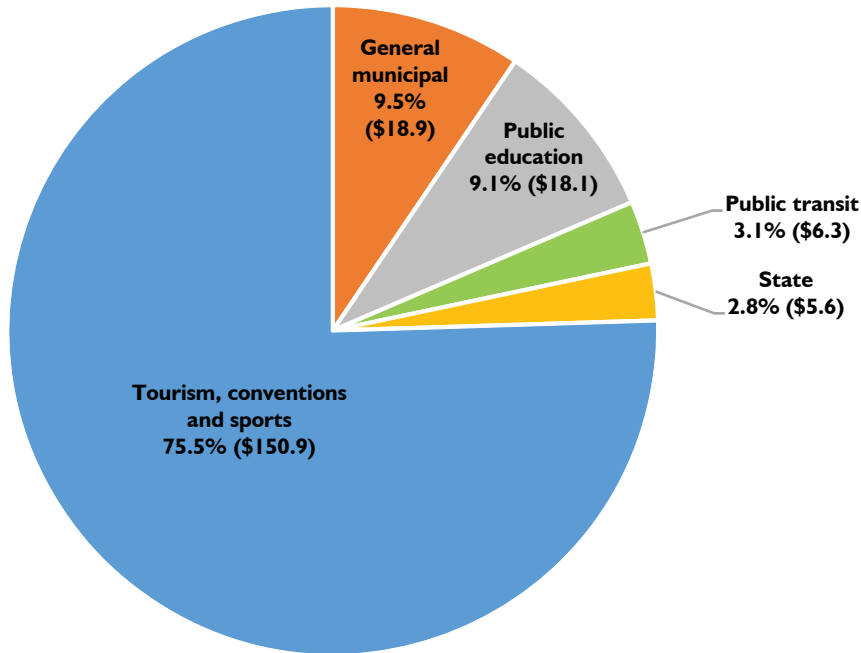
To more fully understand the uses of hotel taxes, it is necessary to examine the purposes to which they are allocated. As the chart on the next page illustrates, the lion's share of the revenue – 75.5%, or \$150.9 million – goes to tourism promotion, conventions and professional sports. General municipal purposes receive about 9.5%, or \$18.9 million. Public education receives 9.1%, while public transit and the State's general fund each receive about 3%.

How Hotel Taxes in New Orleans Compare to Best Practices

The report compares Orleans Parish's hotel tax structure to best practices for effective and efficient taxation that

ALLOCATION OF HOTEL TAXES IN ORLEANS PARISH BY PURPOSE

2019 Estimates (\$ in millions)



BGR projections

BGR identified through a review of economic and government finance research, including prior BGR research.

Overall Tax Rate. Because hotel taxes typically fall on visitors as opposed to residents, it can be economically beneficial for tourist destinations to use their market power to levy higher hotel taxes as long as they do not depress tourism. Orleans Parish may be able to increase its overall hotel tax rate without negatively impacting tourism. The total effective hotel tax rate dropped 0.55 of a percentage point from 16.9% to the current 16.35% in July 2018 after the Legislature renewed an expiring State sales tax at a reduced rate. The higher tax rate had been in effect for two years and did not appear to decrease tourism, based on local tourism industry studies and hotel tax revenue data. This suggests that the tax rate could increase by 0.55 of a percentage point (\$6.8 million at current revenue levels) without adversely impacting tourism.

Size of Individual Tax Levies. The size of any specific hotel tax should be aligned with the needs of the recipient entity. If the tax is too low, it might not generate sufficient revenue to provide necessary public goods or services. If the tax is too high, an entity may receive revenue that could be better deployed elsewhere.

Hotel tax receipts have helped the Convention Center accumulate \$235 million in unrestricted reserves. The reserves are largely the result of the Convention Center's continued receipt of a 1% hotel tax, two hotel tax dedications, and a city-wide food and beverage tax originally intended for an expansion project that the center deferred indefinitely in 2007 as a result of the economic impact of Hurricane Katrina. These taxes will generate about \$22 million in 2019. This revenue stream has helped the center nearly quadruple

its unrestricted reserves, which stood at \$63 million when the taxes took effect in 2002.

The center's \$235 million in unrestricted reserves does not include \$75.8 million that the center has provided or pledged to other entities in recent years for projects related to public safety, parks and economic development. Currently, the Convention Center is implementing a five-year, \$557 million capital plan. Convention Center officials told BGR that a potential financing scenario for the plan would use about \$245 million from its unrestricted reserves and tax receipts, with the rest of the financing coming from bonds. Under this scenario, the Convention Center's financial consultant estimates that the unrestricted reserves could drop to \$122 million upon completion of the plan in 2022. However, the scenario shows the unrestricted reserves could resume growing by about \$25 million per year in 2023. Convention Center officials indicated that the projections are based on one financing model and that the actual figures could vary. Meanwhile, the center is scheduled to retire its current debt in 2027. This could reduce annual debt service costs by \$10.8 million and cause the reserves to grow even faster. Convention Center officials told BGR the new bonds for the capital plan would keep debt service costs from decreasing. However, the

officials did not provide a projected debt service schedule for the capital plan as BGR requested.

The overall size of the reserve fund and its projected future growth raise questions about whether the Convention Center's hotel taxes are appropriately scaled to its needs. Convention Center officials assert that the center must have resources sufficient to meet its customers' future demands for facility technology, design and operations. They view that investment as necessary to protect the center's competitive position nationally. If the Convention Center pledges all of its hotel taxes to service new debt for the capital plan, it could prevent any adjustment to the taxes for up to 30 years based on a typical bond financing. This is because future bond covenants, like the current covenants, would prohibit the taxes from being eliminated or reduced while the debt is outstanding.

Before entering a pledge to new long-term debt, the Convention Center should clearly demonstrate the necessity of its current level of tax revenue for funding reasonable operating and capital needs. If the Convention Center is unable to do this, the Legislature should take action to right-size the center's hotel tax revenue. Beyond this, if the Convention Center's reserves grow at a rate that exceeds its needs, it should provide a portion of the revenue to the City or other government entities for unmet funding priorities as authorized by law or through cooperative endeavor agreements.

State law also requires the Stadium District, under certain circumstances, to share a portion of any year-end surplus revenue with various local entities. The statute was originally intended to help the City recover some of the lost revenue from its suspended tax. However, the district's interpretation of the law makes it ineffectual, and it has not distributed surplus revenue since 2001. The report suggests that the Legislature consider clarifying the law to preserve the intent of having the district share surplus revenues.

Uses of Hotel Tax Revenue. Economic research indicates that hotel taxes are an effective way of charging tourists and other visitors for the costs of public services and infrastructure they utilize. Thus, there is an economic basis for allocating hotel tax revenue to general municipal purposes. However, the reduced hotel tax for

general municipal purposes in New Orleans suggests this economic benefit may not be fully realized.

Economic research also supports using hotel tax revenues for publicly funded tourism promotion. Private funding is often inadequate because it is not cost effective for individual businesses. Tourism-related businesses also have an economic incentive to let other businesses or government entities pay for promoting tourism. A solution to such free-riding is for the government to tax the tourism industry via a hotel tax to pay for tourism promotion.

Planning and Prioritization. Because public resources are finite, it is important that public bodies deploy them efficiently and effectively to maximize the benefits for the community as a whole. This would ideally include coordination among taxing bodies to prioritize the community's needs and develop a plan for using available resources to address those needs.

An example of a lack of coordination in Orleans Parish hotel taxes concerns the Legislature's approval of a 2013 bill to facilitate the member hotels of the then-Convention and Visitors Bureau requiring their guests to pay a 1.75% hotel assessment. BGR opposed the legislation because the assessment would consume a portion of available taxing capacity without an analysis of competing needs, such as those facing the City. The following year, the City sought the Legislature's authorization to place a 1.75% hotel tax increase of its own on the ballot. But the effort failed after local and state tourism officials argued it would raise the overall hotel tax rate to a noncompetitive level. A consultant for the tourism officials included the 1.75% hotel assessment in calculating the total hotel tax rate, an acknowledgment that the assessment consumes a portion of taxing capacity.

Flexibility to Reallocate Revenue. Statutes, ordinances and voter-approved ballot propositions often dedicate hotel taxes to specific purposes or entities. Such tax dedications help assure the public that the revenue will go to the intended purpose. They also provide a stable and predictable revenue stream. However, dedications limit the flexibility and discretion to redeploy tax revenues to address new circumstances. In Orleans Parish, all hotel taxes except for a small portion of the State's tax and the

“National comparisons illustrate a widespread practice of applying the full sales tax rate to hotel room rentals. This indicates that Orleans Parish is an outlier for having a municipal tax rate on hotels (1.5%) that is lower than the general municipal sales tax rate (2.5%).”

City’s tax are legally dedicated to specific purposes or entities. This limits the accessibility of hotel tax revenue to meet unfunded needs, unless tax recipients choose to share any excess revenues with other entities.

Duration of Tax Levies. Determining the appropriate length of time for levying a tax before it must be renewed is a balancing act between the tax recipient body’s need for financial stability and the public’s need for accountability through a regular renewal process. In Orleans Parish, all but one of the 16 individual hotel tax levies are either permanent or of an indefinite duration. This forestalls public reassessment of the taxes because the recipients do not have to make a case to voters or the Legislature to renew them.

Transparency. A key principle of good taxation is that it should be clear to the public what taxes are in place, which entities get the revenue and how they can use it. In Orleans Parish, a complex web of laws and revenue sharing agreements that are not easily accessible makes it difficult for the public to understand where hotel tax dollars are going. There are a total of 16 hotel tax levies that are divided and, in some cases, subdivided into 29 revenue shares that go to a dozen different public and private entities and purposes. Another transparency issue concerns the lack of codification of the 15 legislative acts that govern the Convention Center and its use of hotel tax revenue.

How Hotel Taxes in New Orleans Compare to Other Jurisdictions

The report compares Orleans Parish hotel taxes to norms in other large parishes and cities across the nation, including a dozen peer cities.

Other Large Louisiana Parishes. The 16.35% hotel tax in Orleans Parish is higher than the other six largest parishes in Louisiana: East Baton Rouge, Jefferson, St. Tammany, Caddo, Lafayette and Calcasieu. Despite this, Orleans Parish has the smallest share of hotel tax-

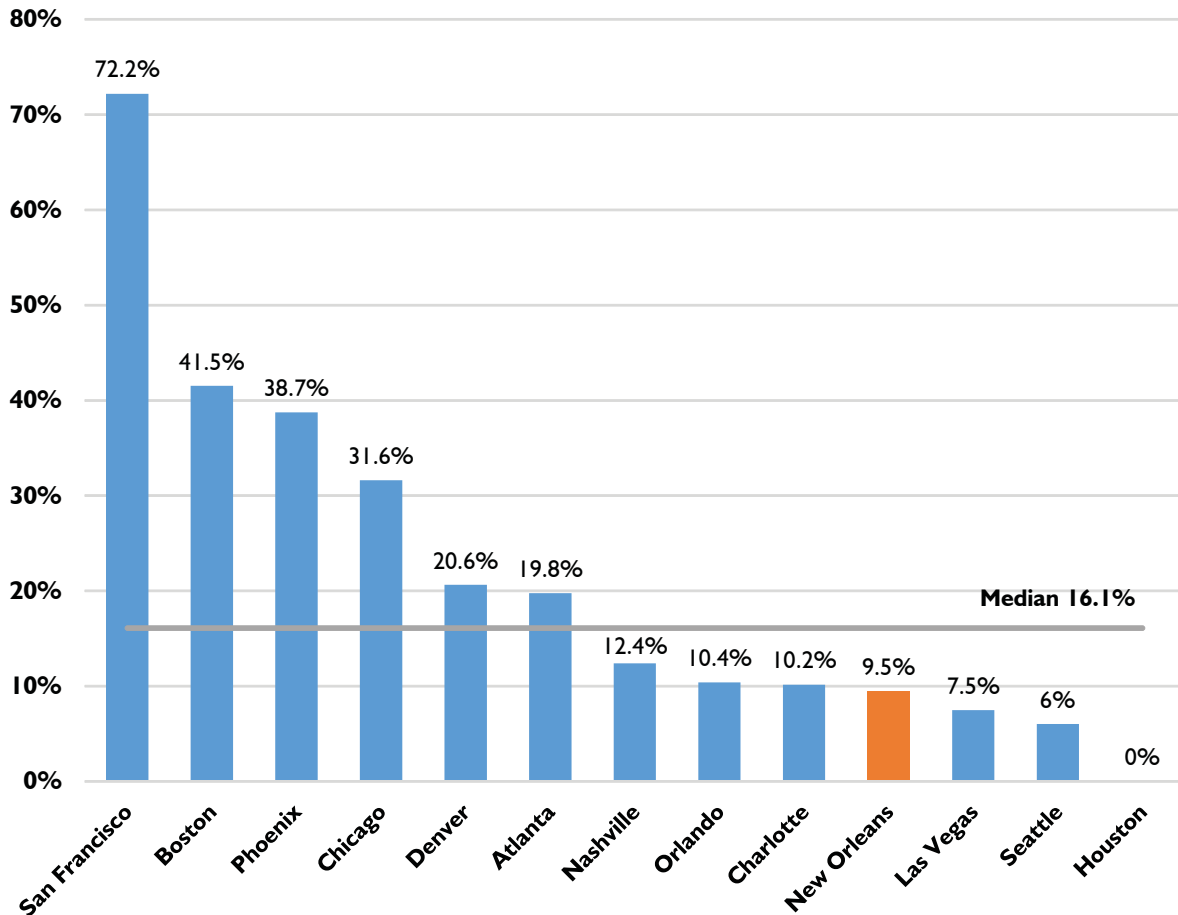
es allocated to general municipal or parish government purposes at 9.5%. This is due largely to the 1966 suspension of the City’s 1% sales tax on hotels. To reach the 15.6% median share for the other parishes, hotel taxes for general municipal purposes in Orleans Parish would have to increase by the equivalent of a 1.2% tax, or \$14.5 million at current revenue levels.

National Norms. National comparisons illustrate a widespread practice of applying the full sales tax rate to hotel room rentals. This indicates that Orleans Parish is an outlier for having a municipal tax rate on hotels (1.5%) that is lower than the general municipal sales tax rate (2.5%).

Peer Cities. The report compares the Orleans Parish hotel tax structure to the tax structures in a dozen peer cities for tourism and convention activity – Atlanta, Boston, Charlotte, Chicago, Denver, Houston, Las Vegas, Nashville, Orlando, Phoenix, San Francisco and Seattle. The 16.35% hotel tax rate in New Orleans falls in the middle of hotel tax rates for the peer cities. The rates range from 12.5% in Orlando to 20.23% in Atlanta. The median tax rate for the peer cities is 16.1%, slightly lower than the rate in New Orleans.

New Orleans is more of an outlier in the allocation of hotel taxes for general municipal purposes. As the chart on the next page indicates, the 9.5% share of hotel tax revenues for general municipal purposes in New Orleans is at the low end of a broad spectrum that ranges from 0% in Houston to 72% in San Francisco. Just three peer cities have a smaller portion of hotel tax revenues allocated to basic city services and infrastructure than New Orleans. Meanwhile, half of the peer cities allocate at least twice as much hotel tax revenue to general municipal purposes, on a proportional basis, than does New Orleans. The median share for the 12 peer cities is 16.1%. Increasing the share of Orleans Parish hotel taxes for general municipal purposes to the median for the peer cities would require the equivalent of a 1.3% tax, or \$15.8 million at current hotel tax revenue levels.

SHARE OF HOTEL TAXES ALLOCATED TO GENERAL MUNICIPAL PURPOSES IN NEW ORLEANS AND PEER CITIES



BGR research using budgets, financial statements, city ordinances, state laws and information provided by city and state officials.

Key Findings and Reform Options

The report’s analysis of hotel tax best practices and norms supports two key findings about the hotel tax structure in Orleans Parish. BGR identifies reform options for each finding.

Key Finding No. 1: Orleans Parish Hotel Taxes for General Municipal Purposes Should Increase by at Least the Equivalent of a 1% Tax. Increasing hotel taxes for general municipal purposes by at least the equivalent of a 1% tax would bring the parish’s hotel tax structure more in line with best practices as well as state and national norms. It would align New Orleans with most other cities where the full municipal sales tax applies to hotel room rentals. Perhaps the simplest way to increase hotel tax revenue for general municipal purposes is for the Legislature to restore all or a portion of the City’s

suspended 1% sales tax on hotel rooms. A full restoration would increase the overall hotel tax rate to 17.35%, which is above the recent high point of 16.9%. This should not be pursued without analyzing the potential impacts on tourism levels. However, if the Legislature restored 0.55 of a percentage point of the suspended tax, it would return the overall tax rate to 16.9%, a level that did not appear to negatively impact tourism.

If the Legislature does not approve at least a partial restoration of the ad valorem hotel tax, the City Council may be able to take action on its own to effectively achieve the same result. The council could seek to increase a flat, per diem tax it levies for the Tourism Marketing Corp. to yield additional revenue equivalent to 0.55 of a percentage point of ad valorem tax. It could then dedicate the new revenue to general municipal purposes.

