To: The Hon. Mayor LaToya Cantrell of The City of New Orleans and The Hon. Governor John Bel Edwards of The State of Louisiana

From: Satchmo Advising Co.

Date: 12/9/2020

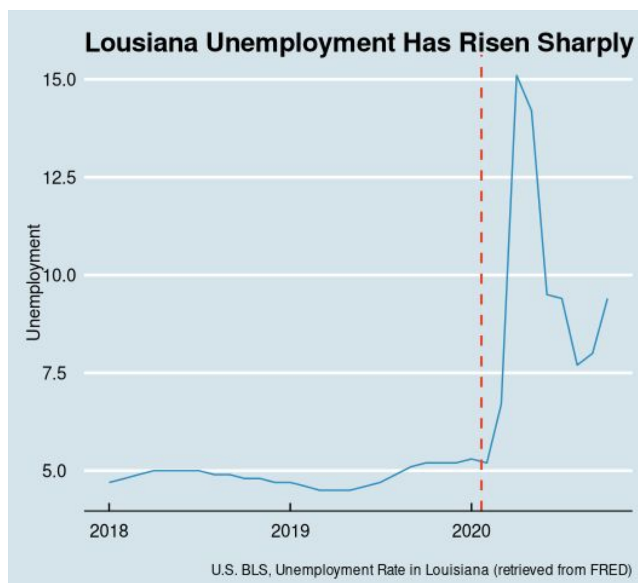
RE: Financial Response to COVID-19

Executive Summary

The City of New Orleans and State of Louisiana have suffered severe negative revenue shocks in 2020 as a result of the COVID-19 pandemic, projecting budget shortfalls of $132 million and $293 million respectively in fiscal year 2020.[1,2] Although these shortfalls pose a serious threat, they also represent an opportunity to position the City and State for a robust recovery, positioning New Orleans and Louisiana to absorb pent-up demand for real estate and tourism dollars after the pandemic ends.

We recommend that Louisiana increase the progressivity of its individual tax structure by creating a new 8% income tax bracket for incomes over $200,000. We also recommend Louisiana remove its top two corporate income tax brackets to help the state compete as a destination for corporate relocations with neighboring states like Texas.

We recommend that New Orleans increase funding for the city's most unique public good: its rich cultural heritage. The city should increase its funding of artistic institutions and grantmaking bodies, increasing the provision of cultural amenities that attract artists and art-lovers to the city. These programs should be funded using revenues from the city's new Harrah's Casino lease.



