

## UNFAIR ASSESSMENTS, EXCESSIVE EXEMPTIONS

### *How New Orleans' Property Tax System Hurts Government and Taxpayers*

Last fall the New Orleans City Council and the Nagin Administration struggled to close a \$30 million gap in the City's proposed 2005 budget. In the budget hearings, council members solicited ideas for generating additional revenue for the City. More recently, Mayor Nagin, facing a staggering judgment for back-pay to the firefighters and a court order to increase their salaries, convened a citizens' committee. Its charge: to identify revenue sources to pay the obligation.

The fiscal crisis has been unfolding against a backdrop of inequitable assessments. While some property owners have seen astronomical increases in their tax bills, others continue to pay on assessments that seem to belong to a past era. The unfairness of the system became vivid to New Orleans taxpayers after the Nagin administration began posting assessments online and *The Times-Picayune* documented under-assessments and widespread disparities. In April, the Louisiana Tax Commission released a study examining residential assessments in New Orleans. The study provided

new evidence that properties are unevenly assessed, and that assessments, on average, fall significantly short of what fair market value would dictate. The Tax Commission ordered a reassessment of all residential properties in New Orleans.

For New Orleans' property tax system, the moment of truth has arrived.

The relationship between low-ball assessments and weak revenues should be obvious. Yet the connection is largely ignored in the quest

for additional funds. For the most part, the dysfunctional nature of the system is taken as a given, and solutions crafted around it. The solutions, in turn, tend to exacerbate inequities and lead to more proposals for taxpayer relief.

Underassessment of properties has other detrimental impacts that may be less obvious than the effect on government revenues. Specifically, it forces millage rates to a higher level than would be required to produce a commensurate amount of revenue in a broad-based system. In addition, when assessments are uneven, a disproportionate share of the tax burden falls upon those who pay closer to what fair market value would dictate. In short, the "free-ride" isn't free for everyone. It costs other citizens, through reduced services and/or higher taxes.

Exemptions and abatements, also known as tax expenditures, have similar impacts. Although they occur off the books and are seldom accounted for in public budgets, they

#### Property Tax Millage Rates, City Only

City Millages Subject to Homestead Exemption	2005 Millages
General Fund	14.91
Fire & Police	6.40
Public Libraries	4.32
Housing/Economic Development	2.50
Parkway & Recreation	3.00
Street & Traffic Control	1.90
Capital Infrastructure	2.50
City Millages Not Subject to Homestead Exemption	
Fire	5.21
Police	5.26
<b>Total City Millage Rate</b>	<b>46.00</b>

Source: City of New Orleans

have real consequences for both government bodies and non-exempt taxpayers.

Underassessments and exemptions affect both homeowners and businesses. Ironically, in a community that is constantly fretting over economic development, the impact of these tax transfers fall disproportionately on businesses.

In this report, BGR illustrates the impact of underassessments, exemptions, and abatements on

local government revenues and Orleans Parish taxpayers' bills. It also examines the impact of proposed legislation affecting assessments and the homestead exemption.

## UNDERASSESSED PROPERTIES: EVERYONE'S PROBLEM

It is generally recognized that New Orleans real estate is significantly underassessed. Estimates of the scope and impact of the underassessment have varied. In 2004, *The Times-Picayune*, after reviewing sales and assessment information for 1,674 residential properties valued over \$75,000, found that, on average, Orleans Parish assessors were valuing property at 41% less than sales price.

The Tax Commission subsequently hired independent appraisers and undertook an extensive appraisal of 1,121 randomly selected residential properties in New Orleans. The results indicated undervaluation by varying degrees in all seven districts. According to the assessors' tax rolls, the average value of homes included in the survey was \$125,687. The average value, according to the independent appraisers, stood at \$167,532, indicating that assessors are valuing property, on average, at 25% less than fair market value.

## Leaving Revenue on the Table

To illustrate in rough terms the potential impact of low residential assessments on tax recipient bodies in Orleans Parish, BGR calculated the amount of additional revenue that would be generated if residential assessments were actually based on fair market value. Because the scope of underassessments has not been definitively determined, BGR used a range of underassessments.