A partial restoration of the suspended tax would leave the City 0.45 of a percentage point, or about \$5.5 million, short of a 1% increase in hotel taxes for general municipal purposes. The report lists options for making up the difference. These include reallocating a portion of any excess hotel tax revenues to general municipal purposes.

BGR notes that the purpose of increasing hotel tax revenue for general municipal purposes is to help the City address critical unmet needs. With this in mind, the City should identify its most important priorities for additional funding. It also should develop a mechanism, such as placing the new revenue in a special budgetary fund, so that the City is accountable for its use of the revenue and citizens can track the efficiency and effectiveness of the expenditures.

Key Finding No. 2: The Hotel Tax Structure Lacks Accountability and Transparency. BGR identified options for improving accountability and transparency in the Orleans Parish hotel tax structure. These include three options to allow citizens or legislators to periodically reassess hotel taxes. The Legislature could establish a definite duration for any new hotel tax, impose definite sunset provisions on existing hotel taxes where possible and conduct a periodic review of all legislative dedications of Orleans Parish hotel taxes. A fourth option would increase transparency by codifying the 15 legislative acts governing the Convention Center and its use of hotel taxes.

Conclusion and Recommendations

The City's 1966 agreement to suspend collection of its then-1% sales tax on hotel room rentals has not been revisited in more than a half century. This represents a significant revenue loss at a time when the community faces many unmet needs for basic public services and infrastructure.

As the analysis in this report shows, hotel taxes for general municipal purposes in Orleans Parish fall below the level suggested by best practices for taxation and comparisons to other jurisdictions. BGR's analysis shows that, unlike in Orleans Parish, the full local sales tax applies to hotel rooms in the vast majority of other large parishes and peer cities analyzed in this report. As a result, New Orleans is unable to realize the full fiscal

benefits of hotel taxes to charge tourists for the public services and infrastructure they use.

For these reasons, it is time to restore the City's "lost penny" by increasing hotel tax revenue for general municipal purposes by at least the equivalent of a 1% tax. Importantly, this should be achievable with little impact on current operations of tourism-related entities. The recent reduction in the overall hotel tax rate in Orleans Parish has freed up taxing capacity that the Legislature could use to restore at least a portion of the City's 1% tax. The Legislature has several options to make up the difference, including redirecting a portion of any excess hotel tax revenues to general municipal purposes. This approach would help to minimize or avoid negative impacts on the current operations of any tourism-related entity. In addition, the tourism industry stands to gain from improved public services and infrastructure, which benefit residents and visitors alike.

Meanwhile, the Legislature can make New Orleans' hotel tax structure more accountable and transparent. It could add genuine sunset clauses to hotel tax dedications, require periodic legislative review of its hotel tax dedications and codify the Convention Center's enabling acts.

Restoring the City's suspended tax and reforming the hotel tax structure will require local officials to work closely with New Orleans' representatives in the Legislature, which has broad authority over hotel taxes. It also will require the engagement of citizens to advocate for reforms. While New Orleans residents typically do not pay local hotel taxes, they do bear higher tax burdens for public services and infrastructure when hotel tax revenues are not deployed optimally.

To address the relatively low level of Orleans Parish hotel taxes for general municipal purposes, BGR makes the following recommendations:

- The Legislature should increase annual hotel taxes for general municipal purposes in New Orleans by at least the equivalent of a 1% tax. To accomplish this, it should strongly consider restoring a portion of the City's suspended 1% sales tax on hotel rooms. To make up the difference, it should 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.

- If efforts to work with the Legislature to increase hotel tax revenue for general municipal purposes are not successful, the City Council should consider options to do so using its authority to increase the flat, per diem hotel tax it controls.
- The City should conduct an assessment to identify its most important priorities for additional funding from an increase in hotel tax revenues for general municipal purposes. It should inform citizens how it plans to use the additional revenue. Finally, it should develop a mechanism, such as placing the revenue in a special fund, so that the City is accountable for its use of the revenue and citizens can track the efficiency and effectiveness of the expenditures.

Furthermore, to improve accountability and transparency in Orleans Parish’s hotel tax structure, BGR calls on the Legislature to:

- Require any new hotel tax to have a definite duration based on the anticipated use of the tax revenue.
- Impose definite sunset provisions on existing hotel taxes to the extent possible.
- Conduct a periodic review of all legislative dedications of Orleans Parish hotel taxes.
- Codify Convention Center acts in Louisiana Revised Statutes.



INTRODUCTION

Just one week after New Orleans received a National Football League franchise on All Saints Day in 1966, voters amended the state constitution to impose a tax on hotel rooms in Orleans Parish to fund construction of the Louisiana Superdome.¹ To ease the burden of the new tax, the City of New Orleans (City) agreed to suspend or cease collection of its then-1% sales tax as applied to hotel rooms.² Originally envisioned as a temporary measure, the suspension remains in effect more than half a century later.³ This means that the City can apply only 1.5 percentage points of its current 2.5% sales tax to hotel room rentals. This “lost penny” of hotel tax will deprive the City of an estimated \$12.3 million in 2019.

The City’s suspended tax made more hotel tax revenue available to grow the fledgling tourism industry in New Orleans – and it has grown considerably. The entity created to oversee construction of the Superdome – the Louisiana Stadium and Exposition District (Stadium District) – has used its hotel tax revenues over the decades to maintain and upgrade the Superdome, which will host its eighth Super Bowl in 2024. The Stadium District has also developed a portfolio of a half-dozen other facilities, including the Smoothie King Center.

In the 1980s and 1990s, new hotel taxes funded the construction and expansion of the New Orleans Ernest N. Morial Convention Center (Convention Center), which is now the sixth largest exhibition hall in the nation. Currently, the Convention Center plans to rely heavily on its hotel taxes to fund a five-year, \$557 million capital plan to fully renovate the center and support construction of an attached 1,200-room hotel.⁴ In addition, hotel taxes and assessments provide a total of about \$35 million a year to three different nonprofit organizations to promote tourism and conventions in New Orleans.

While the City’s 1% tax has remained suspended, hotel taxes and assessments for other entities have increased by nearly 10 percentage points. The overall hotel tax rate in Orleans Parish now stands at 16.35%.⁵ Hotel

taxes and assessments will generate an estimated \$200 million in 2019, accounting for about one-sixth of all local tax revenues.⁶ Tourism-related entities receive 75.5% of the revenue, or \$150.9 million. By contrast, the City receives 9.5% for general municipal purposes, or \$18.9 million. The primary reason for the City’s relatively small share is the continued suspension of its tax, which cannot be reinstated without the approval of the Louisiana State Legislature (Legislature).

Studies commissioned by the tourism industry in recent years indicate that the substantial hotel tax expenditures in support of tourism marketing, conventions and professional sports have resulted in steadily increasing numbers of visitors to New Orleans, boosting both the local and state economies. These economic gains provide fiscal benefits for the City and other local government entities in the form of tax receipts. But despite these benefits, the City finds itself in a financial bind as it faces enormous costs to address unmet needs. These include fixing its drainage system and streets and addressing persistent public safety concerns – all of which are important to maintaining New Orleans’ appeal to tourists.

With the tourism industry now thriving, it is time to reconsider the suspension of the City’s 1% tax on hotels. Restoring the “lost penny” of hotel tax could provide significant recurring revenue to address citizens’ needs for improved infrastructure and services. Moreover, there are indications that this revenue could be raised without negatively impacting the current operations of tourism-related entities. For instance, there appears to be untapped taxing capacity to restore at least part of the City’s suspended tax. Also, there may be options for policymakers to redirect excess hotel tax revenues to general municipal purposes, mitigating any financial impacts on other hotel tax recipients.

BGR flagged instances of excess local tax revenues in its 2015 report *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?*⁷ The report cited the excess revenues as examples of the problems associated with an ad hoc approach to local taxation.

“Restoring the ‘lost penny’ of hotel tax could provide significant recurring revenue to address citizens’ needs for improved infrastructure and services. Moreover, there are indications that this revenue could be raised without negatively impacting the current operations of tourism-related entities.”

It found that tax dedications are often imposed in New Orleans without analyzing competing needs. Also, the majority of tax dedications are levied indefinitely without a requirement for renewal by voters or legislators. This makes it difficult for citizens and policymakers to reassess them in light of changing conditions and needs.

Before asking citizens and business owners for more money to address the City's many needs, it is important to re-examine existing tax dedications. Against that backdrop, this report extends the discussion in *The \$1 Billion Question* to analyze the Orleans Parish hotel tax structure, focusing primarily on the share of revenue for general municipal purposes. The report explains the origin and details of the current tax structure and compares it to best practices for taxation as well as state and national norms. It then reviews and recommends options to align Orleans Parish hotel taxes with these best practices and norms.

BACKGROUND

What is a Hotel Tax?

This report uses the term "hotel tax" to refer to all taxes that apply to the rental of a hotel room.⁸ This includes general sales taxes that apply to hotel room rentals as a taxable service. It also includes hotel-specific taxes that apply only to hotel room rentals and not to other goods and services.

Most states with sales taxes, including Louisiana, apply them to hotel room rentals. Thus, the general sales tax typically serves as the foundation or baseline for the hotel tax in a given jurisdiction. All major cities also have one or more additional taxes that apply only to hotels. As a result, the total tax rate on hotel rooms – including general sales taxes and hotel-specific taxes – is usually significantly higher than the general sales tax rate.⁹ For example, in the 115 U.S. cities with a population of at least 200,000, the average sales tax is 7.7% compared to an average tax on hotel rooms of 13.7%.¹⁰ In most areas of Orleans Parish, the combined state and local sales tax is 9.45%, and the tax rate on most hotel rooms is 16.35%.

Hotel taxes proliferated across the country throughout the 1970s and 1980s as funding mechanisms for convention centers and sports arenas as well as basic municipal

services and infrastructure. Currently, all 50 states have hotel taxes at the state or local level or both.¹¹

The fact that nonresidents pay the vast majority of hotel taxes has helped make them a popular form of taxation. This is because residents receive the benefits of government expenditures of hotel tax revenues typically without having to pay the tax. Economists refer to this partial shifting of the tax burden to nonresidents as tax exporting.

Another reason for the prevalence of hotel taxes is that they align well with widely-accepted principles of good taxation, most notably the benefit principle. The benefit principle of taxation states that those who benefit from government expenditures should help pay for them. Tourists and other visitors place demands on a destination's public services and infrastructure, such as policing, streets, public transit and parks. Because visitors rent the vast majority of hotel rooms, hotel taxes are an effective means of charging them for the increased costs associated with their presence.¹²

Hotel Tax Growth in Orleans Parish

Prior to 1966, hotel room rentals in Orleans Parish were subject only to the general sales taxes that were in effect – a 1% sales tax for the City and a 2% sales tax for the State of Louisiana (State). The new hotel tax for the Superdome in 1966 (originally 4.5% and later reduced to the current rate of 4%) was the first tax that applied only to hotels and not to other goods and services. The

METHODOLOGY

In preparing this study, BGR reviewed financial statements, budgets, audits, cooperative endeavor agreements and other documents relating to the entities that receive Orleans Parish hotel tax revenues. It also interviewed officials from the largest hotel tax recipients. In addition, BGR reviewed economic research concerning hotel taxes and interviewed hotel tax experts. Previous BGR research also informed this report. BGR projections of 2019 hotel tax revenue are based on its methodology set forth in *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?* November 2015, pp. 17-18. The report is available at <https://www.bgr.org/report/rethinking-tax-dedications-in-new-orleans/>.

City Council agreed to suspend the City's 1% sales tax as applied to hotel rooms to ease the burden of the new Superdome tax. The suspended tax will automatically be restored if and when the Stadium District retires all bonds backed by its hotel tax. At that point, the district's hotel tax would terminate.¹³ The Stadium District has kept its tax in place by continually pledging it to service new or refinanced debt as allowed under State law. As a result, the suspension of the City's tax remains in effect.

In 1967, 1968 and 1981, the City added three voter-approved 0.5% general sales taxes that apply to hotels. These levies increased its tax on hotel rooms to the cur-

rent rate of 1.5%. Because of the suspended tax, this is one percentage point lower than the City's 2.5% sales tax on other goods and services.¹⁴ If the suspended tax were restored, the City would receive an additional \$12.3 million in hotel tax revenue based on projected 2019 revenue levels.¹⁵

To help the City recover some of the lost revenue from its suspended tax, the 1966 constitutional amendment required the Stadium District to share a portion of any surplus revenues with the City at the end of each year. However, the Stadium District has not made any payments since 2001. See the sidebar for details.

THE CASE OF THE DISAPPEARING STADIUM DISTRICT SURPLUS

When voters created the Stadium District in 1966, the City of New Orleans, Jefferson Parish and the State agreed to suspend their existing sales taxes as applied to hotel room rentals to ease the burden of the district's new hotel tax. In turn, State law requires the Stadium District to share a portion of any fiscal year-end surplus with certain entities in Orleans and Jefferson parishes. However, it has been 17 years since the district made a surplus distribution.

Currently, State law defines a "surplus" as any revenue of the district "from any source whatsoever, including the hotel occupancy tax," that remains after the district covers its operating and maintenance expenses as well as all obligations set forth in any resolutions authorizing the issuance of bonds.* The amount of any surplus subject to redistribution is capped at approximately \$4 million. By law, more than half of the revenue – up to \$2.2 million a year – is currently designated for the New Orleans Recreation Development Commission. The rest is divided among a half-dozen entities, including three university programs and a defunct visitor's center.**

The current formula for determining whether the Stadium District has a distributable surplus took effect in 1996. The district made distributions pursuant to the formula in 1996, 1999, 2000 and 2001. It has not made any since then.

Stadium District officials told BGR that the distributions initially stopped as a result of the post-9/11 economic downturn and new financial obligations to the New Orleans Saints. Subsequently, the district changed its interpretation of the law with the effect that it will never have a distributable surplus. Based on a legal opinion accepted by the Louisiana Legislative Auditor, Stadium District officials now view the requirement that the district satisfy all obligations in bond resolutions to mean that as long as the district has outstanding debt, it cannot have a surplus.

The district also interprets the surplus-sharing statute as allowing unlimited year-end contributions to its capital fund before determining if a distributable surplus exists. For instance, the district ended its last two fiscal years with surpluses of about \$6.5 million in 2016-17 and \$7.5 million in 2017-18.*** It did not make any distributions and placed all of these revenues in the capital fund. District officials indicated that these capital investments are essential to maintain its facilities, including keeping the 43-year-old Superdome in line with current National Football League standards.

BGR has not analyzed the district's legal opinion and is not taking a position on its merits. Instead, BGR notes that the district's interpretation renders the surplus-sharing statute ineffectual. Therefore, to restore the distribution of surplus revenue, the Legislature would have to either create a new mechanism or clarify the calculation of surplus revenue to preserve the intent of existing law to distribute a portion of any fund balance to outside bodies. The latter option should include a reconsideration of the statutory beneficiaries of the surplus sharing to ensure they align with the community's needs.

* La. Const. Ancillaries 14:47 (P)(1).

** Other designated recipients are Jefferson Parish (an amount equal to 1.13% of total hotel tax revenue for tourism promotion), Xavier University (\$250,000), Southern University New Orleans' Small Business Center (\$250,000), the Westbank Sports and Civic Center (\$500,000), the University of New Orleans School of Hotel, Restaurant and Tourism Administration (\$250,000), and the New Orleans Visitors and Information Center, which is defunct (\$350,000). If the surplus is insufficient to fully fund these distributions, the district must distribute the revenue on a pro rata basis. La. Acts 1995, Reg. Sess., No. 1191.

*** The figures are from Stadium District Board of Commissioners minutes for its meetings on June 15, 2017, and June 22, 2018.

Currently, the total ad valorem hotel tax rate in Orleans Parish is 13.45% for most hotels. In addition, there are two flat taxes that total \$1 to \$3 per night depending on the size of the hotel. These per diem taxes generate combined revenue that is equivalent to another 1.15% ad valorem tax.¹⁶ Finally, there is a 1.75% assessment that appears on the bills of guests who stay at the member hotels of New Orleans & Company (formerly called the New Orleans Convention and Visitors Bureau), a private nonprofit organization that promotes tourism and conventions. While the hotel assessment is not technically a tax, it is a mandatory surcharge for hotel guests.¹⁷ Because hotel guests must pay the assessment, it consumes a portion of available taxing capacity. For this reason, BGR's report includes the assessment as part of the overall tax rate. Thus, the total effective hotel tax rate is 16.35%.