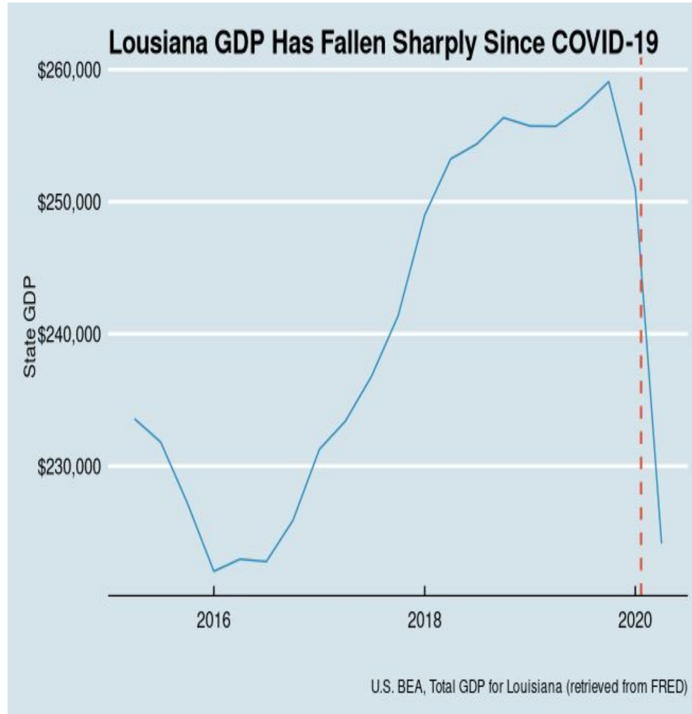
Economic Outlook

Louisiana

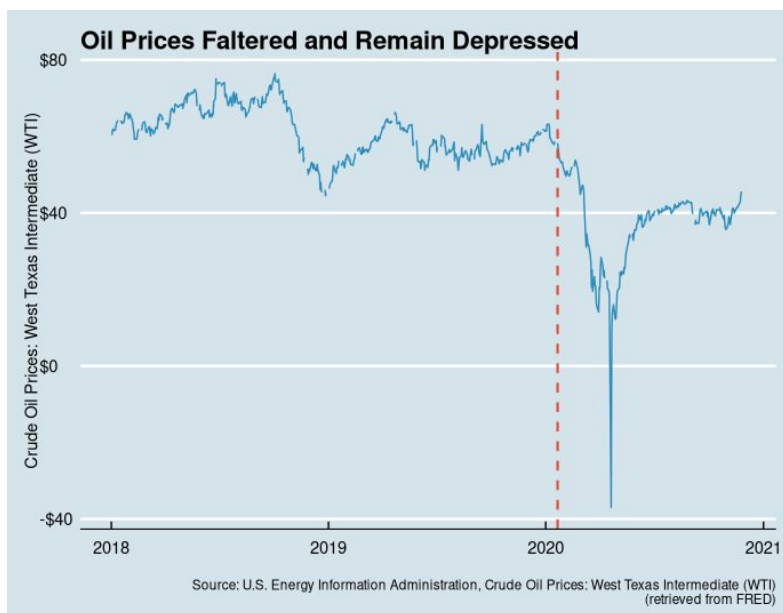
As of December 6th, Louisiana has reported nearly 250,000 cases and 6,500 deaths resulting from COVID 19.[3] State Gross Domestic Product (GDP) fell by a non-annualized rate of 13.49% ($35 billion) in the first two quarters of fiscal

[1] Cantrell, Brossett, and Moreno, "New Orleans Revenue Estimating Conference."
[2] "Louisiana Revenue Estimating Conference FY 20 Forecast."
[3] "Louisiana Coronavirus Map and Case Count - The New York Times."

year 2020.[4] Louisiana lost over 11% (218,000) of its total jobs in the first two quarters of 2020, and is projecting slow recovery into 2021.[5] The leisure and hospitality sectors are hardest hit, but health, education, and transportation sectors have also seen layoffs.[6]



The resulting economic downturn has caused severe financial stress for the state. After starting 2020 with a projected budget surplus between $170-$236 million, Louisiana now faces a deficit of nearly equal size.[7] Driving the deficit: sales taxes dropped by 11.1% in fiscal year 2020 and are expected to drop a further 3.8% during FY 2020-21.[8] Income taxes experienced a 13.8% increase in FY 2018-19 due to the Federal Tax Cuts and Jobs Act, but have fallen dramatically since then.



The sharply declining price of oil is another immediate threat. Louisiana's oil and gas industry generated $529 million in state severance tax revenue in 2019 and employed nearly 45,000 people. But the pandemic decreased demand for transportation fuel, causing the price of oil to collapse. The price has now stabilized around $40 per barrel, about a 24% reduction in pre-pandemic oil prices.[9] The State expects the price of crude and overall production to continue to fall in 2021,

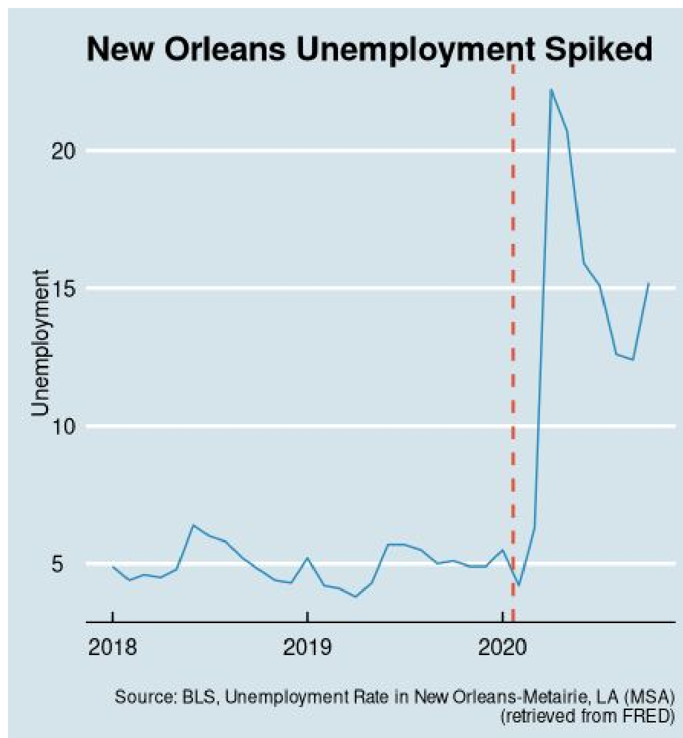
[4] "BEA Regional Data - GDP and Personal Income."
[5] Wagner, "Louisiana Economic Activity Forecast."
[6] "BLS Data Viewer."
[7] "Louisiana Executive Budget Presentation."
[8] Jay Dardenne, "Louisiana State Budget Fiscal Year 2020-2021."
[9] U.S. Energy Information Administration, "DCOILWTICO."