BGR's calculations include underassessments relating to the residential base only. There is no reliable data to provide reasonable parameters for making estimates with respect to commercial property. It should be noted that residential property, excluding the homestead-exempt portion, accounts for only 30% of the tax base.

Table 1 provides information for all tax recipient bodies (other than special taxing districts) in Orleans Parish. It also provides separate estimates for the City of New Orleans.<sup>1</sup>

### Calculating the Tax Bill

The Louisiana Constitution requires that most property be assessed at a percentage of fair market value. The percentage varies according to the class of property. All land and residential improvements are assessed at 10% of fair market value. The property of public service companies, other than land, is assessed at 25%. All other taxable property, including commercial and personal property, is assessed at 15%. The Constitution requires that all property be reappraised at intervals of not more than four years.

The tax bill for a property is calculated by multiplying the property's assessed value, adjusted for the homestead exemption when applicable, by the property tax rate expressed in mills. One mill is .001 of a dollar, or one dollar for each thousand dollars of assessed value. The millage rate in New Orleans, exclusive of taxes for special districts, is 171.29 mills for property that is not homestead exempt. The homestead-exempt portion is taxed at 10.47 mills.

**Table 1: Potential Local Revenue Gains from Correcting Residential Assessments (\$ millions)**

Correcting Residential Underassessments of... <sup>2</sup>	...Would Cause Local Revenues to Grow by	
	For Tax Recipient Bodies (Including the City)	For City Only
25%	\$32.0	\$11.4
35%	\$51.6	\$18.5
45%	\$78.5	\$28.1

BGR calculations. In preparing its estimate, BGR assumed that all homestead-exempt property remained homestead-exempt and subject to taxation at the rate of 10.47 mills.

## Remedying Inequity: The Impact on Taxpayers

Discussions of underassessments generally proceed on the premise that correcting the problem will increase taxes and produce a wind-fall for the government. While this is one possible scenario, it is not the only one.

The Louisiana Constitution provides a mechanism for addressing wind-falls. After each reassessment, the tax recipient bodies adjust the millage rate upward or downward to make the reappraisal revenue-neutral. Each tax recipient body then has the option, by a two-thirds vote, to raise the millage back to a level not exceeding the rate that was in effect before the downward adjustment. If the tax recipient body allows the millage to stay at the reduced rate, officials have until the next mandated reassessment to increase the millage to the earlier level. The mandatory downward adjustment that follows an increase in assessments is known as a roll-back. The optional increase is known as a roll-up or roll-forward.

As Table 2 demonstrates, raising assessments to the proper level could result in a significant roll-back of the millage. Correcting residential underassessments of 25% would result in a 9.3% reduction in the millage rates.

The reduced millage would result in a tax decrease for taxpayers whose assessments are already based on fair market value. It would lessen

**Table 2: Potential Roll-back in Millage Rates**

Correcting Residential Underassessments of...	...Would Cause Rates to Drop to	
	For Tax Recipient Bodies (Including the City)	For City Only
25%	155.35	41.45
35%	146.95	39.09
45%	136.86	36.27

BGR Calculations. Current millage rates are 171.29 for all tax recipient bodies, excluding special districts; 46 of these are for the City.

the impact of reassessment on taxpayers whose property was previously underassessed.

The point can be illustrated by considering the case of two taxpayers owning homestead-exempt properties with a fair market value of \$167,000. Taxpayer A's property was on the tax rolls at \$167,000 and Taxpayer B's at \$127,000. Taxpayer A was paying \$1,654 in taxes. Because his property was on the roll at a lesser value, Taxpayer B was paying \$969. A reassessment occurred, bringing properties in the city to fair market value. The reassessment, which corrected a 25% underassessment of residential property, resulted in a millage reduction of 9.3%. As a result, Taxpayer A's bill fell to \$1,498, a decrease of \$157. Taxpayer B's rose to the same level, for an increase of \$529. Without the millage reduction, Taxpayer B's tax bill would have increased by \$686. The impact of a millage reduction would be even greater for commercial properties, which are assessed at 15% of fair market value.

