

NEW ORLEANS
JUNE 2018



From Answers to Action

**Post-Election Policy Making:
Economic Development Tax Subsidies**

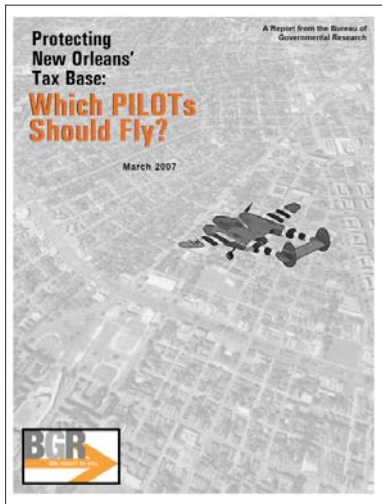
Read the full report at
www.bgr.org



BACKGROUND

In analyzing economic development tax subsidies, BGR adopts the premise that property taxes are a cost of doing business and property ownership. They should be levied in a fair manner. Having said that, BGR recognizes that there may be instances in which tax subsidies are both necessary and beneficial.

BGR has called for the City and other economic development entities to take a rigorous approach to reviewing subsidy requests. It is not enough for a project to show it will enhance tax revenues or create jobs. The City should consider a tax subsidy only if it can demonstrate that the subsidy is strategic, necessary, efficient, effective and fair. As more fully discussed in BGR reports on payments in lieu of taxes (PILOT)* and tax increment financing (TIF),** this means:



- The project receiving the subsidy advances the priorities set forth in New Orleans' economic development strategic plan.
- Independent market studies and financial analysis demonstrate that the market will not produce a desirable outcome for the site, therefore making a public subsidy necessary.
- Efficient subsidies provide only the minimum needed for the project to proceed. In addition, they should not compensate for basic financial weaknesses in a developer or a transaction (e.g., inadequate equity investment) or a lack of demand for a service or product.
- Effective subsidies produce a significant positive ratio of benefits to costs, as supported by a rigorous cost-benefit analysis.
- Subsidies should not create unfair impacts on local competitors or the surrounding neighborhood.

* BGR, *Protecting New Orleans' Tax Base: Which PILOTs Should Fly?* March 2007, available at <http://www.bgr.org/reports/protecting-new-orleans-tax-base/>.

** BGR, *Tax Increment Financing in New Orleans*, April 2003, available at <http://www.bgr.org/reports/tax-increment-financing-in-new-orleans/>.

ECONOMIC DEVELOPMENT TAX SUBSIDIES

In July 2017, BGR asked the mayoral and council candidates whether they agreed with the basic principles for economic development tax subsidies identified by BGR. It also asked them how they would prevent unnecessary subsidies as elected officials.



Do you agree with the basic principles for economic development tax subsidies identified by BGR? If there are points with which you disagree, please state what they are and explain the approach you would take.

Mayor LaToya Cantrell

I do agree with most of BGR's basic principles for economic development tax subsidies, particularly the need for a proactive system, versus a developer-driven case by case system driven by individual developments. However, I believe that the cost benefit analysis should be focused on the efficacy of overall incentive programs at the program level rather than on individual projects. Our incentives should be based on consistent, clear criteria with some front-end understanding by developers of what the incentive package will look like rather than evaluating each project on an individual basis which can lead to a complicated, political and inconsistent process. This will create a more stable development environment and allow the City to target certain neighborhoods and certain types of development (affordable housing) with specific development packages, rather than just chasing individual projects.

Councilmember At-Large Helena Moreno

Yes.

Councilmember At-Large Jason Williams

For the most part I agree with the basic principles of economic development tax subsidies. However there is substantial variability in how those principles are implemented (policy details, rules, regulations, etc), and the devil is in the details ...

A bad deal is not better than nothing

For a very long time the City has been desperate to attract industry and development, and PILOT subsidies and TIFs have been two of the most over-utilized tools in the economic development toolkit. As one of the fastest growing cities in the nation, we no longer have to beg and plead for investment, which means significantly scaling back on how and when PILOTs and TIFs are utilized.