leaving severance tax collections at less than half the pre-pandemic level.[10]

	FY 2019	FY 2020	FY 2021 (forecast)
Crude Oil Price (per barrel)	$60.72	$46.42	$32.17
LA Crude Oil Production (Million Barrels)	48.2	47.0	44.0
Projected Severance Tax Revenue	$524.6 MM	$415.0 MM	$230.8 MM

Table source[11]

Finally, the 2020 hurricane season did not spare Louisiana. Notably, hurricane Laura caused between $8-12 billion in property damage.[12] Most of this cost is expected to be absorbed by the Federal Emergency Management Agency (FEMA), but uncertainty remains with regard to local economic recovery from the damage. Article VII, Section 10 of the State Constitution requires the State Legislature to maintain a balanced budget with some flexibility in extraordinary circumstances, but deficits must be resolved by the end of the following fiscal year.[13] The State revenue estimating conference projects an $82 million reduction in expenditures for FY 20-21.[14]



<u>New Orleans</u>

On March 11th, 2020, the Mayor of New Orleans declared a state of emergency in response to the COVID-19 pandemic.[15] As the pandemic stretched on, the Mayor officially cancelled public Mardi Gras celebrations,[16]

[10] Jay Dardenne, "Louisiana State Budget Fiscal Year 2020-2021."
[11] Ibid.
[12] "CoreLogic Estimates $8 Billion to $12 Billion in Insured Losses From Hurricane Laura Wind and Storm Surge."
[13] "Louisiana Laws - CONST 7 10."
[14] "Louisiana Executive Budget Presentation."
[15] "Mayoral Proclamation of a State of Emergency Due to COVID-19."
[16] "Mayor - 2021 Mardi Gras."

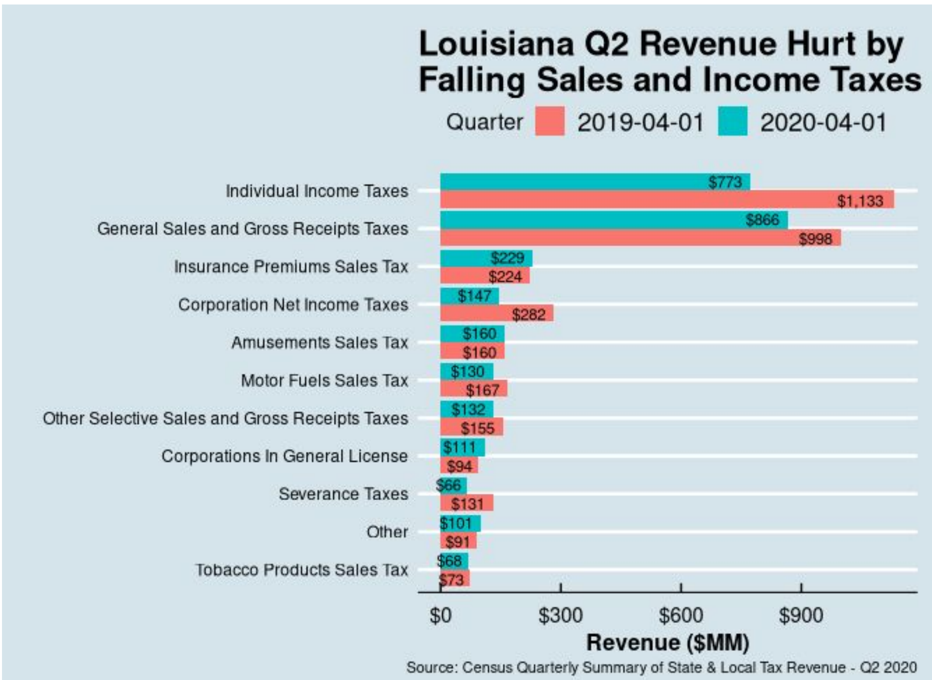
forgoing an event that brings an estimated $1 billion to the regional economy.[17] Indeed, New Orleans' economy relies on tourism; since the pandemic began, the unemployment rate skyrocketed from about 4.2% prior to the pandemic up to 22.2% in April before settling at its current level between 12% and 15%.[18]