The above example drives home another point: Taxpayer A has been subsidizing Taxpayer B and paying taxes at a higher effective millage

rate. Prior to reassessment, the rate for Taxpayer A was 99 mills; the effective rate for Taxpayer B was 76 mills.<sup>3</sup> After the reassessment the effective millage rate was 90 mills for both. Fair reassessment would redistribute the burden,

so that homeowners with properties of equal value would pay taxes at the same rate. (Because of the homestead exemption, the effective rate would still vary for properties of different classes and values.)

## HOMESTEAD EXEMPTION: A POPULAR BREAK

The Louisiana Constitution exempts the first \$7,500 of the assessed value (\$75,000 of fair market value) of owner-occupied residences from state, parish, and special ad valorem taxes. The exemption, known as the homestead exemption, does not apply to municipal taxes, except in New Orleans. There the homestead exemption applies to state, general city, school, and levee taxes, with one limited exception. All property owners in New Orleans are required to pay 10.47 mills on the full assessed value of their property for police and fire services.

According to city records, more than 77,600 homeowners take the homestead exemption. Almost 38,000 of them have homes valued by the assessors at no more than \$75,000.<sup>4</sup> These homeowners pay no property taxes other than the 10.47 mills for police and fire protection.

BGR has consistently opposed a blanket homestead exemption. As it has pointed out in the past, hardship cases are better addressed through a carefully crafted reduction for those in need.

### Untapped Revenue Potential

The impact of the homestead exemption on government entities is significant. In 2005, the exemption applied to \$487 million of assessed value (\$4.8 billion fair market value).<sup>5</sup> If the exemption were eliminated and millage rates maintained at current levels, tax recipient bodies would see a \$64.5 million increase in their revenues. The City of New Orleans' share of the increase would be \$17.3 million.

### Transferred Costs

Eliminating the homestead exemption would impact taxpayers differently, depending on whether they now enjoy the exemption and whether millages were reduced or held steady. A couple of examples help to illustrate the point.

If the homestead exemption were eliminated and millage rates maintained at current levels, the 39,674 homestead owners with properties valued above \$75,000 would each pay an additional \$1,206 in property taxes. The 37,971 homestead owners whose property is valued at less than \$75,000 would pay a lesser increase, calculated by multiplying the property's value by the assessment rate (10%) and 160.82 mills. For example, the homeowner with a property valued at \$50,000 would pay an additional \$804. Property

owners who do not enjoy the homestead exemption would see no change in their tax bills.

If the homestead exemption were eliminated and the millage reduced to a revenue-neutral level (141.22 mills), the additional tax for a property valued at \$75,000 would be \$981 rather than \$1,206. The additional bill for a property valued at \$50,000 would be \$654.

The impact on homeowners with properties valued at more than \$75,000 would depend on the value of their property. There would be no change in the amount of taxes payable for homesteads valued around \$420,000. Taxes on lower priced homes would increase from their current level, but the increase attributable to the elimination of the homestead exemption would be offset in part by the millage decrease. For homes with higher values, the increase attributable to the elimination of the homestead exemption would be more than offset by the millage decrease.

Taxpayers with non-exempt properties, including rental properties, would see their tax bills reduced by 17.6%. For example, the bill for a commercial building valued at \$75,000 would be reduced from \$1,927 to \$1,589.

### OTHER EXEMPTIONS

The Louisiana Constitution provides a series of other exemptions from ad valorem taxation. The exempt properties include property owned by federal, state, and city

governments, universities, schools, fraternal organizations, and religious organizations among others.

In its 1996 report *Property Taxes in New Orleans: Who Pays? Who Doesn't? And Why*, BGR estimated that as much as 65% of the value of property in New Orleans was tax-exempt under the Louisiana Constitution. At that time the assessors' rolls placed the assessed value of homestead-exempt property at \$448.2 million (\$4.5 billion in market value) and of other exempt property at \$1.2 billion. 41% of the other exempt property was privately owned.

