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#### **BUREAU OF GOVERNMENTAL RESEARCH**

938 Lafayette St., Suite 200

New Orleans, LA 70113

Phone 504-525-4152

Fax 504-525-4153

www.bgr.org

## **BGR Release: It's Time to Stop the Insanity on Subsidies**

*September 17, 2007*

New Orleanians should get used to the words “TIF” and “PILOT.” One refers to tax increment financing, which in Louisiana typically diverts the new sales taxes that a development generates to fund improvements on the development site or in the vicinity. The other refers to a payment in lieu of taxes. While the term has several meanings, in New Orleans it typically refers to an arrangement that allows a private enterprise to pay property taxes at a reduced level.

TIFs and PILOTs are worth knowing about because there is a massive surge in developer requests for them. Negotiating taxes is rapidly becoming standard procedure for new projects in New Orleans.

Prior to Hurricane Katrina, there were three active TIFs and 11 active or approved PILOTs in New Orleans. The number of PILOTs has since risen to 16, and there are currently 48 requests for PILOTs pending before the Industrial Development Board of New Orleans, the unelected body that has the power to give the tax break. Three proposals to form TIF districts have surfaced in the press. The PILOTs and TIFs are sought for a wide range of projects, including luxury apartments, hotels, parking garages, affordable housing and retail stores. Developers have requested the subsidies for projects in both devastated and thriving areas. Some are in the 17 zones earmarked by the City for redevelopment. Some are not.

TIFs and PILOTs are economic development tools that in theory foster projects that would otherwise not occur, creating jobs and providing other benefits. While the tax subsidies are granted in the name of economic development, they are in fact awarded in New Orleans on an ad hoc basis through incoherent, arbitrary systems. The City has no comprehensive plan or strategy to guide the decisions. Policies, procedures, standards and evaluations are either grossly inadequate or nonexistent. Under the circumstances, TIFs and PILOTs cannot and do not serve as effective economic development tools.

Over the past several years, BGR has issued multiple reports on these subsidies and offered its assistance in crafting solutions. The reports are posted on our web site, [www.bgr.org](http://www.bgr.org). The reports contain specific recommendations, informed by extensive research, for fixing the problems associated with TIFs and PILOTs in New Orleans. They also provide detail on developments that have sought the subsidies.

## **A Matter of Fairness**

Developers submitting proposals to the Industrial Development Board post-Katrina typically assert that rising construction and insurance costs make their proposed developments uneconomical. The proffered solution: Offset those increased costs with a tax break.

The developers are seeking a project-specific tax break on the basis of factors that have universal application in the community. Higher insurance costs are dogging property owners and businesses across the board. Construction costs have risen for anyone trying to maintain, rebuild or improve property, regardless of whether they are large developers or homeowners and small business owners using life savings to rebuild. Living in the Big Easy is no longer as easy as it once was.

Given this situation, anyone investing in the city would naturally look for ways to minimize his exposure and share of the burden. Luckily for big developers, local government offers remedies in the form of tax abatements with scant oversight and negligible standards. Unhappily for everyone else living or doing business in town, these breaks apply only to large-capacity enterprises. The large developer and the small business owner both face increased costs and increased risks, but one can mitigate his risks via tax breaks and the other cannot.

Ironically, the tax breaks for the developer will ultimately cost the struggling homeowner or other businesses more. To the extent that the developer does not pay his fair share of the taxes for city services and infrastructure, other taxpayers paying full freight subsidize him. This is especially troubling in the case of a retail operation, where the big developer may be directly competing with those small businesses.

This is simply unfair and, given the arbitrary process governing tax subsidies, cannot be justified in the name of economic development.

## **Hit the Pause Button**

Since 2003, BGR has called for imposing sanity on the award of subsidies and warned that the City was opening a Pandora's box. Indeed, as time has passed, the demand for subsidies has risen sharply. And developers have told BGR to expect an avalanche of new proposals. Seeking a tax break will simply become part of the business model.

Both the Industrial Development Board, which awards PILOTs, and the City Council, which approves TIFs, have acknowledged the need to craft policies, procedures, and standards for determining whether, and in what amount, they should award subsidies. To date, however, the reforms that BGR called for have not been implemented. In their place remains the arbitrary, unfair and ad hoc award of tax incentives to large-scale private enterprises. It's open season for subsidies, and you can't blame developers for taking advantage of the situation to gain a competitive edge. The responsibility for fixing this problem falls squarely on the officials who award the subsidies.

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In light of the surge in applications, the City and the Industrial Development Board should impose moratoria on awarding TIFs and PILOTs until they prepare and implement policies and procedures. Thereafter, the City and the Industrial Development Board would be able to consider each project in a clear-headed manner.

Some officials might be tempted to argue that waiting for sound policies to govern PILOTs and TIFs would slow the pace of recovery. But the City in September 2006 and the IDB in May 2007 committed to producing such policies; ample time has already elapsed. The pace of recovery is increasingly becoming the refuge to which officials turn when seeking to justify decisions. At some point, New Orleans must begin operating in a rational, focused manner. Let it begin now, with moratoria on the award of subsidies and a renewed commitment to immediately completing policies that will protect the public interest.

**Contact:** Janet R. Howard, *President*  
(504) 525-4152

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BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area.

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