City revenues have been severely disrupted by the pandemic. The city levies high sales taxes, which are attractive because they allow the city to raise additional revenue from non-residents passing through (i.e. tourists). Amid the pandemic, however, sales tax receipts have dropped by 25% ($51.4 million).[19]

On the other hand, the large decreases in revenue from sales taxes have been balanced by large increases in property tax receipts, licenses and permits. Housing prices continue to rise virtually unchanged from the pre-pandemic era.[20]

Current Fiscal Response

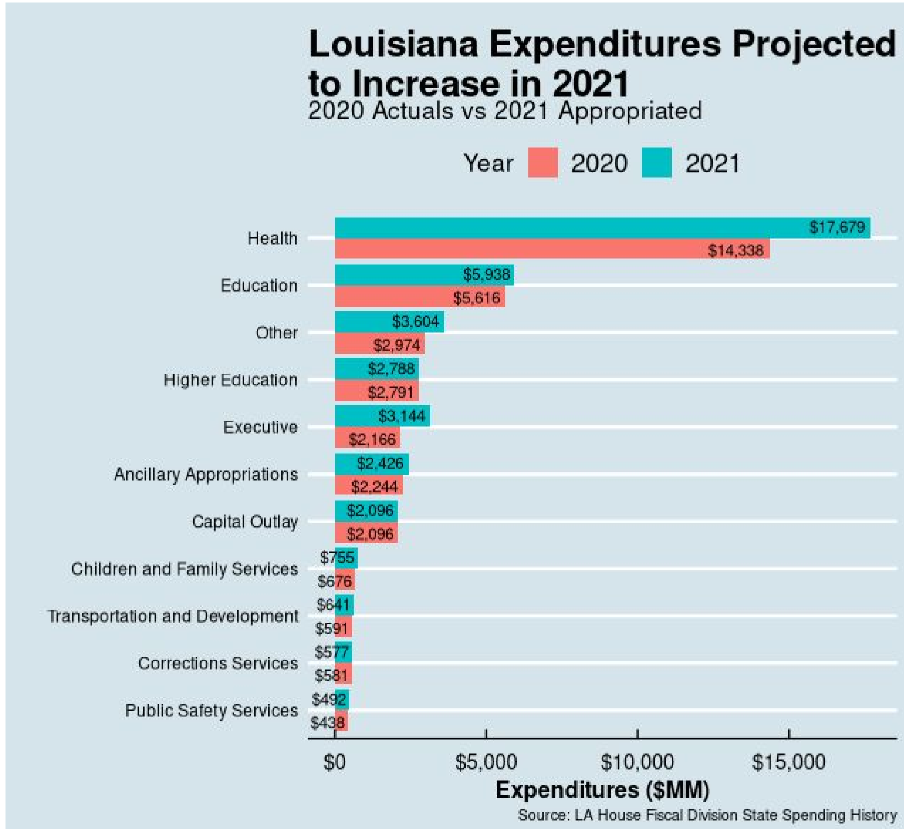
Louisiana



In June 2020, the State House and Senate approved a $34 billion spending plan[21] as part of an extraordinary legislative session. The legislature approved allocation of $811 million of the total $1.8 billion Coronavirus Relief Fund (CRF).[22] The budget sets aside $300 million in small business grants, $511 million to be distributed to local governments, and $50 million in tax rebates for eligible workers providing essential services. Another $255 million was

[17] "2020 Mardi Gras Facts – Booze, Floats, Money & More."
[18] U.S. Bureau of Labor Statistics, "NEWO322UR."
[19] Gilbert Montano, "2021 Proposed Annual Operating Budget in Brief."
[20] U.S. Federal Housing Finance Agency, "ATNHPIUS35380Q."
[21] "Louisiana House Bill No. 1."
[22] "Louisiana Act No. 12."

offset from the State General Fund due to the increased Federal Medicaid Assistance Percentage (FMAP) provisioned by the Families First Coronavirus Relief Act.[23]