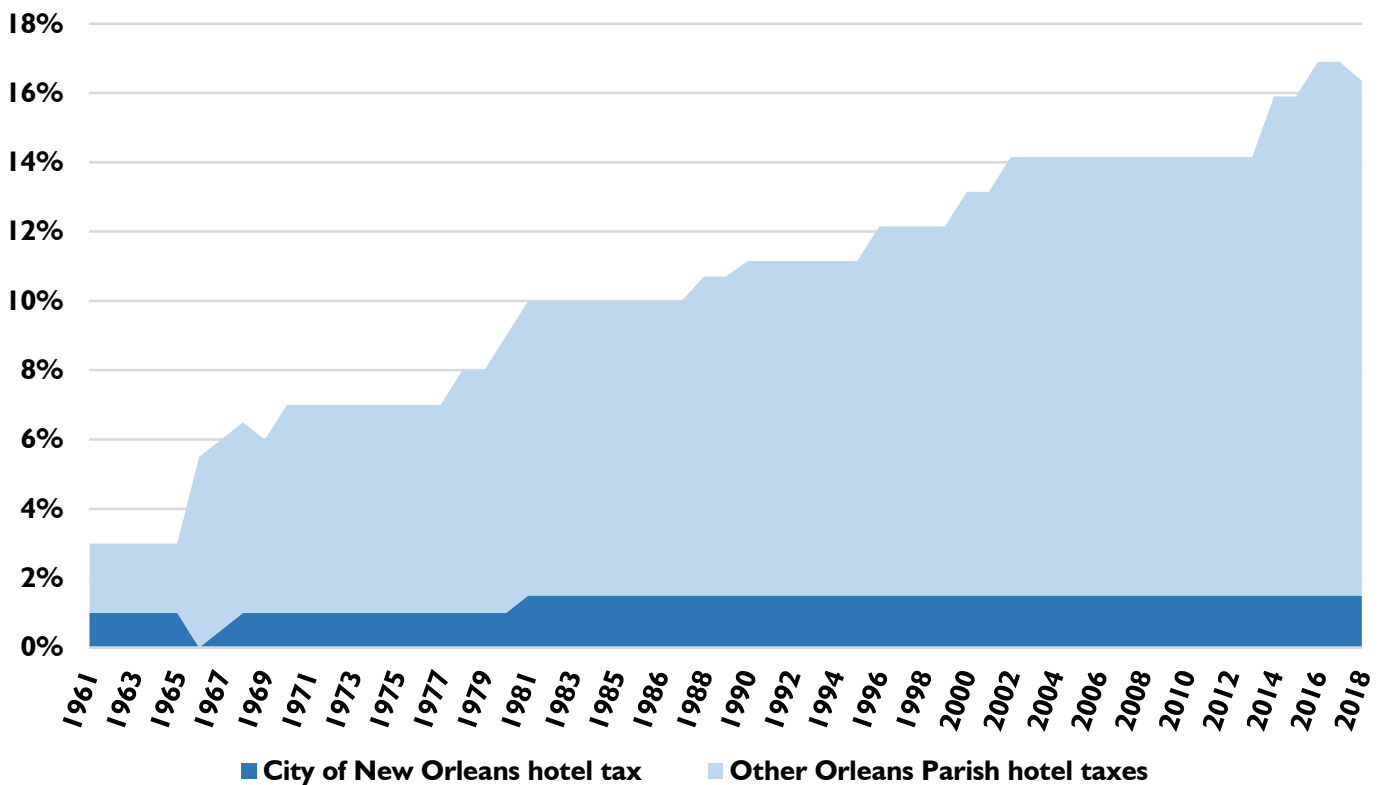
That is 0.55 of a percentage point lower than the 16.9% rate that was in effect for two years until mid-2018, when the Legislature renewed a State 1% sales tax at

the reduced rate of 0.45%. As will be discussed later in the report, this recent reduction in the overall tax rate suggests Orleans Parish may have some untapped hotel taxing capacity.

Chart A illustrates how the hotel tax rate in Orleans Parish has gradually increased over the decades while the City's hotel tax for general municipal purposes has remained at 1.5% since 1981.¹⁸ Taxes and assessments for entities other than the City have increased by 9.85 percentage points (\$119 million at current revenue levels) since the 1966 suspension of the City's tax. These increases included extending a 1% sales tax for the Regional Transit Authority (RTA) to include hotels, even though voters originally exempted hotels when they approved the tax. See the sidebar for details.

Today, there are seven taxing bodies that collectively levy 16 individual hotel taxes. See Appendix A for a detailed breakdown of individual hotel tax levies by year imposed and by taxing body.

CHART A: ORLEANS PARISH HOTEL TAX RATE, 1961 TO 2018



Note: BGR converted two flat room occupancy taxes into equivalent ad valorem taxes based on the amount of revenue the taxes generate. Sources: Orleans Parish ballot propositions, Louisiana statutes and financial statements for the taxing bodies.

Where Does the Money Go?

Orleans Parish hotel taxes and assessments will generate an estimated \$200 million in 2019, making them the third largest source of local tax revenue behind property taxes and general sales taxes. A dozen entities receive hotel tax revenues through individual levies and a complex web of laws and revenue sharing agreements.

As Table 1 indicates, the Stadium District and Convention Center top the list of hotel tax recipients with \$60.5 million and \$51.2 million, respectively. Together, they receive more than half of the parish's hotel tax revenue. They are followed by New Orleans & Company at \$21.1 million and the City at \$20.8 million. See Appendix B for a detailed breakdown of 2019 projected receipts.

A TALE OF TWO TAXES

While the City's voter-approved 1% sales tax on hotels remains suspended, the Regional Transit Authority's 1% sales tax was extended to hotels, even though voters explicitly exempted hotels when they approved the sales tax proposition in 1985. In 1999, the RTA filed a lawsuit seeking to compel the City to apply the RTA's sales tax to hotel rooms. Various hospitality-related entities intervened to prevent the collection of the tax. However, the RTA, the City and the intervening parties reached a settlement in 2000 allowing for the tax to be collected and divided among the RTA (an estimated \$6.3 million in 2019), the Convention Center (\$2.9 million), the New Orleans Tourism Marketing Corp., a public nonprofit organization that promotes tourism (\$2.7 million), and the City for tourism promotion (\$200,000).*

* BGR based its estimates on the City's 2019 budget for hotel tax receipts and the revenue sharing formula applicable to the RTA's tax. The RTA receives 60% of the first \$7.2 million generated by the tax and 40% of any amount above \$7.2 million. This amounts to about half of the revenue. It distributes the rest to the Tourism Marketing Corp. The corporation then distributes 50% of its share to the Convention Center and 3.45% to the City, which the City must use for tourism promotion. The corporation keeps the remainder (46.55%). See Agreement for Services and Cooperative Economic Endeavor by and between the Regional Transit Authority and the New Orleans Tourism Marketing Corporation, June 1, 2000.

TABLE 1: ORLEANS PARISH HOTEL TAX AND ASSESSMENT RECEIPTS, 2019 ESTIMATES

Recipient	2019 Receipts (\$ in millions)	Share
Louisiana Stadium and Exposition District <i>State entity that operates the Superdome and other facilities</i>	\$60.5	30.3%
New Orleans Ernest N. Morial Convention Center	\$51.2	25.6%
New Orleans & Company <i>Private nonprofit organization, formerly called the New Orleans Convention and Visitors Bureau, that promotes tourism and conventions</i>	\$21.1	10.6%
City of New Orleans	\$20.8	10.4%*
Orleans Parish School Board	\$18.1	9.1%
New Orleans Tourism Marketing Corporation <i>City-established nonprofit corporation that promotes tourism</i>	\$14.1	7.1%
Regional Transit Authority	\$6.3	3.1%
State of Louisiana	\$5.6	2.8%
French Quarter Management District <i>State entity that provides enhanced services, including public safety, to the French Quarter</i>	\$1.2	0.6%
New Orleans Multicultural Tourism Network <i>Private, nonprofit organization that promotes tourism</i>	\$0.5	0.3%
Louisiana Tourism Promotion District	\$0.4	0.2%
TOTAL	\$199.9	100%

*This is higher than the City's 9.5% share for general municipal purposes because the City receives hotel tax revenues from other entities that it must spend on tourism-related purposes by agreement. The City's total also includes 1.6% tax collection fees on the Orleans Parish School Board and Regional Transit Authority taxes.

BGR projections. Numbers may not add due to rounding. The New Orleans Area Economic Development Fund is budgeted to receive a negligible \$466 hotel tax dedication from the State in fiscal 2019. In prior years, the fund has received larger dedications of about \$250,000. Legislators representing New Orleans draw from the fund to provide grants for various purposes, including tourism promotion, economic development, recreation and social services. See Appendix B for a detailed breakdown of each individual hotel tax levy.

Based on the current average hotel room charge, a hotel guest pays an average of \$29.10 per night in hotel taxes and assessments. Chart B shows where that payment goes based on each recipient's share.

These hotel tax breakdowns do not include taxes on short-term rentals of residences, such as those listed on Airbnb. BGR did not include short-term rental taxes because hotel-specific taxes do not apply to short-term rentals, making them a fundamentally different taxable service than hotels. For a discussion of taxes on short-

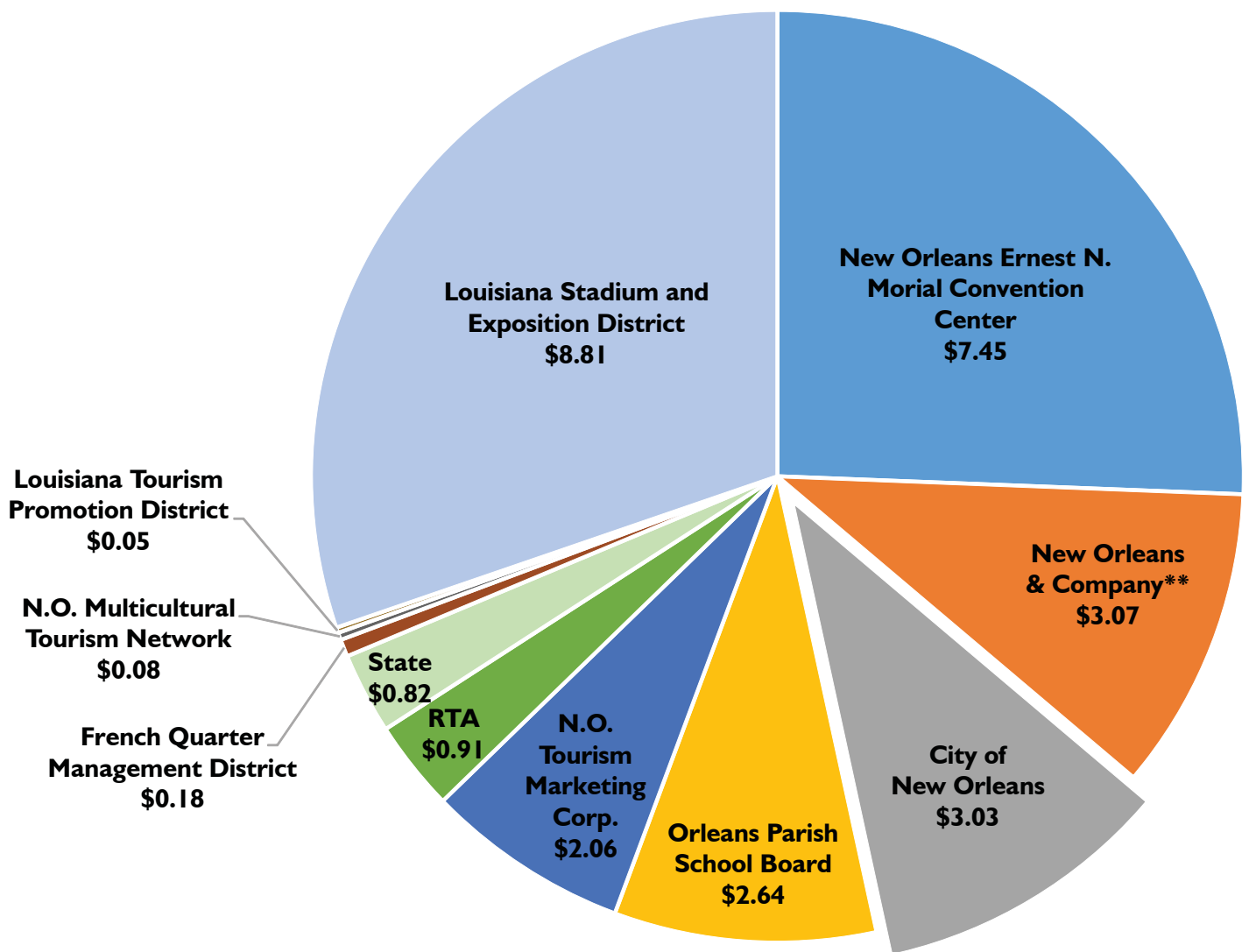
term rentals of residences and where the revenue goes, see Appendix C.

The allocation of hotel taxes by entity provides only part of the picture. To more fully understand the uses of these taxes, it is necessary to examine the purposes to which they are allocated.

For example, only 9.5 percentage points of the City's 10.4% share of hotel tax revenue are available for general municipal purposes. The City must use the rest to

CHART B: WHERE DOES A HOTEL TAX PAYMENT GO IN NEW ORLEANS?

Tax Recipients' Shares of \$29.10 in Taxes Paid on an Average \$178 Hotel Room Charge*



* This was the average daily hotel room rate for 2017 as stated in the Convention Center's monthly hotel report presented at the February 28, 2018 board meeting.

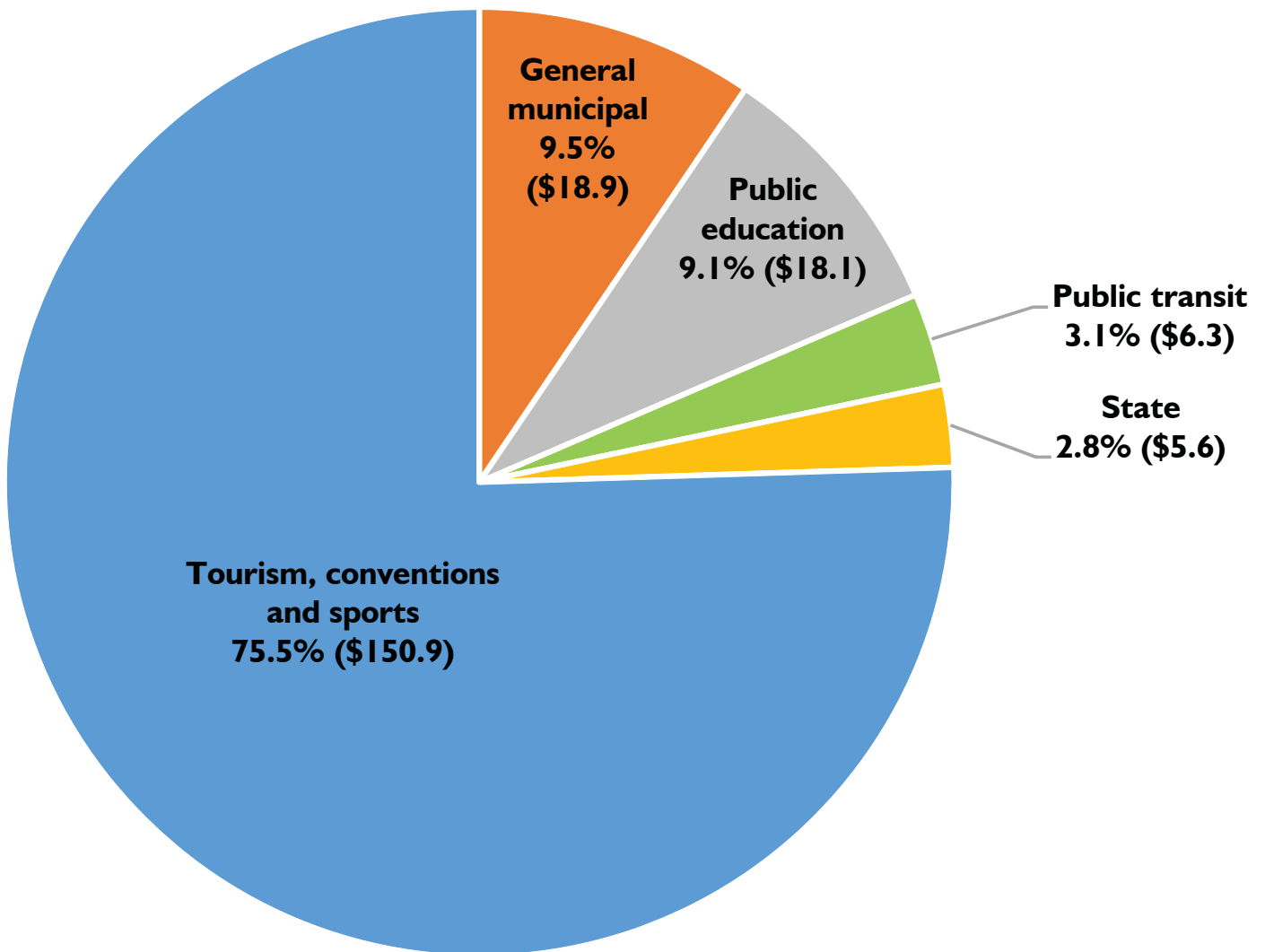
** Formerly known as the New Orleans Convention and Visitors Bureau.

promote tourism as specified in cooperative endeavor agreements with entities that provide the revenue.