In December 2004, the assessors reported that the assessed value of other exempt property was \$869 million. This represents a decline of nearly 28% in a 10-year period. Given that the assessed value of taxable real estate increased by 39%

#### A Word on Numbers

The calculations in this report are estimates designed to illustrate relative impacts. The detailed information that would be required for refined calculations is, in many cases, not available.

As the basis for its calculations, BGR relied in most cases on assessed values provided by the Louisiana Tax Commission. However, for the homestead exemption, BGR relied on numbers provided by the City of New Orleans. These numbers reflect adjustments made by the assessors after the Tax Commission had prepared its compilations.

during that period,<sup>6</sup> the assessed value appears to be severely understated. The lack of growth could be explained by the fact that the assessors, citing scarce resources, do not routinely update the valuation of tax-exempt property. As a result, many properties are on the rolls at values that bear no relationship to current market price. The decline is harder to explain.

Despite the probable under-assessment, BGR is using the assessors' numbers to illustrate the impact of other exemptions on government revenues and taxpayers' bills. The results reported below will be greatly magnified if the value of exempt property has grown since 1996 at a rate anywhere near that of other taxable real estate.

### Nonprofits: The Other Untaxed New Orleans

The two components of other exempt property are publicly owned property and property owned by charitable or other nonprofit entities. In 1996, publicly owned property accounted for 59% of such property and privately owned accounted for 41%. For purposes of the following examples, BGR is assuming that the same percentage applies in 2005.

Working from the assessors' number for other exempt property, BGR estimates the assessed value of property privately owned by charitable or other nonprofit entities at \$358 million. If all such property were taxed, the revenue increase to



tax recipient bodies would be \$51.2 million. The City's share would be \$16.5 million.

The above numbers cover all nonprofit properties included on the tax rolls. In presenting the numbers in this fashion, BGR is not implying that all nonprofit property should be added to the tax rolls. Rather, it is making the point that these exemptions have a price tag, both for the City and other taxpayers. Given the significant cost, this area deserves careful scrutiny and dispassionate analysis of the costs and benefits.

#### Taxpayers' Hidden Donations

As a result of the nonprofit exemption, other groups of property owners pay taxes at a higher millage rate. They are, in effect, subsidizing nonprofit operations. The amounts at issue are substantial, even if one bases the calculations on the understated numbers reflected in the tax rolls.

If the \$358 million of exempt nonprofit property were placed on the tax rolls, millage rates could be reduced by 13.3% to 148.56 mills without negatively impacting local government revenues. The tax bills for the City's residents could be reduced by \$227 for every \$100,000 of taxable property, and business owners' taxes could be reduced by \$341 for every \$100,000 of property value. The reduction would equate to \$210 for a homestead valued at \$167,000; \$511 for a home valued at \$300,000; and \$1,023 for a commercial property of similar value.

#### Project-Specific Exemptions

In the name of economic development, governments sometimes abate or divert to private entities taxes payable with respect to specific private properties. Unless the properties would not have been developed or improved in the absence of the exemption, the

abatements and diversions have the effect of reducing tax recipient bodies' revenues and shifting the tax burden to other taxpayers.

**To the Few...**

BGR estimates that all tax recipient bodies will lose revenues totaling \$25.1 million in 2005 through abatements or diversions related to payments in lieu of taxes (PILOTs), restoration tax abatements, and manufacturing plant exemptions. The City's portion of that amount is approximately \$8.1 million.

**...From the Many**

BGR estimates the assessed value of the property subject to the above abatements and exemptions at \$175.9 million. If such properties were fully taxed, the millage rate could be reduced by 6.4% to 160.37. This means that abatements and diversions currently cost residential taxpayers \$109 per \$100,000 of taxable property value and business taxpayers \$164.