Governor John Bel Edwards ordered State agencies to sequester 10% of their budgets and recommended that State legislative and judicial branches do the same.[24] Edwards ultimately vetoed a raft of appropriations bills before signing two fiscal bills into law. A sales tax holiday was declared during the third weekend of November "in order to provide tax relief for citizens recovering from Hurricane Laura, Hurricane Delta, and the COVID-19 pandemic."[25] The most important bill passed permitted a reappropriation of the State General Fund away from agencies eligible for the CRF and towards agencies experiencing financial stress.[26]

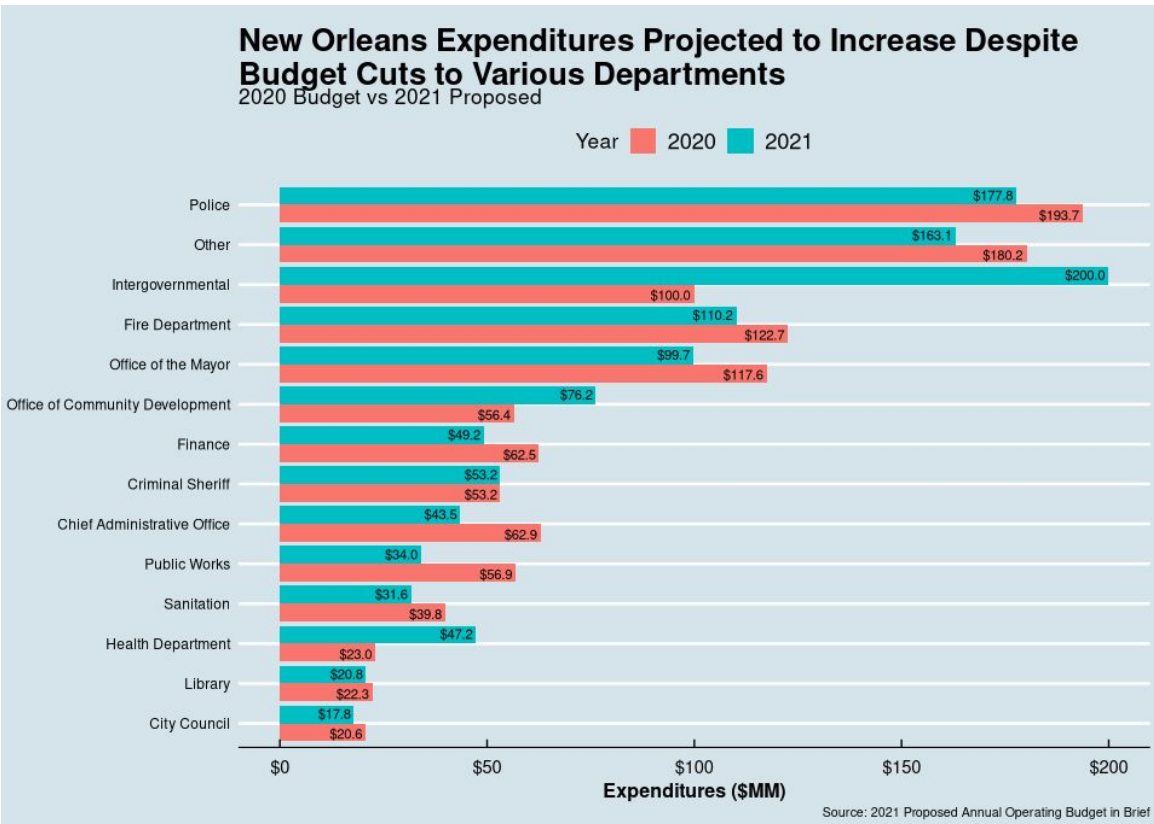
In addition, taking advantage of favorable bond prices following the creation of the Municipal Lending Facility by the US Treasury, the State of Louisiana has issued three large refunding bonds since September.[25,26,27]