Chart C illustrates the Orleans Parish hotel tax revenue allocation by purpose. The lion's share of the revenue – 75.5%, or \$150.9 million – goes to supporting tourism, conventions and professional sports. General municipal purposes receive about 9.5%, or \$18.9 million. Public education receives 9%, while public transit and the State's general fund each receive about 3%.

“The allocation of hotel taxes by entity provides only part of the picture. To more fully understand the uses of these taxes, it is necessary to examine the purposes to which they are allocated.”

CHART C: ALLOCATION OF HOTEL TAXES IN ORLEANS PARISH BY PURPOSE
2019 Estimates (\$ in millions)



BGR projections. Dollar figures do not add to \$199.9 million due to rounding.

ANALYSIS

This report divides the analysis of the Orleans Parish hotel tax structure into two parts. It first examines the structure in the context of best practices for taxation, then compares it to other large Louisiana parishes, national norms and peer cities.

How Hotel Taxes in New Orleans Compare to Best Practices

This section compares Orleans Parish's hotel tax structure to best practices for effective and efficient taxation that BGR identified through a review of economic and government finance research, including prior BGR research. The analysis covers seven areas:

- Overall tax rate
- Size of individual tax levies
- Uses of hotel tax revenue
- Planning and prioritization
- Flexibility to reallocate revenue
- Duration of tax levies
- Public transparency

Overall Tax Rate. Because hotel taxes typically fall on visitors, residents can benefit from hotel tax expenditures without having to pay the tax. Thus, from the standpoint of an individual city that is a popular tourist destination, it is economically beneficial to use its market power to levy higher hotel taxes as long as they do not depress tourism. Moreover, economic research finds that demand for hotel rooms is fairly inelastic, or inflexible, as prices rise. This means that a moderate increase in the price of a hotel room will not cause most tourists to choose a different destination. However, the ability of hotel guests to pay higher taxes – i.e., a city's hotel taxing capacity – is not unlimited. Cities that have imposed excessive hotel tax rates have discouraged visitors and suffered the consequences of reduced economic activity.¹⁹

There are indications that the overall hotel tax rate in Orleans Parish could increase without negatively impacting tourism. The total effective hotel tax rate dropped 0.55 of a percentage point from 16.9% to the current 16.35% in July 2018 after the Legislature renewed an expiring State sales tax at a reduced rate. The 16.9% rate had been in effect for two years and did not

appear to decrease tourism based on local tourism industry studies and hotel tax revenue data. The tourism studies showed continued increases in both the number of visitors and visitor spending while the higher tax rate was in effect.²⁰ Hotel tax revenues and room charges also continued to grow.²¹ These indicators suggest that the overall hotel tax rate could increase by 0.55 of a percentage point to the previous rate of 16.9% without adversely impacting tourism. Such an increase would generate about \$6.8 million per year based on 2019 hotel tax revenue projections. As discussed below, it is essential to justify the use of any proposed tax increase because each increase consumes a portion of available taxing capacity.

Increasing the overall hotel tax rate to 16.9% would give New Orleans the fifth highest hotel tax among a dozen peer cities discussed later in this report. New Orleans currently has the seventh highest tax rate among the peer cities, which range from 12.5% to 20.23%.

Size of Individual Tax Levies. While there are economic reasons for setting the total hotel tax rate as high as demand for hotel rooms allows, the size of any specific hotel tax should be aligned with the needs of the recipient entity. A misalignment between a tax's size and the entity's revenue needs can lead to inefficiencies. If the tax is too low, it might not generate sufficient revenue to provide necessary public goods or services. If the tax is too high, an entity may receive revenue that could be better deployed elsewhere.

Hotel tax receipts have helped the Convention Center accumulate \$235 million in unrestricted reserves. The reserves are largely the result of the Convention Center's continued receipt of a 1% hotel tax, two hotel tax dedications, and a citywide food and beverage tax originally intended for an expansion project that the center deferred indefinitely in 2007 as a result of the economic impact of Hurricane Katrina. The taxes will generate about \$22 million in 2019.²² This revenue stream has helped the center nearly quadruple its unrestricted reserves, which stood at \$63 million when the taxes took effect in 2002.

The center's \$235 million in unrestricted reserves does not include \$75.8 million that it has provided or set aside in recent years for various community projects related to public safety, parks and economic develop-

ment, including about \$50 million for City projects.²³ See the sidebar for details on the center's reserves.

Currently, the Convention Center is implementing a five-year, \$557 million capital plan. The plan includes \$99 million to support an adjacent mixed-use development with a 1,200-room hotel, entertainment venues, restaurants, retail space and residences. It also includes \$79 million for a linear park running the length of the Convention Center, and \$379 million for a comprehensive renovation of the existing center. The Convention Center initiated the linear park project in 2018 and plans to begin the others in 2019.

Convention Center officials told BGR that a potential financing scenario for the plan would use about \$245 million from its unrestricted reserves and tax receipts, with the rest of the financing coming from bonds.²⁴ Under this scenario, the Convention Center's financial consultant estimates that the unrestricted reserves could drop to \$122 million upon completion of the plan in 2022. However, the scenario shows the unrestricted reserves could then resume growing by about \$25 million a year in 2023.²⁵ Convention Center officials indicated that the projections are based on one financing model and that the actual figures could vary.

The consultant's projections end in 2025. In 2027, the Convention Center is scheduled to retire its current debt, reducing its annual debt service costs by \$10.8 million. This could cause the reserves to grow at an even faster rate. Convention Center officials told BGR the financing model for the capital plan anticipates the decline in debt service costs after 2027 and uses that revenue to service new bonds for the capital plan. Thus, they contend there would be no reduction in overall debt service costs. However, the officials did not provide a copy of the debt service projections beyond 2025 as BGR requested. Meanwhile, the Convention Center is considering additional capital projects beyond the five-year plan that could reduce future reserves, but it has not committed to any specific projects. See Appendix D for a year-by-year breakdown of the consultant's projections for the Convention Center's reserves.

The overall size of the reserve fund and its projected future growth raise questions about whether the Convention Center's hotel taxes are appropriately scaled

THE CONVENTION CENTER'S RESERVES

In 2019, the Convention Center will receive an estimated \$67.4 million from taxes levied in Orleans Parish, primarily hotel taxes. It uses these tax revenues for both operating expenses and capital improvements. The center places any revenues remaining at the end of each year in either restricted or unrestricted reserve funds.

The restricted reserves totaled about \$60 million as of September 2018. These reserves are restricted for three primary purposes: (1) to satisfy agreements pledging revenue to other entities for various projects, (2) to maintain debt service reserves required by bond covenants, and (3) to cover contractually obligated costs for construction projects.

The unrestricted reserves totaled \$235 million. Generally, unrestricted reserves are not subject to the same constraints as restricted reserves, but a government may commit or assign them to specific purposes.* The Convention Center's board, at its discretion, has designated its unrestricted reserves for various purposes. Through a cooperative endeavor agreement with the hotel and restaurant associations, the board has set aside about \$75 million to maintain operating reserves equal to one and a half times the Convention Center's annual operating expenses. The center can draw from this reserve to meet expenses if its incoming tax receipts are insufficient. The board also has designated about \$45 million for financial contingencies and debt service reserves beyond those required by bond covenants. The board has designated the remaining unrestricted reserves for costs related to its five-year capital plan (\$100 million) and other capital projects (\$15 million).

It is beyond the scope of this report to conduct a financial assessment of whether these reserve levels are appropriate. BGR notes that some restrictions and designations overlap, such as the two reserves for debt service obligations.

* For more information on the classification of governmental reserves, see the Government Accounting Standards Board's summary at <https://www.gasb.org/st/summary/gstsm54.html>.

to its needs. Convention Center officials assert that the center must have resources sufficient to meet its customers' future demands for facility technology, design and operations. They view that investment as necessary to protect the center's competitive position nationally. If the Convention Center pledges all of its hotel taxes to service new debt for the capital plan, it could prevent any adjustment to the taxes for up to 30 years based on a typical bond financing. This is because future bond covenants, like the current covenants, would prohibit the taxes from being eliminated or reduced while the debt is outstanding.

Before entering a pledge to new long-term debt, the Convention Center should clearly demonstrate the necessity of its current level of tax revenue for funding reasonable operating and capital needs. This should include releasing a full debt service schedule for the capital plan. If the Convention Center is unable to demonstrate that all of its hotel taxes are necessary, the Legislature should take action to right-size the center's hotel tax revenue. Beyond this, if the Convention Center's reserves grow at a rate that exceeds its needs, it should provide a portion of the revenue to the City or other government entities for unmet funding priorities as authorized by law or through cooperative endeavor agreements.

State law also requires the Stadium District, under certain circumstances, to share a portion of any year-end surplus with various local entities. However, as discussed in the sidebar on page 13, the district's interpretation of what constitutes a surplus has rendered the law ineffectual, and it has not distributed surplus revenue since 2001. If policymakers consider restoring the distribution of surplus revenue, they should determine the reasonable operating and capital needs of the Stadium District. If the Stadium District projects surplus revenue in excess of those needs, the Legislature should either create a new mechanism or clarify the calculation of surplus revenue to preserve the intent of existing law to distribute a portion of any fund balance to outside bodies. The latter option should include a reconsideration of the statutory beneficiaries of the surplus sharing to ensure they align with the community's needs.

Uses of Hotel Tax Revenue. Public policy debates over how to use hotel tax revenues often pit funding basic government services and infrastructure against support-

ing tourism through marketing campaigns and funding for convention centers and stadiums. Economic research provides support for both uses.

As previously discussed, hotel taxes are an effective way of charging tourists for the costs of public services and infrastructure they utilize during their visits. Thus, there is an economic basis for allocating hotel tax revenue to general municipal purposes. However, in New Orleans, the low allocation of hotel tax revenues for general municipal purposes suggests this economic benefit may not be fully realized.

Another economic reason for taxing hotel rooms to fund municipal services and infrastructure is to collect an "economic rent" from hotel operators. The appeal of many tourist destinations includes public assets that do not cost anything. These assets include scenery, culture, climate, architecture and historical significance. Hotel operators are able to leverage such attractions to increase profits. A hotel tax can allow the government to effectively tax these additional profits to benefit the general public.²⁶

Economic research also supports using a portion of hotel tax revenues for publicly funded tourism promotion. Private funding is often inadequate because it is not cost effective for individual businesses. The cost of an effective marketing campaign for a destination is typically far greater than the profits that any one business can realize as a result of the campaign.²⁷

Tourism-related businesses also have an economic incentive to let other businesses or government entities pay for promoting tourism. This is because money spent to promote a tourist destination benefits all tourism-related businesses regardless of whether they contributed to the campaign. A solution to such free-riding is for the government to tax the tourism industry via a hotel tax to pay for tourism promotion.²⁸

In addition, investing public dollars in convention centers and sports stadiums can attract visitors and create economic benefits for the community. At the same time, such expenditures should be weighed against other possible uses of the revenue – such as funding municipal services and infrastructure – that provide benefits for both residents and visitors.

Planning and Prioritization. Because public resources are finite, it is important that public bodies deploy them efficiently and effectively to maximize the benefits for the community as a whole. This ideally would include coordination among taxing bodies to prioritize the community's needs and develop a plan for using available resources to address those needs.

The Orleans Parish hotel tax structure has developed mostly on an ad hoc basis without an analysis of competing needs. This has contributed to a first-out-of-the-gate approach to establishing new tax dedications. For instance, the Legislature passed a bill in 2013 to facilitate the 1.75% assessment by the member hotels of the then-Convention and Visitors Bureau BGR opposed the legislation because the assessment would consume a portion of available taxing capacity without an analysis of competing needs, such as those facing the City. The following year, the City sought the Legislature's authorization to place a 1.75% hotel tax increase of its own on the ballot. But the effort failed after local and state tourism officials argued it would raise the overall hotel tax rate to a noncompetitive level. A consultant for the tourism officials included the 1.75% hotel assessment in calculating the total hotel tax rate, an acknowledgment that the assessment consumes a portion of taxing capacity.²⁹

Flexibility to Reallocate Revenue. The degree of flexibility in modifying hotel tax allocations to respond to changing conditions and meet emerging needs is an important consideration. Statutes, ordinances and voter-approved ballot propositions often dedicate taxes to specific purposes or entities. Such tax dedications help assure the public that the revenue will go to the intended purpose. They also provide a stable and predictable revenue stream. This can be particularly important if the revenue covers debt service costs for bonds.³⁰

However, dedications have a downside. They limit the flexibility and discretion to redeploy tax revenues to address new circumstances. This can lead to allocations of tax revenues that are not aligned with the community's most pressing needs.

In Orleans Parish, all hotel taxes except for a small portion of the State's tax and the City's tax are legally dedicated to specific purposes or entities.³¹ This limits

the accessibility of hotel tax revenue to meet emerging needs, unless tax recipients choose to share any excess revenues with other entities.

Duration of Tax Levies. Determining the appropriate length of time for levying a tax before it must be renewed is a balancing act between the tax recipient body's need for financial stability and the public's need for accountability. The renewal process allows the public or policymakers to regularly reassess the need for a tax. However, if the time period between renewals is too short, it can adversely affect the taxing entity's ability to make the best use of the funds. An expert in government finance told BGR that a range of 10 to 20 years will typically satisfy the needs for accountability and stability, though a duration of 30 years may be necessary for bond financings.

In Orleans Parish, all taxes on hotel rooms except for a 0.45% State sales tax are either permanent or for an indefinite duration. This forestalls public reassessment of the taxes because the recipients do not have to make the case to voters or the Legislature to renew them. Hotel taxes for the Stadium District and Convention Center – by far the two largest recipients – do not have fixed expiration dates. Both entities will continue to receive their taxes as long as the revenue stream is pledged to cover debt service payments. The pledges also prevent the taxes from being reduced or rededicated to other purposes. If and when either entity pays off its debt, its hotel taxes will automatically expire. The Convention Center is scheduled to retire its current debt of about \$90 million in 2027, while the Stadium District is scheduled to pay off its debt in 2039.³² However, the taxes are unlikely to sunset. This is because both entities have continually re-pledged their hotel taxes to service new or refinanced debt and are likely to do so again in the future. Convention Center and Stadium District officials told BGR the stable revenue that the taxes provide is necessary to keep up with substantial ongoing capital maintenance costs for their respective facilities.

Transparency. A key principle of good taxation is that taxes should be easy for taxpayers and the public to understand. The tax structure should be clear with regard to what taxes are in place, which entities get the revenue and how they can use it.

15 of the 16 tax levies never come up for reassessment and renewal, which hinders public accountability.

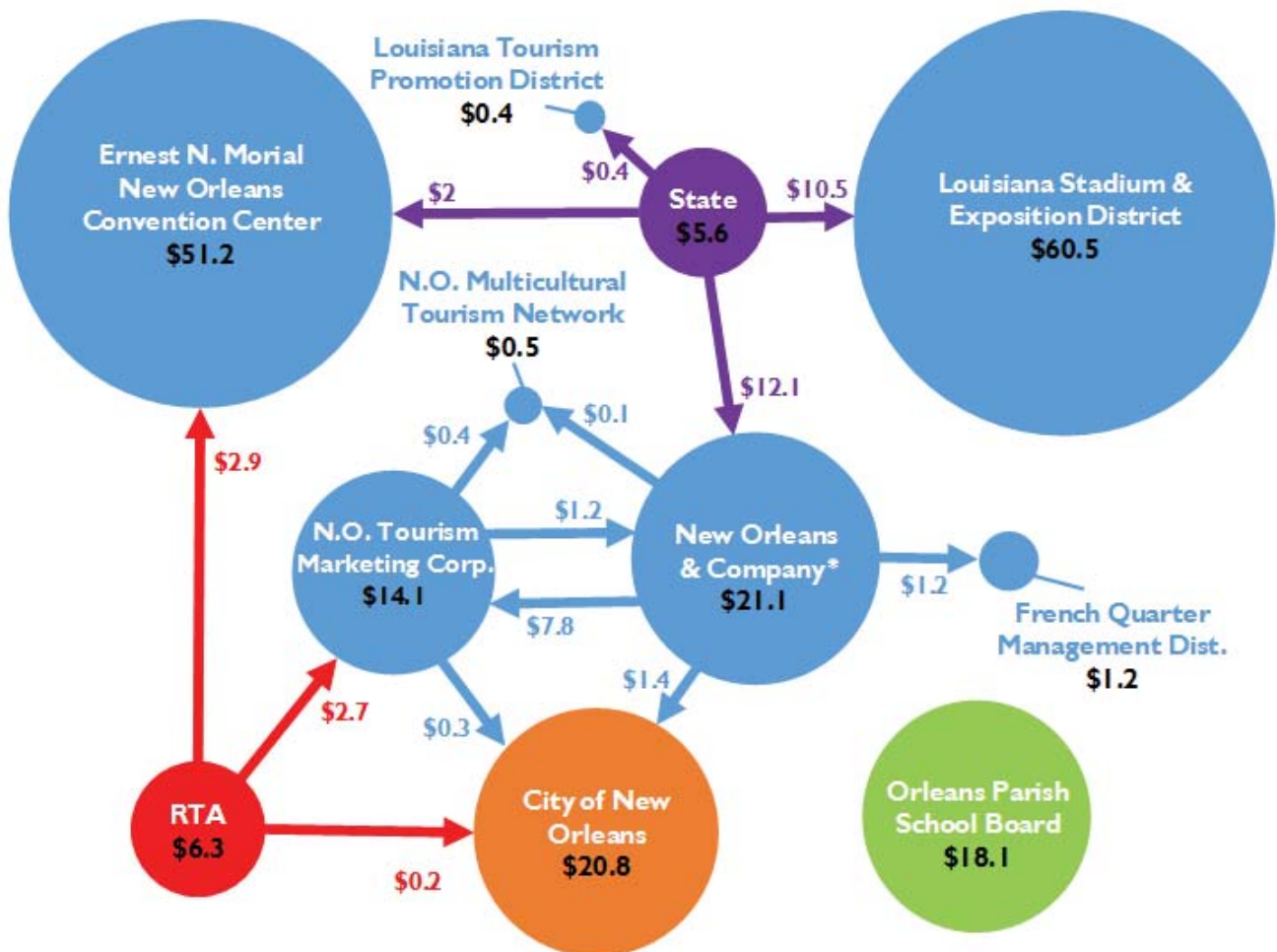
In Orleans Parish, a complex web of laws and revenue sharing agreements that are not easily accessible makes it difficult for the public to understand where hotel tax dollars are going. There are a total of 16 hotel tax levies in Orleans Parish that are divided and, in some cases, subdivided into 29 revenue shares that go to a dozen different entities and purposes. Chart D illustrates the various revenue transfers.