**CUMULATIVE IMPACT**

Underassessments and homestead, nonprofit, and project-specific exemptions each have a significant fiscal impact. Collectively, they dramatically affect government finance and taxpayers' wallets.

**Table 4: Cumulative Impact on Taxpayers, with Roll-Backs**

	Current Tax	Adjusted Tax 1 (after correcting assessments and eliminating nonprofit and project-specific exemptions only)	Adjusted Tax 2 (adds elimination of homestead exemption to adjustments reflected in Adjusted Tax 1)
<b>RESIDENTIAL</b>			
\$150,000	\$1,363	\$970	\$1,571
\$300,000	\$3,933	\$2,793	\$3,141
\$450,000	\$6,502	\$4,617	\$4,712
<b>COMMERCIAL</b>			
\$150,000	\$3,854	\$2,735	\$2,356
\$300,000	\$7,708	\$5,470	\$4,712
\$450,000	\$11,562	\$8,205	\$7,068

BGR calculations. The millage rate for Current Tax is 10.47 mills on the homestead-exempt portion and 171.29 mills on the rest. The millage for Adjusted Tax 1 is 7.8 mills for the homestead-exempt portion and 121.56 mills for the rest. The millage rate for Adjusted Tax 2 is 104.7 mills on all property.

It is clear from the above examples that government revenues would be greatly increased if underassessments were corrected and a sizable portion of exempt property were placed on the tax roles. The revenue impact of the conservative examples used in this report totals \$172.8 million for tax recipient bodies; \$53.3 million of that amount would be for the City. The potential for a millage reduction is equally substantial. When the millage reductions are aggregated, the millage rate is reduced by 39% to 104.7 mills. Table 3 demonstrates the cumulative impact of the adjustments on revenues and millages.

The cumulative tax impact for different taxpayers is illustrated in Table 4 above.

**IMPACT OF PROPOSED LEGISLATION**

Rapid appreciation in property values resulted in "sticker shock" as the 2005 tax bills arrived. In many jurisdictions and special districts, tax recipient bodies lowered tax rates in response to voter pressure. Other public bodies, citing rising costs of providing services, kept all or a part of the revenue increase. Voters turned to the Legislature for relief. At the time this report was written, numerous bills designed to reduce taxes or limit increases had been introduced. The proposed legislation would, among other things:

- Cap increases in assessments or property taxes.
- Broaden an assessment freeze for elderly homeowners.
- Restrict the roll-forward option of tax recipient bodies.
- Expand the homestead exemption to \$150,000.

Some of the proposed measures would exacerbate existing inequities and further limit the revenue base of

**Table 3: Cumulative Revenue and Millage Impacts (\$ millions)**

	Current situation	Correcting 25% underassessment	...and eliminating non-profit exemptions	...and eliminating project-specific exemptions	...and eliminating homestead exemption
Revenue Increase	NA	\$32.0	\$83.2	\$108.3	\$172.8
Millage Rate	171.29	155.35	129.06	121.56	104.70

BGR calculations

local governments. The potential fiscal impact of the bills is discussed below.