New Orleans

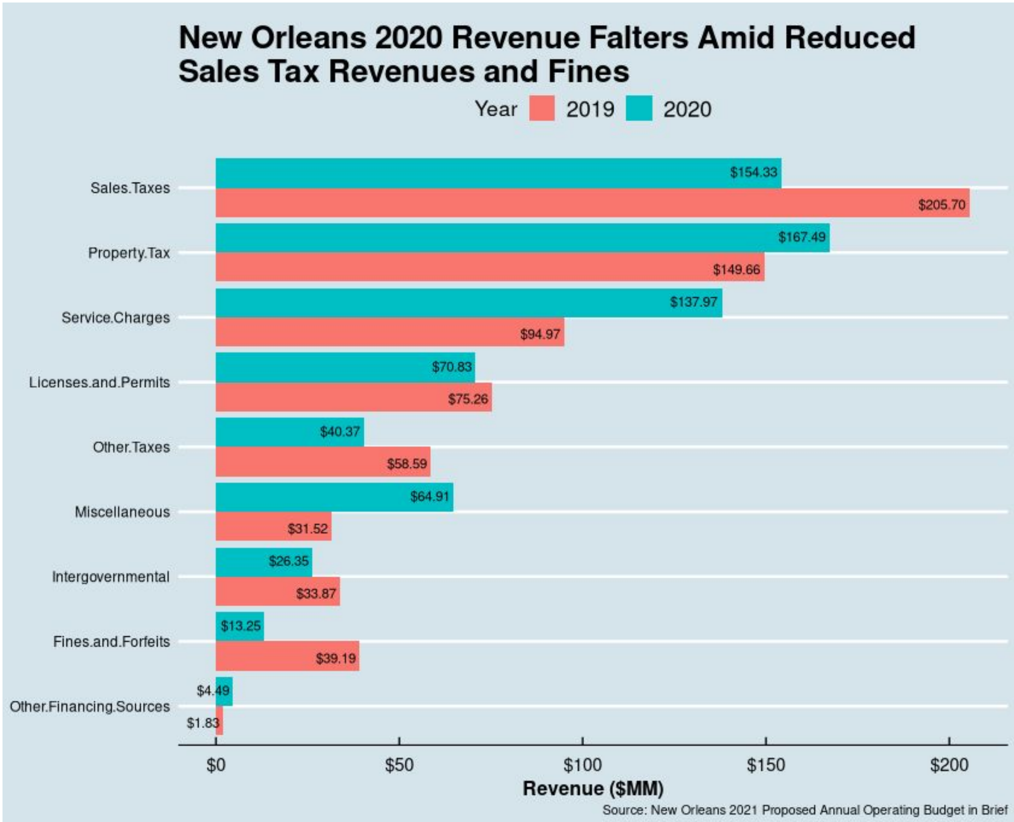
New Orleans is not eligible to receive money directly from the Federal government through the Coronavirus Aid Relief and Economic Security Act (CARES Act) because its population is below the 500,000 threshold for municipalities. However, the city has received $43.4 million from Louisiana's CRF allocation.[27]

[23] "Louisiana Executive Budget Presentation."
[24] "Gov. Edwards Signs State Budget, Vetoes Pay Raise Delay for State Workers."
[25] "Louisiana Act No. 16."
[26] "LA House Act No. 45."
[27] "Louisiana CARES Local Government Coronavirus Relief Funding."

Section 3-166 of the New Orleans City Charter requires annual budgets to be balanced against projected expenditures.[28] This has made it necessary for the city to impose furloughs and budget cuts in order to make up the remaining $88.6 million shortfall. On October 8th, the New Orleans Civil Service Commission authorized Mayor LaToya Cantrell's decision to extend city employee furloughs from July through to the end of the year.[29] The City Council subsequently adopted the Mayor's proposed $1.3 billion budget on November 19th, cutting operating expenditures of many departments including health and public safety.[30] City workers will see across the board pay cuts of 10%, and various departments will have their budgets diminished between 8% and 40%.



[28] "Article III. - The Council - Code of Ordinances, New Orleans, LA."
[29] Stein and Maldonado, "Civil Service Commission Approves Citywide Furloughs."
[30] Jay Dardenne, "Louisiana State Budget Fiscal Year 2020-2021."



Recommendations

<u>Louisiana</u>

Although the rapid response of State leaders has addressed the immediate concerns of the budget deficit, Louisiana should continue to undertake fiscal reforms that set it up for a vibrant economy.

Key to that effort will be attracting new businesses that help the state reduce its heavy dependency on oil revenues. We recommend attracting corporate relocations by removing corporate income tax brackets above 6%. By setting its highest bracket at 8% for corporate net income above $200,000, Louisiana has become an outlier among its neighboring states. Arkansas and Mississippi set their maximum rates at 6.50% and 5% respectively, while Texas has no state corporate income tax at all.[31] Corporate leaders now view Texas as an attractive relocation destination as they seek tax relief from high tax jurisdictions like California (8.84%) and embrace the relocation possibilities enabled by increased reliance on remote work. Texas currently has nearly 200 corporate relocations in progress.[32]

[31] Cammenga, "State Corporate Income Tax Rates and Brackets for 2019."