Another transparency concern is that it is difficult for the public to make sense of the numerous legislative

acts that govern the Convention Center and its use of hotel tax revenues. The Legislature established an authority to build and operate the Convention Center in a 1978 act. Since then, it has passed 14 acts amending the original act as well as many of the subsequent changes. However, the acts have not been codified in State law or consolidated into a single document. In order to determine the current laws governing the Convention Center, a citizen would have to obtain all 15 acts and track the changes over time – a time-consuming task that hinders transparency.

CHART D: ORLEANS PARISH NET HOTEL TAX RECEIPTS BY ENTITY AFTER REVENUE SHARING TRANSFERS, 2019 ESTIMATES

All \$ figures are in millions. Net tax receipts are in black; color-coded figures are shared hotel tax revenues



*Formerly the New Orleans Convention and Visitors Bureau.

Numbers may not add due to rounding. Entities that promote tourism, conventions and professional sports are shaded blue. The chart shows 11 of the 12 recipients of hotel tax revenue, with the exception of the New Orleans Area Economic Development Fund, which is budgeted to receive a negligible \$466 hotel tax dedication from the State in 2019. In prior years, the fund has received larger dedications of about \$250,000. For a detailed breakdown of the tax levies and revenue shares, see Appendix A.

How Hotel Taxes in New Orleans Compare to Other Jurisdictions

BGR compared Orleans Parish hotel taxes to norms in other jurisdictions. This includes comparisons to state and national norms as well as a dozen peer cities. On their own, these normative comparisons do not provide a definitive yardstick for evaluating the parish’s hotel tax structure. Rather, they expand upon the preceding discussion of best practices by indicating ways that Orleans Parish’s hotel tax structure may be an outlier.

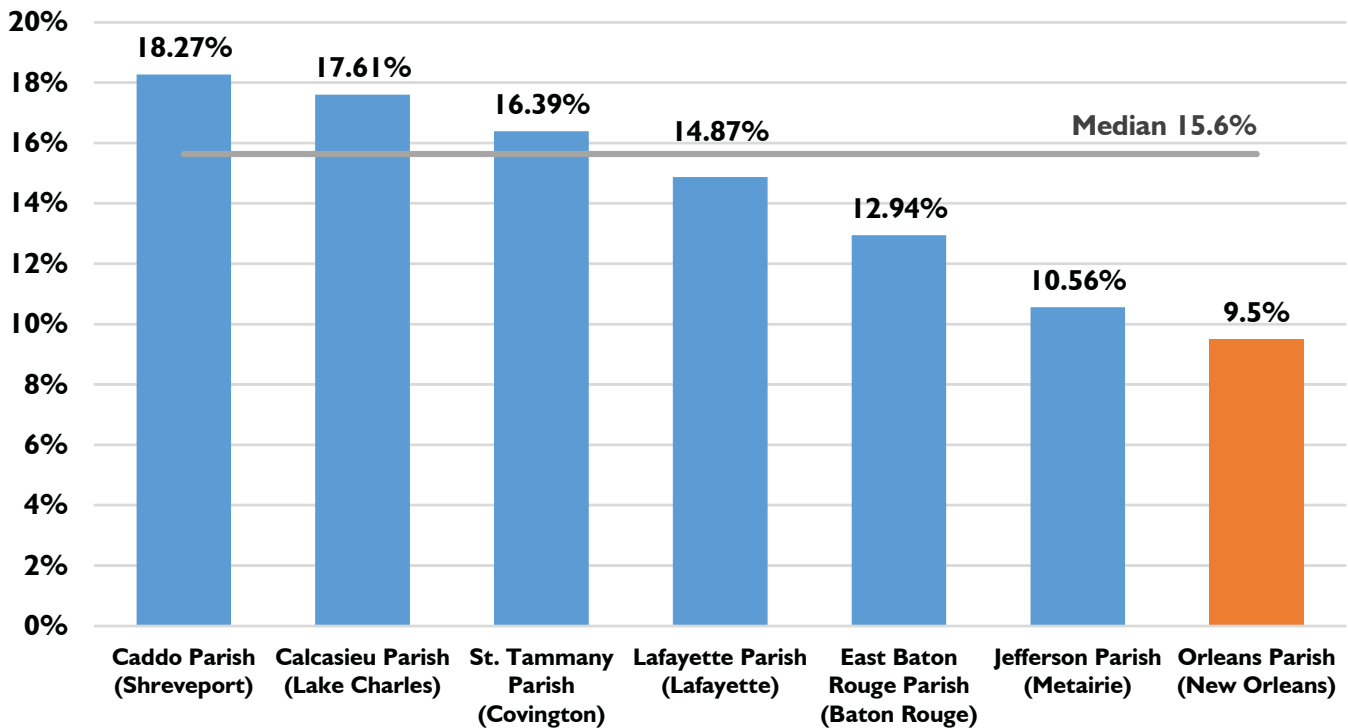
Other Large Louisiana Parishes. BGR compared the hotel tax structure in Orleans Parish to those of the other six largest parishes in Louisiana: East Baton Rouge, Jefferson, St. Tammany, Caddo, Lafayette and Calcasieu. Orleans Parish has the highest overall hotel tax rate at 16.35%.³³ Despite this, it has the lowest share of hotel taxes allocated to general municipal or parish government purposes at 9.5% (See Chart E). This is due largely to the 1966 suspension of the City’s 1% sales tax on

hotels. To reach the 15.6% median share for the other parishes, hotel taxes for general municipal purposes in Orleans Parish would have to increase by the equivalent of a 1.2% tax, or \$14.5 million at current revenue levels.

The comparison also reveals some similarities in the hotel tax structures in the various parishes. Except for the suspended sales taxes from the 1966 constitutional amendment, all State and local sales taxes in the seven parishes apply to hotels. Thus, the general sales tax rate in each parish serves as the foundation or baseline for the hotel tax.

Also, in all seven parishes, the State dedicates the vast majority of its sales taxes on hotel room rentals to entities or purposes in the parish where it collects the revenue. While most of these dedications go to tourism-related purposes, the Legislature dedicates some of it to other purposes in two parishes.³⁴ In Orleans Parish, all of the State’s \$25 million in annual hotel tax dedications go to tourism-related entities.³⁵

CHART E: SHARE OF HOTEL TAXES DEDICATED TO GENERAL MUNICIPAL PURPOSES IN LOUISIANA’S LARGEST PARISHES



Sources: BGR research using budgets, financial statements, local ordinances, state laws and information provided by officials from the various parishes and municipalities. BGR analyzed a central area or municipality with each of the other parishes because sales tax rates can vary within those parishes.

National Norms. In a national context, New Orleans' 15.2% ad valorem hotel tax rate ranked as the 35th highest among the 150 largest U.S. cities in a 2018 report.³⁶ The hotel tax rates ranged from a low of 8% in Fontana, California, to a high of 17.93% in St. Louis. These hotel tax rankings do not include the flat, per diem room occupancy taxes levied in some cities, including New Orleans. As noted previously, the two flat taxes in New Orleans raise the effective hotel tax rate to 16.35%.

National comparisons also illustrate the widespread practice of using sales taxes as the foundation for hotel taxes. Of the 45 states that have sales taxes, 35 apply those sales taxes to hotels. Of the other 10 states, eight have hotel-specific taxes that are at least as high as the general sales tax.³⁷ This reinforces earlier indications that Orleans Parish is an outlier for having a municipal tax rate on hotels (1.5%) that is lower than the general municipal sales tax rate (2.5%).

Peer Cities. To provide a more detailed national comparison, BGR examined hotel tax structures in a dozen peer cities for tourism and convention activity. The peer cities are: Atlanta, Boston, Charlotte, Chicago, Denver,

Houston, Las Vegas, Nashville, Orlando, Phoenix, San Francisco, and Seattle. See the sidebar for details on how BGR selected the peer cities.

As Chart F indicates, the 16.35% effective hotel tax rate in New Orleans falls in the middle of hotel tax rates for the peer cities. The rates range from a low of 12.5% in Orlando to a high of 20.23% in Atlanta.³⁸ The median tax rate for the peer cities is 16.1%, slightly lower than the rate in New Orleans.³⁹

New Orleans is more of an outlier in its use of hotel taxes for general municipal purposes. Chart G shows the 9.5% share of hotel tax revenues allocated to general municipal purposes in New Orleans is at the low end of a broad spectrum that ranges from 0% in Houston up to 72% in San Francisco. Just three peer cities have a smaller portion of hotel tax revenues allocated to basic city services and infrastructure than New Orleans. One of them, Houston, actually levies a 7% hotel tax, but state law requires it to allocate all of the revenue to tourism-related purposes. Meanwhile, half of the peer cities allocate at least twice as much hotel tax revenue to general municipal purposes, on a proportional basis, than does New Orleans. The median

SELECTING PEER CITIES FOR THE HOTEL TAX COMPARISON

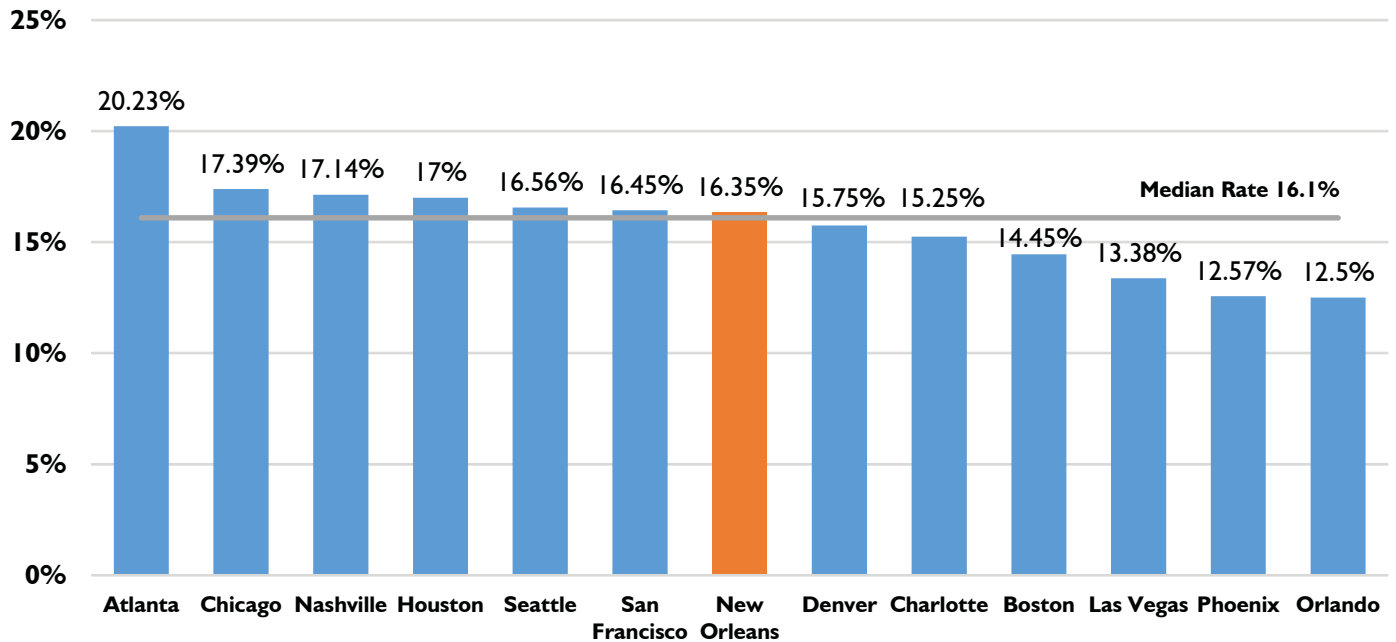
BGR began the process of selecting peer cities with a list of 13 cities provided by local tourism officials as New Orleans' top competitors for tourism and convention activity. BGR excluded three cities on the list – Dallas, San Antonio and San Diego – that are from states (Texas and California) that had multiple cities on the list.* Because policies and laws in those two states have a major impact on local hotel taxes, including more than one city from these states could have skewed the comparisons. For example, Texas requires municipalities to allocate all hotel tax revenue to tourism-related purposes.** On the other hand, California is one of just two states without a state tax on hotel rooms. This generally enables California cities to levy hotel taxes for general municipal purposes that are significantly higher than cities in other states.

BGR sought to expand the group of peers to include comparable cities in a greater variety of states. This resulted in the addition of Charlotte and Denver, which – like all of the cities from the tourism officials' list – meet the following selection criteria: The peer cities must have at least 500,000 square feet of convention space (New Orleans has 1.1 million), at least 20,000 hotel rooms (New Orleans has about 30,000) and at least one major professional sports team (New Orleans has two).

* BGR selected Houston as the Texas peer and San Francisco as the California peer because they are New Orleans' top competitors for tourism and conventions in their respective states.

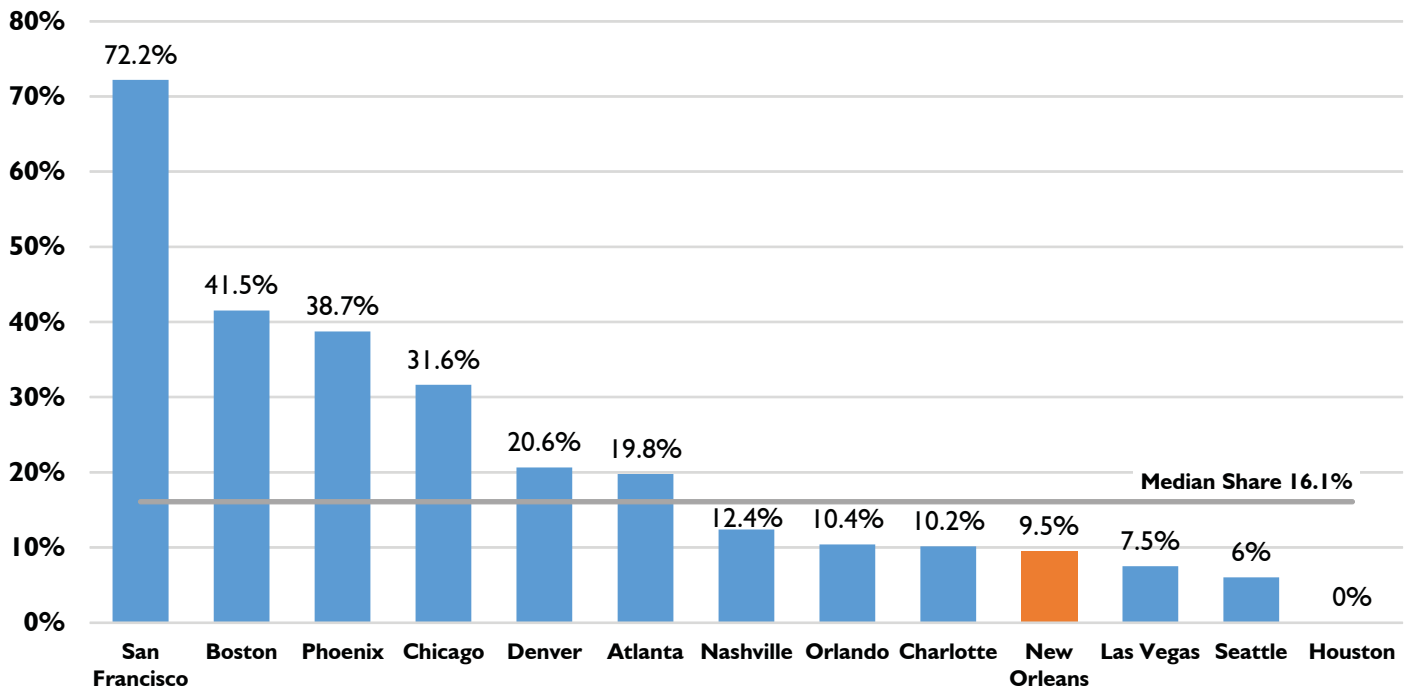
** Texas Revised Statutes, Sec. 351.101 requires revenue from the municipal hotel occupancy tax to be used only for specified uses that “directly” enhance and promote tourism and the convention and hotel industry. The statute, at Sec. 351.101(b), prohibits the use for “general government operations of a municipality.” See also Texas Hotel & Lodging Association, *What Cities Need to Know to Administer Municipal Hotel Occupancy Taxes*, 2018, p. 8.

