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## **BGR MEDIA RELEASE**

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### **As N.O. faces increasing requests for tax subsidies, BGR addresses system for handling PILOTS**

Today, the Bureau of Governmental Research releases *Protecting New Orleans' Tax Base: Which PILOTS Should Fly?* The report examines the use of payments in lieu of taxes (PILOTS) as a mechanism for reducing property taxes for large private enterprises. It focuses on the system for evaluating and awarding negotiated PILOTS used by the Industrial Development Board of New Orleans (the IDB). The report refers to negotiated, discounted PILOTS as "PILOT subsidies," since they are used to subsidize various local investments.

Currently, the IDB has pending 11 applications containing requests for negotiated PILOTS. These include apartment buildings, hotels and a national chain drug store. Most recently, the IDB approved a PILOT subsidy for a Home Depot store in Central City.

*Protecting New Orleans' Tax Base: Which PILOTS Should Fly?* points out that, given the City's needs, its diminished tax base, and its mounting debt, it is imperative that the City rebuild its tax base as it rebuilds itself. Now more than ever, it must invest its resources carefully and avoid unnecessary subsidies to private enterprise. This can be done only with a cohesive vision for economic development and

carefully crafted policies and procedures for evaluating subsidy requests.

The report finds that New Orleans currently lacks the institutional framework for the proper use of PILOT subsidies. The City lacks a clearly articulated economic development plan and strategy to provide context for considering PILOT requests, and the IDB's system for evaluating and awarding PILOT subsidies is inadequate. The end result is an ad hoc, developer-driven process that allows large corporations to negotiate their effective tax rates down to a level far below that of small businesses in the city.

New Orleanians have recently rejected the notion of making property taxes negotiable and the inequity that results. By an overwhelming margin, voters approved the consolidation of the system of seven assessors. One of the driving forces behind this change was increased citizen awareness of the inequities among taxpayers.

The IDB itself has recognized a need for review of its policies and procedures and has established a committee to revise them. BGR has offered to work with the IDB in this endeavor.

*Protecting New Orleans' Tax Base: Which PILOTs Should Fly?* begins with the premise that property taxes are a cost of doing business and property ownership. They should be levied in a fair and equitable manner. Having said that, BGR recognizes that there may be instances in which tax subsidies are both beneficial and necessary to spur development that would not otherwise occur.

Identifying such instances is difficult, however, for a number of reasons. First, it is challenging to determine whether development would have occurred without a subsidy. Second, because the cost-benefit analyses used to examine PILOT subsidies depend on assumptions and long-term projections, the projected results may not materialize. Third, it is difficult to identify and assess offsetting negative impacts from lost revenues at competing enterprises. Misjudgments in any of these areas can result in a poor investment decision by the local government and an unnecessary reduction in future tax revenues.

Apart from the analytical challenges, PILOT subsidies and other tax incentives create inequities that need to be weighed carefully against expected benefits. PILOT subsidies can confer benefits on certain businesses at the expense of others, giving the beneficiary of the subsidy an unfair advantage. PILOT subsidies can also result in a transfer of costs. To the extent that other businesses lose revenue, the tax base of the local government is reduced. Finally, there is an issue of fairness. Other taxpayers – including competitors of the new, tax-subsidized enterprise – pay their property taxes in full.

The IDB should not consider a subsidy simply because a project will result in a net gain of tax revenues or jobs. It should begin to consider a tax subsidy only if it can be demonstrated that the subsidy is strategic, necessary and effective. Otherwise, a subsidy provides an unnecessary transfer of wealth to private entities. It is a waste that the City can ill-afford as it struggles to rebuild its tax base, services and infrastructure.

BGR urges the IDB committee studying this issue to replace the current approach with a strategic one, establishing high standards and rigorous policies and procedures for the review of PILOT subsidy requests.

“BGR applauds the Industrial Development Board for taking the first steps to review its policies and procedures for awarding PILOT subsidies,” said Lynes R. Sloss, BGR Chairman. “To protect the citizens of New Orleans, the IDB and City leaders need to come together to craft a comprehensive approach that converts PILOTs from a developer-driven subsidy vehicle to an effective strategic incentive.”

BGR's recommendations are as follows:

#### **Standards for PILOT Subsidies**

- The City should develop and adopt a citywide economic development plan with clear goals, priorities and strategies. The IDB should consider subsidies only for projects that support the City's highest priorities and fit strategically with its plan.

- The IDB, or its consultant, should demonstrate through independent market studies and financial analysis that the subsidy is necessary, meaning that the market will not produce a desirable outcome for the site.
- PILOT subsidies should not compensate for financial weaknesses in a developer or basic inadequacies in the financial structure of a transaction (*e.g.*, inadequate equity investment). Nor should they offset the lack of demand for a service or product.
- The IDB should treat a rigorous and favorable cost/benefit analysis as one of a number of requirements, rather than the deciding factor, in the evaluation of projects.
- Once the strategic fit, need and favorable economic impact have been established, the IDB should consider other factors, such as the opportunity cost and the impacts on local competitors and the surrounding neighborhood.
- The IDB should provide only the minimal PILOT subsidy needed for the project to proceed.
- The IDB should approve PILOT subsidies only for projects that conform to the City's master land use plan.

#### **Procedures for PILOT Subsidies**

- The IDB should establish uniform policies, procedures and criteria for determining whether, and in what amount, a PILOT subsidy should be awarded.
- The IDB should consider PILOT subsidies only for projects supported by financial statements, business plans, projections and other documentation of the type and quality that a reputable third-party investor or lender would require.
- The IDB should refer PILOT subsidies to the Mayor's Office of Economic Development for review. The IDB should not approve any PILOT subsidy without a report from that office describing with specificity how the subsidy advances the City's stated economic development priorities as contained in the economic development plan.
- All IDB approvals of PILOT subsidies should be contingent on approval of the subsidy by a super-majority (five or more members) of the City Council and the consent of other tax recipient bodies.

#### **Accountability**

- To the extent feasible, the IDB should craft PILOT agreements that impose penalties if projected economic benefits do not materialize.

- On an annual basis, the IDB should prepare a report on the performance of approved PILOT subsidies. This will require the City and IDB to obtain commitments from developers to provide necessary data for measuring performance for the life of the subsidy.

*Protecting New Orleans' Tax Base: Which PILOTs Should Fly?* can be found on BGR's web site, [www.bgr.org](http://www.bgr.org).

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BGR is a private, non-profit, independent research organization dedicated to informed public policy making and the effective use of public resources for the improvement of government in the New Orleans metropolitan area. BGR also addresses state and national public policy issues that affect the metropolitan area.

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