

# NOW

BGR's Spotlight on Local Government Issues

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## Convention Center Bill Highlights Need to Rethink Local Taxation

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The Louisiana Legislature is currently considering a bill (House Bill 1056) to grant taxing authority to an economic development district that includes the Ernest N. Morial Convention Center and adjacent undeveloped land. The bill's proponents contend that new tax revenue may be necessary to help cover an estimated \$155 million in public expenditures to support a projected \$1 billion private mixed-use development near the Convention Center that includes residences, a hotel and retail space.

However, the Convention Center already has \$222 million in reserves and received approximately \$60 million from ten Orleans Parish taxes in 2015.<sup>1</sup> This raises questions about why more taxes might be necessary. The Convention Center amassed the surplus in large part because it has continued to receive two citywide taxes intended to fund a previous Convention Center expansion project that was canceled after Hurricane Katrina. These two taxes – a 1% hotel tax and a 0.25% food and beverage tax – alone generate about \$15 million a year. The Legislature, which imposed the taxes 14 years ago without local voter approval, has authorized the Convention Center to use these revenues to fund other endeavors, including the project for which HB 1056 would provide additional taxing authority.<sup>2</sup>

In a recent report entitled *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?*, BGR flagged the two Convention Center taxes as examples of tax dedications that should be reassessed in light of the City's lack of funding to meet pressing

needs.<sup>3</sup> These include crumbling streets, ballooning jail costs, depleted police ranks and tens of millions of dollars owed to firefighters and their pension system. The report linked the City's financial bind in part to a local tax structure that evolved in a piecemeal fashion over the past 50 years with little big-picture planning or consideration of competing needs. Once taxes are established, they tend to take on lives of their own and are not reconsidered as circumstances change. The Convention Center taxes for the canceled project are a prime example of this problem.

The HB 1056 taxing authority, if exercised, could perpetuate this ad hoc approach to taxation. It would authorize the Convention Center's economic development district<sup>4</sup> to levy additional sales and hotel taxes of up to 2% each and a property tax of up to 5 mills within the district's boundaries. Because the district has no residents, the district's board could impose new taxes without voter approval.<sup>5</sup> The board is comprised of the Convention Center's 12-member board<sup>6</sup> plus two City Council members.

There is no sunset provision for the taxes that the bill authorizes. The board could make permanent any tax it approves. These would join the other various Convention Center taxes that are effectively permanent,<sup>7</sup> including hotel tax dedications totaling more than 3%, additional flat charges on hotel stays, and a citywide 0.75% food and beverage tax, among others.

At this point, the district has not put forth a specific proposal to use the new taxing authority. Convention Center officials told BGR that authorizing the economic development district to levy taxes would provide an important option as the district finalizes funding for the development project.

One matter of concern is the district's possible use of tax increment financing (TIF). The bill would authorize the district to implement TIFs, allowing it to capture sales and property taxes that would otherwise go to the City of New

Orleans. The Convention Center told BGR it does not know how or whether it will use the TIF power granted under HB 1056 and noted that any TIF would require City approval. But BGR has previously observed that when TIFs are used to directly subsidize private developments, they can confer an unfair advantage over competitors.<sup>8</sup>

The Convention Center said part of the public investment in the project entails installing water and sewer lines, a parking structure and other infrastructure to support a mixed-use development on 47 acres upriver from the Convention Center. The private development is to include a 1,200-room hotel, 2,000 residential units and 300,000 square feet of retail space, including restaurants and entertainment venues. Convention Center officials told BGR that the district also plans to contribute \$70 million to \$80 million in public funds toward hotel construction costs. In exchange, the Convention Center, which owns the land, will seek a fixed return in the form of rent that can escalate based on the hotel's performance. The Convention Center estimates that public costs for the project will total approximately \$155 million. About half of the money would go toward infrastructure and half toward the hotel construction costs.

The Convention Center noted that it is pursuing another \$85 million project separate from the district's project outlined above. That project would reduce Convention Center Boulevard from four lanes to two and change surrounding streets to improve traffic flow. The project also includes a linear park and pedestrian walkway running the length of the Convention Center.

Convention Center officials say they expect the projects will increase demand for meeting space, providing the impetus for a future expansion of the Convention Center itself.

The Convention Center plans to draw from its \$222 million in reserves to pay for the \$85 million Convention Center Boulevard project. This would leave about \$137 million in re-

serves. Convention Center officials said they would attempt to fully cover the \$155 million public cost of the mixed-use development with a combination of reserves and bonds. If that is not enough, they said they would use the HB 1056 taxing authority.