CHART F: HOTEL TAX RATES IN NEW ORLEANS AND PEER CITIES



Note: BGR converted all flat taxes to equivalent ad valorem taxes based on how much revenue they generate. BGR research using budgets, financial statements, city ordinances, state laws and information provided by city and state officials.

CHART G: SHARE OF HOTEL TAXES ALLOCATED TO GENERAL MUNICIPAL PURPOSES IN NEW ORLEANS AND PEER CITIES



Note: The 9.5% figure for New Orleans is the portion of its total share of hotel taxes (10.4%) that is available for general municipal purposes. The City must spend the rest on tourism-related purposes in accordance with cooperative endeavor agreements. BGR research using budgets, financial statements, city ordinances, state laws and information provided by city and state officials.

share for the 12 peer cities is 16.1%.⁴⁰ Increasing the share of Orleans Parish hotel taxes for general municipal purposes to the median for the peer cities would require the equivalent of a 1.3% tax. This amounts to an additional \$15.8 million at current hotel tax revenue levels.

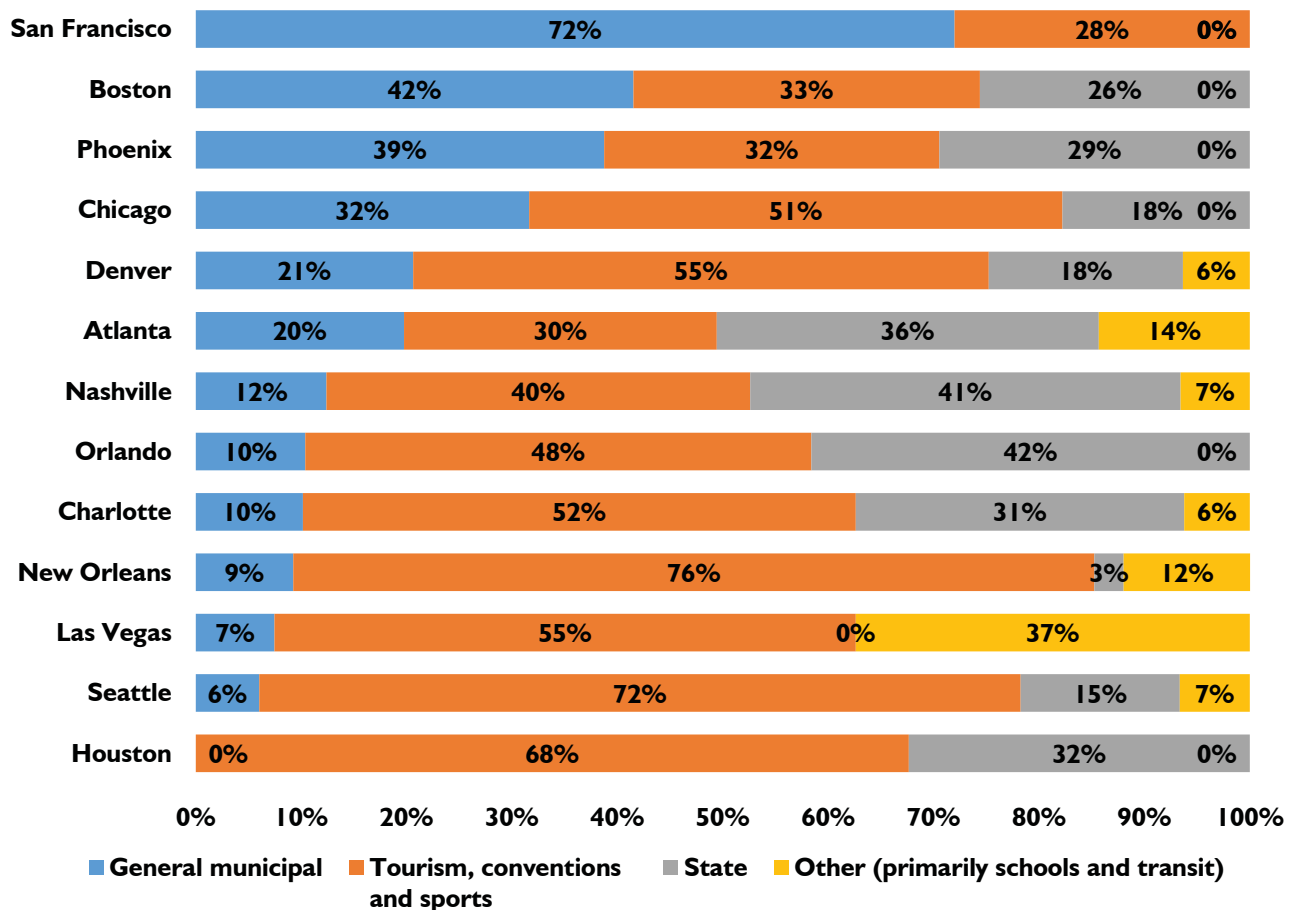
The figures in Chart G exclude hotel tax revenue that municipalities receive and dedicate to purposes other than general municipal. For example, the City of Nashville levies an 8.25% tax on hotel rooms. This represents nearly half the total hotel tax rate in Nashville. However, the city dedicates 6.125 percentage points of the tax to other purposes: tourism marketing (3 percentage points), the convention center (2 percentage points) and schools (1.125 percentage points). The city retains the remaining 2.125 percentage points of hotel tax for general municipal purposes. This represents 12.4% of the total hotel tax rate.

In another example, the City of San Francisco levies a 14% hotel tax. Tourism-related entities, including the city’s convention center, levy hotel taxes totaling 2.45%,

for a total citywide tax of 16.45%. The city council, at its discretion, provides supplemental funding equivalent to 2.1 percentage points of the city’s hotel tax for the convention center and tourism marketing efforts. In doing so, it retains the vast majority of its hotel tax revenues – 11.9 percentage points – for various municipal purposes.

Chart H provides a complete breakdown of the uses of hotel tax revenue in the peer cities. The blue bars show the share of hotel taxes for general municipal purposes. The orange bars show the portions that go to tourism-related purposes. These shares do not include any revenues besides hotel taxes that may go toward tourism marketing, convention centers and sports stadiums. The chart shows that the State of Louisiana has a relatively low 3% share (gray bar) of New Orleans hotel taxes. This is a result of the Legislature’s practice of dedicating the vast majority of State hotel tax revenues to entities or purposes in the parish where it collects the tax. Finally, like half of the peer cities, a portion of New Orleans hotel taxes goes to other purposes, primarily schools and public transit (yellow bar).

CHART H: SHARES OF HOTEL TAX REVENUE BY PURPOSE, NEW ORLEANS AND PEER CITIES



The peer city comparison reinforces previous indications that New Orleans is an outlier for having a hotel tax for general municipal purposes (1.5%) that is one percentage point lower than its sales tax for those same purposes (2.5%). As Chart I illustrates, just three peer cities – Las Vegas, Denver and Houston – join New Orleans in having hotel tax rates for general municipal and county purposes that are lower than their sales tax rates. The other nine peer cities have hotel tax rates that are equal to or exceed their sales tax rates. For instance, San Francisco has an 11.87% hotel tax for general municipal purposes that is 10.62 percentage points higher than its 1.25% general sales tax. Meanwhile, Boston, which has no local sales tax, levies a 6% hotel tax that it can use for any purpose. See Appendix E for details on sales tax and hotel tax rates in the peer cities.

“The peer city comparison reinforces previous indications that New Orleans is an outlier for having a hotel tax for general municipal purposes (1.5%) that is one percentage point lower than its sales tax for those same purposes (2.5%). ... [J]ust three peer cities – Las Vegas, Denver and Houston – join New Orleans in having hotel tax rates for general municipal and county purposes that are lower than their sales tax rates.”

CHART I: DIFFERENCE BETWEEN HOTEL TAX AND SALES TAX RATES FOR GENERAL MUNICIPAL PURPOSES IN NEW ORLEANS AND PEER CITIES

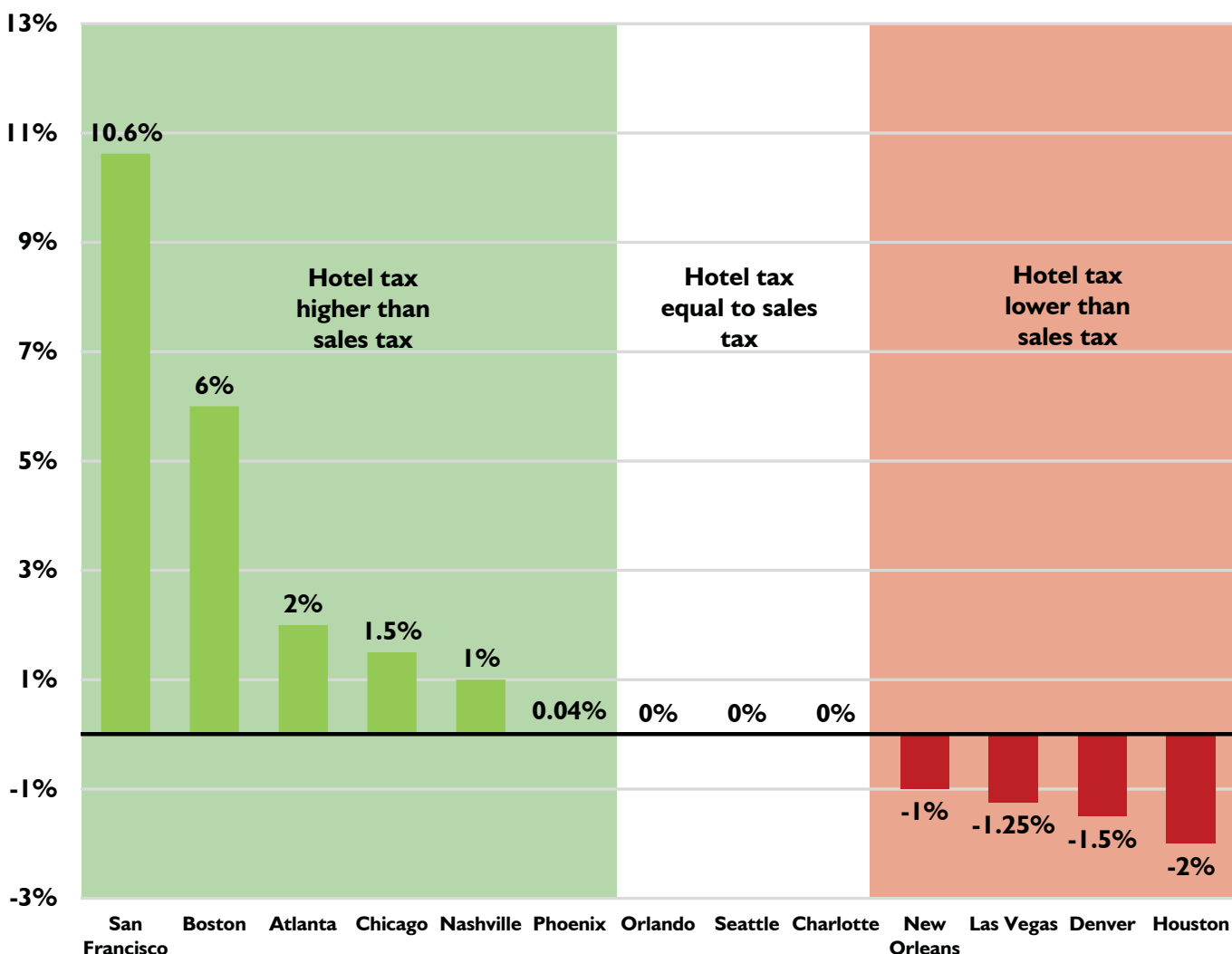


Chart shows hotel tax rate minus sales tax rate for New Orleans and peer cities. See Appendix E for additional detail.

KEY FINDINGS AND REFORM OPTIONS

The report's analysis of hotel tax best practices and norms supports two key findings about the hotel tax structure in Orleans Parish:

1. Orleans Parish hotel taxes for general municipal purposes should increase by at least the equivalent of a 1% tax.
2. The hotel tax structure lacks accountability and transparency.

Key Finding No. 1: Orleans Parish Hotel Taxes for General Municipal Purposes Should Increase by at Least the Equivalent of a 1% Tax.

Rationale. 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 local sales tax applies to hotel rooms in the vast majority of other large parishes and peer cities analyzed in this report. New Orleans also has a relatively small share of hotel taxes dedicated to general municipal purposes compared to other parishes and peer cities. The 1.5% hotel tax for general municipal purposes would have to increase by 1.3 percentage points or \$15.8 million to raise its share of Orleans Parish hotel taxes to the median figure for the peer cities.

In addition, hotel taxes for general municipal purposes fall below the level suggested by best practices. 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 1.5% tax that visitors pay on their hotel rooms is lower than the 2.5% general sales tax contribution the City receives from other sectors of the economy, such as restaurants and retail outlets. This suggests that New Orleans is not fully realizing the fiscal benefit of hotel taxes as a means of directly charging tourists for the public goods and services they use.

Increasing hotel tax revenues for general municipal purposes by at least the equivalent of a 1% tax would bring the Orleans Parish hotel tax structure more in line with best practices as well as state and national norms. This would amount to at least \$12.3 million at 2019 tax

revenue levels. As discussed below, there are a variety of options for doing this that could minimize or avoid negative impacts on the current operations of other hotel tax recipients, and keep the overall effective tax rate from exceeding the recent high point of 16.9%.

Local tourism industry officials assert that determining an appropriate hotel tax rate for general municipal purposes should take into account other benefits the City receives from tourism. These include sales taxes on tourists' non-hotel spending as well as the positive economic impacts from tourism industry jobs. Tourism officials contend that such benefits more than make up for the reduced revenue from a lower hotel tax rate for general municipal purposes.

However, the additional benefits that tourism provides to City government beyond hotel tax revenues are not unique to New Orleans. The peer cities analyzed in this report receive the same types of indirect benefits. Yet they still allocate, on balance, higher shares of hotel taxes to general municipal and county purposes than in New Orleans. Moreover, attempts to quantify these indirect benefits through economic impact studies have high levels of variance due to methodological differences and data issues.⁴¹

The tourism industry plays an important role in the economic life of New Orleans and providing sufficient public support for tourism is important. Determining the appropriate funding level should take into account the community's other needs. After all, local government's ability to deliver the basics, such as public safety, infrastructure, water management and education, also affects the New Orleans economy. This includes the tourism industry because visitors must navigate the same poorly maintained streets and have the same public safety needs as residents.

Implications for Citizens. The relatively small share of hotel taxes allocated to general municipal purposes deprives the City of substantial recurring revenue that it could use to provide basic services and infrastructure. As a result, citizens either have to pay more in taxes to make up the difference, or they must deal with inadequate public services and infrastructure. Current underfunded needs include, among other things, improvements to street and drainage infrastructure as well as

“**The relatively small share of hotel taxes allocated to general municipal purposes deprives the City of substantial recurring revenue that it could use to provide basic services and infrastructure. As a result, citizens either have to pay more in taxes to make up the difference, or they must deal with inadequate public services and infrastructure.**”

public safety enhancements. Increasing the portion of local hotel tax revenue to address those needs would reduce the future tax burden on local citizens and businesses. For example, increasing hotel tax revenue for general municipal purposes by the equivalent of a 1% tax would cover one-third of the unfunded preventive maintenance needs for New Orleans’ streets or approximately 120 additional police officers.⁴²

Reform Option. Perhaps the simplest way to increase hotel tax revenue for general municipal purposes is for the Legislature to restore all or a portion of the City’s suspended 1% sales tax on hotel rooms. For each tenth of a percentage point restored, the City would receive about \$1.2 million based on current revenue levels.