[32] "'Tremendous Increase' in Corporate Relocations, Expansions to Texas since Pandemic Hit, State Official Says."

Bracket	Marginal Tax Rate[33]
First $25,000 of net income	4%
Next $25,000	5%
Next $50,000	6%
Next $100,000	7%
Excess over $200,000	8%

Louisiana has been less aggressive in pursuing these relocations. For instance, despite the 2012 formation of the State's Corporate Headquarters Relocation Program, Louisiana does not project funding any relocation grants in FY 2021.[34] Instituting a lower corporate income tax rate would help the state lure these relocations while also diversifying corporate tax revenues away from the volatility of crude oil prices.

Second, and in tandem with lowering the corporate tax, Louisiana should improve the progressivity of its income tax structure by creating a 4th income bracket of 8% for annual incomes over $200,000. This change is long overdue; Louisiana has the 14th least equitable tax structure and is the 3rd most unequal state in terms of incomes (as measured by GINI coefficient).[35,36] Raising income taxes for the wealthy is an effective way to expand the State's largest revenue source without placing the burden on low-income workers who produce the cultural amenities that are critical to the state's future growth. We estimate that nearly 75,000 households will fall into this new tax bracket generating as much as $900MM in new revenue.[37]

Finally, like many other states, Louisiana's unfunded pension liability has accumulated to unsustainable levels and is driving the State to a fiscal cliff. The Louisiana State Employee Retirement System (LASERS) currently has a $7 billion unfunded liability coming due in about 8 years.[38] Issuing pension bonds now while yields are low will ease this pressure and give the State more flexibility that it will need during the recovery over the next few years.

[33] "Corporation Income & Franchise Taxes - Louisiana Department of Revenue."
[34] Jay Dardenne, "Louisiana State Budget Fiscal Year 2020-2021."
[35] "Who Pays?"
[36] "Gap between Rich and Poor, by State in the U.S. 2019."
[37] Louisiana income distribution data from 2018 ACS 5 Year Estimates ("Social Explorer.")
[38] "Basic Pension FAQ – LASERS."

(Graph Source[39])

New Orleans

New Orleans is the center of commerce, culture, and population of Louisiana, as well as its biggest source of tax revenue. Just as it did following the devastation of Hurricane Katrina, we expect the tourism industry to rebound significantly once the pandemic is over.

We view New Orleans' cultural production -- including music, cuisine, and festivals -- as a form of public good. The City should increase the provision of that public good through incentives, thus increasing the city's appeal to prospective residents who highly value those cultural amenities. The Big Easy possesses a singular culture that cannot be reproduced elsewhere which gives it a permanent advantage over other cities. In 2019, the City was the destination of 19.5 million visitors who collectively pumped $10 billion into the local economy.[40] Other cities, including Austin, TX and Boston, MA have created COVID relief funds for the creative arts and New Orleans should do the same.[41,42]

This program can be funded by the recently signed lease to Harrah's Casino which includes a direct $36 million dollar upfront payment to the City, along with a yearly $6 million payment.[43]

[39] "Municipal Securities Rulemaking Board::EMMA."
[40] "N.O. Tourism Spending Breaks Records in 2019."
[41] "Boston Establishes Artist Relief Fund in Response to Coronavirus."
[42] "Austin Creative - Emergency Grants."
[43] Jessica Williams, "New Provision inside New Orleans's 30-Year Harrah's Lease Could Cost OPSB $2M in Funding."

In addition, the Mayor should aggressively lobby the State Legislature to reauthorize Act.45 passed during the second extraordinary session. This Act permits the reallocation of the State General Fund among State agencies, which in turn can transfer money to the City. New Orleans represents a third of all economic activity in the State and since most State revenues are generated by sales and income tax, the wellbeing of New Orleans is vital to Louisiana as a whole.

Conclusion

The Pelican State's fiscal health has been challenged to an unprecedented extreme in 2020. However, State leaders have been proactive in responding to the crisis. A combination of budgetary austerity, Federal stimulus, and bond issuances have softened the impact of this pandemic recession. The pandemic, and the resulting shift to remote working, has pushed both business leaders and workers to reconsider their choice of location. By adopting policies that increase their attractiveness to businesses and residents, Louisiana and New Orleans can exit the pandemic on a positive trajectory towards growth and long-term fiscal health.

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