The Convention Center has repeatedly received new tax dedications to fund specific expansion projects dating to the 1970s. The taxes have typically been set to automatically sunset once the bonds financing the project have been retired. However, the Convention Center has used its authorization to pledge the taxes to service debt for other projects or purposes. As a result, none of the Convention Center's taxes established since 1978 has sunset. The authority granted under HB 1056 could perpetuate this pattern of an ever-expanding portfolio of new taxes.

The Convention Center's taxes and its decisions to invest in new projects to the degree it is contemplating are matters that should be considered publicly in a citywide context. This is particularly important in light of the City's financial predicament.

Last month, New Orleans voters rejected a pair of proposed property taxes for police and fire services. A 5-mill police tax would have generated about \$17.7 million a year to expand the police force to address residents' concerns about crime and police response times. A 2.5-mill fire tax would have yielded about \$8.9 million annually to help the City cover costs from a settlement with firefighters to shore up their beleaguered pension fund and resolve a decades-old lawsuit over back-pay. The tax proposal's defeat means the City will likely have to cut other areas of its budget to meet its public safety objectives.

It should be noted that public safety services have a direct impact on the tourism industry. Millions of tourists pass through the city each year, and as tourism officials have pointed out, a perception that the city is unsafe threatens those numbers.<sup>9</sup>

The Convention Center touts the economic benefits of its projects. It predicts the public investments will pave the way for \$1 billion in private spending. The Convention Center also believes the projects will provide a significant boost to the local tax base.

In this release, BGR is not weighing in on the merits of the Convention Center's projects or whether the Convention Center should provide significant public funding for residential, retail and hotel developments. But BGR has consistently urged a strategic approach to public spending based on a comprehensive assessment and prioritization of the needs of the multiple governmental entities operating in New Orleans. This is because local taxing capacity is limited by statutory caps and taxpayers' tolerance for more taxes. It should be used judiciously to help ensure the community's most pressing needs are addressed.

As BGR recently recommended in *The \$1 Billion Question*, it is time to re-evaluate tax dedications in Orleans Parish. The City and its legislative delegation should work to align the limited local tax dollars with the city's most pressing needs. As part of the re-evaluation, the Convention Center's significant share of local taxes – and any proposal to impose additional taxes – warrants specific attention.

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## ENDNOTES

1 The Ernest N. Morial New Orleans Exhibition Hall Authority (the Convention Center) receives the following taxes and tax dedications (dollar figures based on 2015 receipts and, in some cases, BGR estimates): three hotel taxes totaling 3% (\$33.8 million), two food and beverage taxes totaling 0.75% (\$12.2 million), a hotel room occupancy charge of \$0.50 to \$2 per night depending on the size of the hotel (\$7.3 million), a dedication from the Regional Transit Authority's hotel tax (\$3.1 million), a 2% service contractor tax for goods and services linked to conventions (\$2.1 million), a dedication from the state's hotel tax collected in Orleans Parish (\$2 million), and a sightseeing tour tax of \$1 per ticket (\$221,000). These gross receipts total \$60.7 million; after state collection fees, the net total is \$59.8 million.

2 La. Acts 2014, Reg. Sess. No. 557.

3 Bureau of Governmental Research, *The \$1 Billion Question: Do the Tax Dedications in New Orleans Make Sense?*, November 2015, pp. 12-13.

4 The district is formally known as the New Orleans Exhibition Hall Authority Economic Growth and Development District.

5 La. R.S. 33:9038.33(A) and La. R.S. 33.9038.39.

6 The governor appoints nine members, and the mayor of New Orleans appoints three. La. Acts 1997, Reg. Sess. No. 1174.

7 The Convention Center has pledged all of its taxes to secure bonds. The taxes cannot sunset until the bonds are retired. However, the Convention Center has continually pledged the taxes to support new debt, meaning that taxes dating back as far as the 1970s remain in effect.

8 See BGR letter to New Orleans City Council on TIFs, November 19, 2007, p. 2; and *Tax Increment Financing in New Orleans*, April 2003, p. 12.

9 See statement by Stephen Perry, president and CEO of the New Orleans Convention and Visitors Bureau, in a March 25, 2015, City of New Orleans press release, "Mayor Landrieu, Law Enforcement, Business and Resident Leaders Announce Plan to Improve French Quarter Safety."