Full restoration of the suspended tax would increase the overall effective hotel tax rate to 17.35%, which is above the recent high point of 16.9%. This could depress tourism and should not be pursued without analyzing the potential impacts on tourism levels. However, a partial restoration of 0.55 of a percentage point of the suspended tax would return the overall tax rate to 16.9%, a level that did not appear to negatively impact tourism. Moreover, because nonresidents pay the vast majority of hotel taxes, it is advantageous for policymakers to set the tax rate as high as demand allows to shift a greater portion of the tax burden to nonresidents.

For these reasons, the Legislature could restore 0.55 of a percentage point of the City’s suspended 1% tax without an offsetting rate reduction in an existing tax or taxes. Doing so would generate about \$6.8 million a year for general municipal purposes based on 2019 revenue levels.

BGR notes that in late 2018, New Orleans & Company announced a proposal for a new 0.55% State hotel tax in Orleans Parish dedicated primarily to infrastructure improvements. Details of any potential legislation were not available at the time of this report’s release. As such, BGR has not taken a position on the proposal.

If the Legislature does not approve at least a partial restoration of the City’s suspended ad valorem tax, the City Council may be able to take action on its own to effectively achieve the same result. The council could seek to increase the per diem tax it levies for the Tourism Marketing Corp. to yield additional revenue equivalent to 0.55 of a percentage point of ad valorem tax.⁴³ It could then dedicate the new revenue to general municipal purposes.

There are questions about whether the council would need voter approval to increase the per diem tax.⁴⁴ If the City pursues and ultimately implements this option, it should index the per diem fees so that they increase at the same rate as average daily hotel room charges. Without indexing, the flat taxes would lose value over time compared to an ad valorem tax.

A partial restoration of the suspended tax would leave the City 0.45 of a percentage point, or about \$5.5 million, short of a 1% increase in hotel taxes for general municipal purposes. There are three options to make up the difference:

1. *Restore the remainder of the City’s suspended tax if an analysis indicates it would not negatively impact tourism.* Policymakers could commission a hotel tax rate analysis to determine the feasibility of restoring the City’s full 1% tax, without an offsetting decrease in an existing tax or taxes.
2. *Reduce one or more existing hotel taxes to offset a larger or complete restoration of the City’s suspended tax.* This would keep the overall hotel tax rate from exceeding the recent high point of 16.9%. However, the potential offsets are limited because most hotel taxes in Orleans Parish cannot be reduced or eliminated in the near term.

3. *Rededicate or reallocate existing hotel tax revenues to general municipal purposes.* In evaluating potential rededications or reallocations, policymakers should seek to minimize or avoid negative impacts on the current operations of other tax recipients by focusing first on instances of excess hotel tax revenues. Any rededications or revenue sharing agreements should be on a percentage basis so that they increase as hotel tax receipts grow. This is necessary to ensure that the reallocations continue to generate sufficient revenue to increase hotel tax revenues for general municipal purposes by at least the equivalent of a 1% tax.

BGR notes that the purpose of increasing hotel tax revenue for general municipal purposes is to help the City address critical unmet needs. With this in mind, the City should identify its most important priorities for additional funding. It also should develop a mechanism, such as placing the new revenue in a special budgetary fund, so that the City is accountable for its use of the revenue and citizens can track the efficiency and effectiveness of the expenditures.

Key Finding No. 2: The Hotel Tax Structure Lacks Accountability and Transparency.

Rationale. The permanent or indefinite duration of nearly all hotel taxes in Orleans Parish makes it difficult to reassess taxes and potentially reallocate them to meet emerging needs. Citizens have no opportunity through the voter-renewal process to hold the tax recipient entities accountable and reevaluate the need for the taxes at their current rates. In some cases, hotel tax recipient entities have kept their taxes in place by repeatedly pledging them to service new debt, even after the projects the taxes were originally intended to fund have been paid for or tabled.

In addition, the complex web of laws and revenue sharing agreements concerning hotel taxes are not easily accessible. This makes it difficult for citizens to know which entities receive hotel tax revenues and for what purposes.

Implications for Citizens. These factors hinder the public's understanding of the hotel tax structure and the pe-

riodic reassessment of hotel tax dedications by citizens or legislators to ensure they make the best use of limited public funds.

Reform Options. BGR identified the following options for improving accountability and transparency in the Orleans Parish hotel tax structure:

- *Require Any New Hotel Tax to Have a Definite Duration.* To facilitate the periodic reassessment of hotel taxes, the Legislature could authorize new hotel taxes only if the legislation provides for a definite duration. The duration should be based on the anticipated use of the tax revenue, e.g., 10 years for operations or 20 years or longer for taxes that will support bonds. A definite duration would require the taxing body to make its case to voters or legislators for renewal of the tax.
- *Impose Definite Sunset Provisions on Existing Hotel Taxes.* The Legislature could increase accountability by imposing definite sunset provisions on existing hotel taxes when possible. This would prohibit the recipient from using it to service debt for new or unrelated projects, without the Legislature's specific authorization.
- *Conduct a Periodic Review of All Legislative Dedications of Orleans Parish Hotel Taxes.* In the past 50 years, there has been little comprehensive review of the hotel tax structure. It has expanded on an ad-hoc basis, primarily through actions by the Legislature. This has created potential misalignments within the structure between revenues and needs. The Legislature could address this by conducting a periodic review of all Orleans Parish hotel tax dedications (\$25 million in 2019) that it approves.
- *Codify Convention Center Enabling Acts.* The Legislature could increase transparency on the 15 legislative acts governing the Convention Center and its use of hotel taxes by calling for the acts to be codified in State law as it does for the vast majority of other State-created entities.

CONCLUSION AND RECOMMENDATIONS

The City's 1966 agreement to suspend collection of its then-1% sales tax on hotel room rentals has not been revisited in more than a half century. This represents a significant revenue loss at a time when the community faces many unmet needs for basic public services and infrastructure.

As the analysis in this report shows, hotel taxes for general municipal purposes in Orleans Parish fall below the level suggested by best practices for taxation and comparisons to other jurisdictions. BGR's analysis shows that, unlike in Orleans Parish, the full local sales tax applies to hotel rooms in the vast majority of other large parishes and peer cities analyzed in this report. As a result, New Orleans is unable to realize the full fiscal benefits of hotel taxes to charge tourists for the public services and infrastructure they use.

For these reasons, it is time to restore the City's "lost penny" by increasing hotel tax revenue for general municipal purposes by at least the equivalent of a 1% tax. Importantly, this should be achievable with little impact on current operations of tourism-related entities. The recent reduction in the overall hotel tax rate in Orleans Parish has freed up taxing capacity that the Legislature could use to restore at least a portion of the City's 1% tax. The Legislature has several options to make up the difference, including redirecting a portion of any excess hotel tax revenues to general municipal purposes. This approach would help to minimize or avoid negative impacts on the current operations of any tourism-related entity. In addition, the tourism industry stands to gain from improved public services and infrastructure, which benefit residents and visitors alike.

Meanwhile, the Legislature can make New Orleans' hotel tax structure more accountable and transparent. It could add genuine sunset clauses to hotel tax dedications, require periodic legislative review of its hotel tax dedications and codify the Convention Center's enabling acts.

Restoring the City's suspended tax and reforming the hotel tax structure will require local officials to work closely with New Orleans' representatives in the Legislature, which has broad authority over hotel taxes. It also will require the engagement of citizens to advocate for reforms. While New Orleans residents typically do

not pay local hotel taxes, they do bear higher tax burdens for public services and infrastructure when hotel tax revenues are not deployed optimally.

To address the relatively low level of Orleans Parish hotel taxes for general municipal purposes, BGR makes the following recommendations:

- The Legislature should increase annual hotel taxes for general municipal purposes in New Orleans by at least the equivalent of a 1% tax. To accomplish this, it should strongly consider restoring a portion of the City's suspended 1% sales tax on hotel rooms. To make up the difference, it should 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.
- If efforts to work with the Legislature to increase hotel tax revenue for general municipal purposes are not successful, the City Council should consider options to do so using its authority to increase the flat, per diem hotel tax it controls.
- The City should conduct an assessment to identify its most important priorities for additional funding from an increase in hotel tax revenues for general municipal purposes. It should inform citizens how it plans to use the additional revenue. Finally, it should develop a mechanism, such as placing the revenue in a special fund, so that the City is accountable for its use of the revenue and citizens can track the efficiency and effectiveness of the expenditures.

Furthermore, to improve accountability and transparency in Orleans Parish's hotel tax structure, BGR calls on the Legislature to:

- Require any new hotel tax to have a definite duration based on the anticipated use of the tax revenue.
- Impose definite sunset provisions on existing hotel taxes to the extent possible.
- Conduct a periodic review of all legislative dedications of Orleans Parish hotel taxes.
- Codify Convention Center acts in Louisiana Revised Statutes.

APPENDIX A: ORLEANS PARISH HOTEL TAXES AND ASSESSMENTS

This appendix provides two tables that break down the Orleans Parish hotel tax structure in greater detail. The first summarizes the 16 levies by the year first imposed. The second provides a breakdown of the taxes and assessments by taxing body. It describes how the 16 levies are either retained by the taxing body or shared with other recipients.

ORLEANS PARISH HOTEL TAXES AND ASSESSMENTS BY YEAR IMPOSED

Taxing Body	Tax rate	Year first imposed	Type of tax	Duration
Louisiana Stadium and Exposition District	4%	1966	hotel-specific	Until bonds retired
Orleans Parish School Board	1%	1966	general sales	Permanent
City of New Orleans	0.5%	1967	general sales	Permanent
City of New Orleans	0.5%	1968	general sales	Permanent
State of Louisiana	1%*	1970	general sales	Permanent
New Orleans Ernest N. Morial Convention Center	1%	1978	hotel-specific	Until bonds retired
New Orleans Ernest N. Morial Convention Center	1%	1980	hotel-specific	Until bonds retired
City of New Orleans	0.5%	1981	general sales	Permanent
Orleans Parish School Board	0.5%	1981	general sales	Permanent
New Orleans Ernest N. Morial Convention Center	0.7%**	1988	hotel-specific	Until bonds retired
City of New Orleans on behalf of New Orleans Tourism Marketing Corp.	0.45%***	1990	hotel-specific	Permanent
State of Louisiana	1%*	1996	general sales	Permanent
Regional Transit Authority	1%	2000	general sales	Permanent
New Orleans Ernest N. Morial Convention Center	1%	2002	hotel-specific	Until bonds retired
New Orleans & Company	1.75%****	2014	hotel-specific	Permanent
State of Louisiana	0.45%	2016	general sales	Expires July 1, 2025
TOTAL	16.35%			

*The State dedicates the proceeds from this tax to tourism-related entities in Orleans Parish.

**This is a flat room occupancy tax of \$0.50 to \$2 per night that generates revenue equivalent to a 0.7% ad valorem tax.

***This is a flat room occupancy tax of \$0.50 to \$1 per night that generates revenue equivalent to a 0.45% ad valorem tax.

**** New Orleans & Company's 1.75% hotel assessment is imposed by the entity's member hotels and is technically not a tax. However, it consumes a portion of hotel tax capacity.

Sources: Orleans Parish ballot propositions, State laws and financial statements for the taxing bodies.

ORLEANS PARISH HOTEL TAXES AND ASSESSMENTS BY TAXING BODY

Taxing body	Total ad valorem tax	Per diem tax	Individual tax levies	Tax shares (including levies retained)	Notes
Louisiana Stadium and Exposition District	4%		1	1	Retains the full tax it levies and receives a dedication from the State's hotel tax.
New Orleans Ernest N. Morial Convention Center	3%	\$0.50 to \$2 per night (0.7% effective rate)	4	4	Retains all four taxes it levies and receives dedications from the State and RTA hotel taxes.
State of Louisiana	2.45%		3	6	Retains a 0.45% tax it levies and dedicates two 1% taxes to New Orleans & Company, the Stadium District, the Convention Center, the Louisiana Tourism Promotion District and the New Orleans Area Economic Development Fund.
New Orleans & Company*	1.75%		1	5	Retains 0.75% portion of total 1.75%. It distributes 0.75% to the Tourism Marketing Corp. Of the remaining 0.25%, it provides \$1,200,000 to the French Quarter Management District and gives the rest to the City for tourism-related purposes. New Orleans & Company provides \$100,000 of its share to the New Orleans Multicultural Tourism Network. New Orleans & Company also receives a dedication from the State and Tourism Marketing Corp. hotel taxes.
Orleans Parish School Board	1.50%		2	2	Retains both taxes it levies.
City of New Orleans	1.50%		3	3	Retains all three taxes it levies and receives dedications from the RTA, New Orleans & Company and the Tourism Marketing Corp.'s hotel taxes and assessments.
City of New Orleans on behalf of New Orleans Tourism Marketing Corporation		\$0.50 to \$1 per night tax (0.45% effective rate)	1	4	The Tourism Marketing Corp. retains about two-thirds of this tax and dedicates the rest to New Orleans & Company (22.5%), the New Orleans Multicultural Tourism Network (7.5%), and the City (5%) for tourism-related purposes. The Tourism Marketing Corp. also receives dedications from the New Orleans & Company assessment and RTA hotel tax.
Regional Transit Authority	1%		1	4	The RTA receives 60% of the first \$7.2 million generated by the tax and 40% of any amount above \$7.2 million. This amounts to about half of the revenue. It distributes the rest to the Tourism Marketing Corp. The corporation then distributes 50% of its share to the Convention Center and 3.45% to the City, which the City must use for tourism promotion. The corporation keeps the remainder (46.55%).
Total	15.2%	\$1 to \$3 per night (1.15% effective rate)	16	29	The total effective tax rate is 16.35%

* Formerly called the New Orleans Convention and Visitors Bureau. New Orleans & Company's 1.75% hotel assessment is imposed by the entity's member hotels and is technically not a tax. However, it consumes a portion of hotel tax capacity.

Sources: Ballot propositions, State laws and financial statements for the taxing bodies.

APPENDIX B: ORLEANS PARISH HOTEL TAXES AND ASSESSMENTS BY RECIPIENT, 2019

Recipient	Ad Valorem Taxes						Assessment	Per Diem Taxes		TOTAL HOTEL TAXES AND ASSESSMENTS
	Louisiana Stadium and Exposition District	Ernest N. Morial New Orleans Convention Center	State of Louisiana	City of New Orleans	Orleans Parish School Board	Regional Transit Authority		New Orleans Tourism Marketing Corp.	Ernest N. Morial New Orleans Convention Center	
	4.00%	3.00%	2.45%	1.50%	1.50%	1.00%	1.75%	0.45%	0.70%	16.35%
Louisiana Stadium and Exposition District	\$50.0		\$10.5							\$60.5
Ernest N. Morial New Orleans Convention Center		\$37.5	\$2.0		\$2.9			\$8.8		\$51.2
New Orleans & Company			\$12.1				\$7.7	\$1.2		\$21.1
City of New Orleans*				\$18.4	\$0.3	\$0.4	\$1.4	\$0.3		\$20.8
Orleans Parish School Board					\$18.1					\$18.1
New Orleans Tourism Marketing Corp.						\$2.7	\$7.8	\$3.6		\$14.1
Regional Transit Authority						\$6.3				\$6.3
State of Louisiana			\$5.6							\$5.6
French Quarter Management District							\$1.2			\$1.2
New Orleans Multicultural Tourism Network							\$0.1	\$0.4		\$0.5
Louisiana Tourism Promotion District			\$0.4							\$0.4
TOTAL	\$50.0	\$37.5	\$30.6	\$18.4	\$18.4	\$12.3	\$18.3	\$5.5	\$8.8	\$199.9

Note: Numbers may not add due to rounding. The chart does not include the 12th recipient, the New Orleans Area Economic Development Fund, which is budgeted to receive a negligible \$466 hotel tax dedication from the State in 2019. In prior years, the fund has received larger dedications of about \$250,000. Per diem taxes are shown as effective percentage rates based on revenue generated.
 BGR projections based on the methodology set forth in BGR, *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?* November 2015, pp. 17-18. The report is available at <http://www.bgr.org/reports/rethinking-tax-dedications-in-new-orleans/>.

APPENDIX C: TAXES ON SHORT-TERM RENTALS OF RESIDENCES

In 2017, the Legislature amended State law to apply State and local sales taxes to short-term rentals of residences as a taxable service. The change did not affect hotel-specific ad valorem taxes, which do not apply to short-term rentals. As a result, short-term rentals in Orleans Parish are taxed at a lower rate of 8.45% compared to the 15.2% ad valorem tax rate for hotels. In addition, a \$0.50 per diem tax for the Tourism Marketing Corp. applies to short-term rentals. But the \$0.50 to \$2 per diem tax for the Convention Center does not apply.

The breakdown for the 8.45% tax on short-term rentals is as follows: the State levies 4.45%, the City and School Board each levy 1.5%, and the RTA levies 1%. All of these figures correspond to the full sales tax for each entity, except for the City. City officials indicated that the State, which collects all short-term rental taxes in Orleans Parish, reduces the City's sales tax on short-term rentals from 2.5% to 1.5% because of the 1966 suspension of its 1% sales tax on hotels. However, short-term rentals do not match the definition of a hotel in the suspension statute, which covers establishments with 10 or more guest rooms.* Thus, it does not appear the suspension should apply to short-term rentals.