Accountability

We can start by reviewing current PILOT subsidy payments to ensure payment was adjusted to appropriate level based on the original agreement. Next, we need to clearly outline justification for IDB involvement, PILOT project selection criteria, and clearly define bond and subsidy terms.

Risks

Both PILOTs and TIFs are risky for the City – if projections used in calculations are off or don't pan out the City forfeits the benefits promised from these subsidies, such as infrastructure improvements, or increased revenue over the long run. Ultimately, the City and other taxpayers are the ones holding the bag.

ECONOMIC DEVELOPMENT TAX SUBSIDIES



CONTINUED

Do you agree with the basic principles for economic development tax subsidies identified by BGR? If there are points with which you disagree, please state what they are and explain the approach you would take.

Councilmember Joseph “Joe” Giarrusso, III (District A)

This question asks about tax increment financing (“TIF”) and payment in lieu of taxes (“PILOT”). The awarding of a TIF or PILOT needs to be conducted with great care. The most self-evident issue with the subsidies is that they become automatic for any project and decrease the tax burden for one entity as opposed to another. However, where TIFs or PILOTs are given, the process should build in appropriate safeguards to protect the City and those awarded contracts in connection with a project.

Councilmember Jay H. Banks (District B)

I’m extremely concerned about the efficiency of subsidies and whether or not they truly benefit our community. I agree that these types of incentives must be carefully studied and deployed only with guarantees that local communities will see real benefits - especially jobs and commerce with existing businesses.

Councilmember Kristin Gisleson Palmer (District C)

Yes, I agree with basic principles for economic development tax subsidies identified by BGR.

Councilmember Cyndi Nguyen (District E)

District E has not received its fair share of positive economic development projects. Our business corridors have not received the necessary attention. To this point, I believe that we need to provide needed incentives to attract economic developments that will provide the basic needs of the residents in the East and the Lower Nine. I am also in agreement that the city of New Orleans should consider a tax subsidy only if it can demonstrate that the subsidy is strategic, necessary, efficient, effective and fair.



As mayor, how would you prevent unnecessary subsidies?

Mayor LaToya Cantrell

All of our subsidy programs should be backed by empirical research that they provide a true public good. Given the substantial investment that the city has made in its analytical capability, we should be applying a data-backed approach to all subsidy programs to determine their effectiveness.



As a council member, how would you prevent unnecessary subsidies?

Councilmember At-Large Helena Moreno

Preventing unnecessary subsidies begins by having open and transparent processes - along with directing development around job creation. For example, many under-developed areas of the city are ripe for retail operations. Our downtown medical corridor should have a focused biotech and medical development strategy. We need to develop around clusters and in relation to our resources - always eyeing local job creation as our first priority.

Councilmember At-Large Jason Williams

I am monitoring a current subsidy study initiated by Economic Development to assess the efficacy and trade-offs from all existing subsidies. As part of my commitment to evidence-based policy, the insight gleaned from this study will drive my positions on the best path forward to subsidy reform. Additionally, IDB appointments by each Councilmember is a critical opportunity to reshape the Board.

Councilmember Joseph “Joe” Giarrusso, III (District A)

I would make sure that any such tax subsidy is fully and independently studied to make sure it effectively achieves its intended purpose.

Councilmember Jay H. Banks (District B)

I support holding public hearings on individual subsidy arrangements - and requiring that any business or entity that receives such subsidies return to the city council on a regular basis to explain their progress and relate their relative success regarding the subsidies stipulations. We must ensure that we see real job creation from any incentive. If not, the community is not truly benefiting.

Councilmember Kristin Gisleson Palmer (District C)

I believe the City should consider a tax subsidy only if it can demonstrate that it is strategic, necessary, efficient, effective and fair.

Councilmember Cyndi Nguyen (District E)

As a City Councilperson, I will work closely with the city’s economic development team as well as with the Business Alliance, Greater New Orleans, Inc. and other economic organizations to prevent unnecessary subsidies. At the end of the day, economic development projects that will create jobs to help curb crimes and meet the needs of the citizens in District E will be a priority.