Moreover, the State applies its full 4.45% sales tax to short-term rentals, including its 2% sales tax that is suspended for hotels.

The State dedicates the revenue from 3.97 percentage points of its 4.45% tax to the New Orleans Quality of Life Fund and retains the rest.** The fund is dedicated to City code enforcement efforts on short-term rentals. The State dedication provides the City with the equivalent of a 5.47% tax rate on short-term rentals. This would be 6.47% if the City's full sales tax were applied to short-term rentals.

The City's 2019 budget estimates that each percentage point of short-term rental tax in Orleans Parish will generate about \$1.1 million a year. However, at the time of this report's release, the City Council initiated a process to place greater restrictions on short-term rentals.*** This could significantly reduce the amount of tax revenue the rentals generate.

* La. Const. Ancillaries 14:47 (M).

** La. R.S. 47:302.56, 47:322.49 and 47:332.55.

*** New Orleans City Council, Motion No. M-19-4, adopted January 11, 2019.

APPENDIX D: PROJECTED CONVENTION CENTER RESERVES, 2018-2025

The table below shows the projected changes in unrestricted reserves for the Convention Center, based on the center's financial statements and a capital plan financing scenario prepared by the center's financial consultant.

PROJECTED CONVENTION CENTER RESERVES, 2018-2025

\$ millions

	2018	2019	2020	2021	2022	2023	2024	2025
Operating loss (operating revenue minus expenses)	(\$18.5)	(\$19.3)	(\$20.3)	(\$21.2)	(\$22.2)	(\$23.3)	(\$24.4)	(\$25.5)
Debt service (2012 and 2014 bonds)	(\$12.7)	(\$13.6)	(\$13.6)	(\$10.1)	(\$10.1)	(\$10.1)	(\$10.1)	(\$10.1)
Debt service (New bonds for capital plan)				(\$6.2)	(\$15.0)	(\$18.5)	(\$20.4)	(\$20.4)
Net operating result	(\$31.1)	(\$32.9)	(\$33.9)	(\$37.5)	(\$47.3)	(\$51.8)	(\$54.9)	(\$56.0)
Non-operating revenue (primarily tax receipts)	\$69.4	\$71.0	\$72.6	\$74.2	\$75.9	\$77.7	\$79.4	\$81.2
Pay as you go (capital plan)	(\$10.0)	(\$78.3)	(\$76.4)	(\$29.9)	(\$50.0)			
Pay as you go (other projects)	(\$43.0)	(\$1.3)	(\$1.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)
Annual excess (deficit)	(\$14.7)	(\$41.5)	(\$38.9)	\$6.6	(\$21.6)	\$25.6	\$24.3	\$25.0
Starting fund balance	\$232.2	\$217.5	\$176.0	\$137.1	\$143.7	\$122.1	\$147.7	\$172.0
Annual excess (deficit)	(\$14.7)	(\$41.5)	(\$38.9)	\$6.6	(\$21.6)	\$25.6	\$24.3	\$25.0
Ending fund balance	\$217.5	\$176.0	\$137.1	\$143.7	\$122.1	\$147.7	\$172.0	\$197.0

Note: Starting and ending fund balance refers to the Convention Center's unrestricted net assets at the beginning and end of each fiscal year.
Sources: Convention Center financial statements and PFM Financial Advisors, *Ernest N. Morial Convention Center: Financial Planning Update*, September 18, 2018.

APPENDIX E: HOTEL TAX RATE COMPARED TO SALES TAX RATE FOR NEW ORLEANS AND PEER CITIES

This appendix provides information on hotel taxes and sales taxes levied for general municipal purposes in the peer cities that BGR reviewed for this report. It compares them to New Orleans.

HOTEL AND SALES TAXES FOR GENERAL MUNICIPAL/COUNTY PURPOSES

City	Hotel tax for general municipal/county purposes	Sales tax for municipal/county government	Difference (hotel tax minus sales tax)
San Francisco	11.87%	1.25%	+10.62%
Boston	6%	0%	+6%
Atlanta	4%	2%	+2%
Chicago	5.5%	4%	+1.5%
Nashville	2.13%	1.13%	+1%
Phoenix	4.87%	4.83%	+0.04%
Median			+0.02%
Charlotte	1.55%	1.55%	0%
Orlando	1.3%	1.3%	0%
Seattle	1%	1%	0%
New Orleans	1.5%	2.5%	-1%
Las Vegas	1%	2.25%	-1.25%
Denver	3.25%	4.75%	-1.5%
Houston	0%	2%	-2%

BGR research using budgets, financial statements, city ordinances, state laws and information provided by city and state officials.

ENDNOTES

- 1 La. Const. Ancillaries, Art. 14, Sec. 47. The tax, which also applies in Jefferson Parish, was 4.5% for the first 36 months and 4% thereafter. The 1966 constitutional amendment is retained in the 1974 constitution as a statute.
- 2 The suspension of the City's sales tax was contingent upon the City Council's approval. The tax still applied to other goods and services subject to sales taxes. The amendment also suspended the State's 2% sales tax and Jefferson Parish's 1% sales tax as applied to hotels.
- 3 BGR, *Louisiana Stadium and Exposition District (Domed Stadium) No. 10 on the Ballot (Act 556 of 1966)*, 1966.
- 4 Plans call for a private development team to design, build and operate the hotel. BGR has raised questions about the level of requested public contributions for the project. See BGR, [Public Contributions to Convention Center Hotel Demand Scrutiny](#), July 19, 2018, p. 3. Also see [BGR's open letter to Convention Center officials](#) dated September 13, 2018.
- 5 This is the effective tax rate. It includes ad valorem hotel taxes totaling 13.45%, a 1.75% assessment that is a mandatory surcharge calculated on the same basis as a tax, and two fixed, per-diem taxes that generate revenue equivalent to a 1.15% ad valorem tax.
- 6 BGR defines local taxes as taxes levied in Orleans Parish to fund entities or purposes in the parish. See BGR, *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?* November 2015, p. 6. Since BGR released that report, total local taxes have grown to about \$1.2 billion. After removing the \$6 million provided to the State's General Fund and the Louisiana Tourism Promotion District, the remaining \$194 million in local taxes make up approximately one-sixth of total local taxes.
- 7 The report is available on BGR's website, <https://www.bgr.org/report/rethinking-tax-dedications-in-new-orleans/>.
- 8 Taxes on hotel room rentals have a variety of names in different jurisdictions. Examples include hotel occupancy tax, innkeeper's tax, transient occupancy tax and lodgers' tax.
- 9 One economic reason why hotel taxes are usually higher is that demand for hotels in a particular jurisdiction typically does not drop significantly with moderate increases in the room price due to a tax. This relative lack of price sensitivity makes hotels a good candidate for a higher tax rate because there will tend to be fewer negative economic consequences. Examples of other goods that are often taxed at higher rates because demand is not price sensitive include cigarettes, alcohol and gambling. Mak, James, *Tourism and the Economy*, November 2003, p. 149.
- 10 BGR calculations using data in HVS Convention, Sports & Entertainment, *2017 HVS Lodging Tax Report – USA*, August 2017, and Tax Foundation, *State and Local Sales Tax Rates in 2017*, January 2017.
- 11 All states except California and Alaska have state hotel taxes. See HVS Convention, Sports & Entertainment, *2017 HVS Lodging Tax Report – USA*, August 2017, p. 4. All states except Connecticut, Hawaii, Idaho, Maine, Montana and New Hampshire authorize local hotel taxes. See Tennessee Advisory Commission on Intergovernmental Relations, *Structuring Lodging Taxes to Preserve the Economy and Encourage Tourism*, January 2016, p. 6.
- 12 Mak, p. 128.
- 13 La. Const. Ancillaries, Art. 14, Sec. 47(M).
- 14 Local sales taxes in most of New Orleans total 5%, consisting of the City's 2.5% tax, the School Board's 1.5% tax and the Regional Transit Authority's 1% tax.
- 15 In contrast to the City, the suspension of the State tax does not necessarily deprive the State's general fund of revenue. This is because the Legislature follows a practice of not keeping revenue that State sales taxes generate from local hotels, except for the 0.45% tax it renewed in July 2018. The Legislature typically dedicates the rest of the State's hotel tax money to entities or purposes in the parish where it collects the revenue.
- 16 The City estimates that each percentage point of hotel tax will generate about \$12.3 million in 2019. The Convention Center's flat tax will yield estimated net revenue of \$8.8 million. That is equivalent to the net revenue from a 0.7% ad valorem tax based on the City's estimate. The Tourism Marketing Corporation's flat tax will generate estimated net revenue of \$5.5 million, or the equivalent net revenue from a 0.45% ad valorem tax. Thus, the flat taxes generate combined revenue that is equivalent to a 1.15% tax.
- 17 The assessment, which applies to the vast majority of hotel rooms in New Orleans, is calculated on the same basis as a hotel tax and is deemed by law to be an "enforceable obligation of guests to the same extent as daily room charges and other lawful surcharges." La. R.S. 21:204(D) and 21:204(E).
- 18 The City also receives a total of about \$2 million a year in hotel tax dedications from three entities. However, cooperative endeavor agreements limit the City's use of these revenues to supporting tourism.
- 19 Dwyer, Larry, Peter Forsyth and Wayne Dwyer, *Tourism Economics and Policy*, 2011, p. 565. An infamous example of overtaxing involves a 5% tax that New York City imposed in 1990 on hotel rooms that cost \$100 or more per night. Tourism levels declined and the city lost more than twice as much sales tax revenue from visitor spending as it gained from the new hotel tax. The city rescinded the tax in 1994.
- 20 For instance, annual studies by the University of New Orleans' Hospitality Research Center estimated that the number of tourists increased from 10.5 million in 2016 to 11 million in 2017, while spending by tourists increased from \$7.1 billion in 2016 to \$7.5 billion in 2017.
- 21 Despite the higher tax rate, the amount of revenue that each percentage point of hotel tax generates continued to increase,

- suggesting no drop-off in demand. Hotel tax receipt data in City budgets indicate that the amount of revenue that a 1% hotel tax generates increased from \$11.5 million in 2016 to \$12.1 million in 2018, a 5.2% increase. Also, the average amount of revenue that hotel operators generate per room – a key data point for gauging the strength of the hotel industry – continued to climb while the higher rate was in effect. The amount of revenue per available room increased from \$102 in 2016 to \$103.62 in 2018. HVS Convention, Sports & Entertainment, *HVS Hotel Valuation Index*, available here https://hvi.hvs.com/market/united-states/New_Orleans.
- 22 BGR estimates the \$22 million consists of \$12.5 million from the Convention Center’s 1% hotel tax, \$2 million from the State tax dedication, \$2.9 million from the Regional Transit Authority tax dedication, and \$4.6 million from the Convention Center’s 0.25% citywide food and beverage tax.
 - 23 The City projects are: \$23 million for public safety improvements, including an integrated surveillance camera network and command center; \$12.5 million for traffic-flow and street improvements to Convention Center Boulevard and the surrounding area; \$7.5 million to renovate Spanish Plaza; \$5 million over five years for State Police patrols in the French Quarter; and \$1.25 million over five years to operate a homeless shelter on Gravier Street. The other projects are: \$12 million to buy the former Louisiana ArtWorks building on Howard Avenue and lease it to the New Orleans Culinary and Hospitality Institute; \$9 million to convert the Governor Nicholls Street and Esplanade Avenue wharves into a public park; and \$2.25 million to support British Airways service between New Orleans and London.
 - 24 Financing for the capital plan will include an estimated \$312 million in new debt and \$245 million in one-time expenditures from the center’s annual tax revenues and its existing reserves. These expenditures would cause reserves to drop to about \$122 million in 2022.
 - 25 PFM Financial Advisors, *Ernest N. Morial Convention Center: Financial Planning Update*, September 18, 2018.
 - 26 Mak, p. 135.
 - 27 Dwyer, Forsyth and Dwyer, p. 563.
 - 28 Ibid.
 - 29 Smith Travel Research, *Top 25 Cities Effective Hotel Tax Rate: New Orleans Tourism Support Assessment Applied*, December 2013.
 - 30 Cordes, Joseph J., Robert D. Ebel, and Jane G. Gravelle, *The Encyclopedia of Taxation and Tax Policy*, pp. 89-90.
 - 31 The dedications come in a variety of forms. Many of them are set forth in State law, including the Stadium District’s 4% tax. Other dedications are established in voter-approved ballot propositions, including the School Board’s 1.5% tax and most of the Convention Center’s hotel taxes. The City Council controls just one hotel tax dedication – a flat tax of \$0.50 to \$1 per night that generates about \$5 million a year for the Tourism Marketing Corp.
 - 32 Louisiana Stadium and Exposition District, 2017-18 Financial Statement, p. 43. Ernest N. Morial New Orleans Exhibition Hall Authority, 2017 Financial Statement, p. 31.
 - 33 The overall tax rates in the other parishes are: East Baton Rouge (Baton Rouge), 15.45%; Caddo Parish (Shreveport), 15.05%; Jefferson Parish (Metairie), 14.2%; Calcasieu Parish (Lake Charles), 14.2%; Lafayette Parish (Lafayette), 13.45%; and St. Tammany Parish (Covington), 12.2%. The median tax rate for the peer parishes is 14.2%.
 - 34 In Baton Rouge, the State dedicates a 1% hotel tax to public transit and another 1% hotel tax to economic development. And in St. Tammany Parish, the State dedicates the proceeds from the equivalent of a 0.84% tax to recreational facilities.
 - 35 The State’s projected 2019 Orleans Parish hotel tax dedications are as follows: New Orleans & Company, \$12.1 million; the Stadium District, \$10.5 million; the Convention Center, \$2 million; and the Louisiana Tourism Promotion District, \$0.4 million.
 - 36 HVS Convention, Sports & Entertainment, *2018 HVS Lodging Tax Report – USA*, August 2018, p. 9.
 - 37 Tennessee Advisory Commission on Intergovernmental Relations, p. 27.
 - 38 The 20.23% effective hotel tax rate in Atlanta includes ad valorem taxes totaling 16.9% and a \$5 per diem tax that generates revenue equivalent to a 3.33% ad valorem tax.
 - 39 The median is the average of the two middle values for the 12 peer cities – 16.45% (San Francisco, sixth highest) and 15.75% (Denver, seventh highest).
 - 40 The median is the average of the two middle values for the 12 peer cities – 20% (Atlanta, sixth highest) and 12% (Nashville, seventh highest).
 - 41 For example, two recent studies on the economic impact of tourism in New Orleans in 2017 reached very different findings. A study commissioned by New Orleans & Company found that 17.7 million people visited the city last year. That is 6.7 million more than the estimated 11 million visitors in a study by the University of New Orleans Hospitality Research Center. That is a difference of more than 60% on perhaps the most fundamental data point for gauging the economic impact of tourism.
 - 42 Previous BGR research found that chronic underfunding of preventive maintenance has contributed to the poor state of the City’s streets. A 2017 BGR report found that the City spent an average of just \$3.8 million a year on street maintenance from 2011 to 2016. That falls far short of the \$30 million to \$35 million that the City estimates it needs to ensure streets do not deteriorate prematurely. Bureau of Governmental Research, *Paying for Streets: Options for Funding Road Maintenance in New Orleans*, May 2017, and *Street Smarts: Maintaining and Managing New Orleans’ Road Network*, October 2008. The figure of 120 police officers is a BGR calculation based on City estimates from a 2016 millage proposal that a police officer’s salary, benefits, equipment and training costs an

average of about \$100,000 per year. Responding to citizen concerns about public safety and increases in police response times, the City proposed a 5-mill property tax in 2016 that would have generated about \$17.7 million a year to expand the City's police force. Voters rejected the tax proposition, and the City has not implemented the police expansion plan.

- 43 The per diem tax is \$0.50 or \$1 depending on the size of the hotel. It will generate an estimated \$5.5 million in 2019. At that revenue level, the tax would need to increase to \$1.12 or \$2.24 to generate revenue equivalent to a 0.55% ad valorem tax, or \$6.8 million currently.
- 44 Home Rule Charter of the City of New Orleans, Section 3-101(2). The charter requires voter approval for a specific tax or service charge affecting real property or motor vehicles. The charter defines "a specific tax or service charge" as one that "is imposed as a fixed sum on each article of a class without regard to its value." However, it excludes from the definition and voter approval a wide range of charges. It excludes "any charge (including but not limited to a sanitation charge), fee, license, permit or rate imposed or levied pursuant to the regulatory authority of the City of New Orleans in the operation of the City, its departments, boards, agencies and commissions (whether attached or unattached) including, but not limited to, the Sewerage and Water Board." The charter language is confusing and has never been interpreted by the courts.



BUREAU OF GOVERNMENTAL RESEARCH

1055 St. Charles Ave., Suite 200

New Orleans, LA 70130

Phone 504-525-4152

www.bgr.org

@BGRNola