## Capping or Freezing Assessments

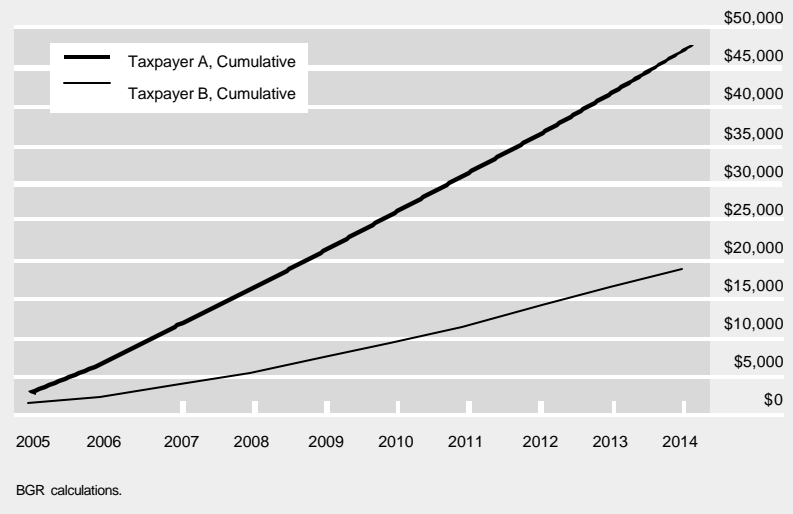
### General Cap on Assessment Increases

A number of bills capping individual assessments have been introduced into the Legislature. Several of them would limit increases in assessments to the lower of increases in the Consumer Price Index or specified percentages (e.g., 2.5% or 3% per annum).

The proposed caps would apply across the board to all property subject to ad valorem taxes. They would, however, impact groups of taxpayers differently. In particular, they would perpetuate and exacerbate the inequities flowing from the current uneven assessments of properties.

Consider the situation of two taxpayers who own homesteads with a fair market value of \$300,000. Taxpayer A's property is valued at \$300,000, and Taxpayer B's at \$150,000. As a result, Taxpayer A is paying \$2,569 more in taxes than Taxpayer B. If a property tax cap went into effect, Taxpayer A would always pay more than Taxpayer B. In fact, over time the disparity in their taxes would increase. This is because the cap would be applied on a compounded basis to a larger base in the case of Taxpayer A. Assuming a cap of 3% per annum, the differential between Taxpayer A's and Taxpayer B's taxes would grow from \$2,569 to \$ 2,892 by the fifth year. Over 10 years, the spread would increase to \$3,352. Taxpayer

A cap would exacerbate inequity over time.



A would have paid \$46,848 in taxes, while Taxpayer B would have paid only \$17,393. The chart above illustrates the cumulative impact of the cap.

In addition, capping assessments would disproportionately benefit properties with rapid price appreciation. Properties with declining or stable values would bear a greater burden than appreciating properties. For example, the effective tax rate for property that did not appreciate would remain the same, 171 mills. The effective tax rate for property that appreciated by 20% in one year would decline to 147 mills.

### Targeted Caps

Multiple bills would expand the assessment freeze for older homeowners. Currently, a homeowner aged 65 or older with adjusted gross income of no more than \$50,000 in 2001 dollars<sup>7</sup> (\$56,744 for 2005) is eligible for a freeze of his home's assessment. Proposed legislation would remove the income eligibility requirement, extending the freeze to

all homeowners 65 or older. Several bills would also freeze assessments for disabled persons or disabled veterans.

The information needed to calculate the financial impact of these new exemptions on government finances or other taxpayers is not available.<sup>8</sup> Whatever the immediate cost, it is clear that the impact from the expanded exemption for the elderly would increase over time as baby-boomer homeowners reached age 65, assuming property values rose.

Eventually, more and more of the tax burden would be transferred from older taxpayers to younger ones. The shift would occur irrespective of the financial capacity of the individuals. Very wealthy older taxpayers would enjoy freezes while younger families would, regardless of their financial position, pay bills that reflect assessment increases. Interestingly, the poverty rate for those 65 and older in New Orleans is 19%, versus 24% for those ages 18 to 64.



Nonresidential parcels would bear a disproportionate share of the shifted tax. This is because they are assessed at a higher percentage of fair market value.

### Eliminating or Restricting the Roll-Forward Option

Caps or freezes on individual assessments are only one way of limiting growth in tax revenues. Tax revenues can also be controlled on an aggregate basis by restricting the ability of government bodies to roll millages forward after a roll-back. Multiple bills before the State Legislature seek to do this by prohibiting roll-forwards without voter approval or by tying them to the CPI or some other limit.

BGR has consistently criticized state-imposed limitations that unnecessarily restrict the revenue-generating capacity of local governments. Capping roll-forwards at levels that bear no relationship to market movements would have that effect. In addition, caps are likely to cause tax recipient bodies to lose purchasing power, since the CPI does not correctly capture the growth in public sector costs. A lim-

itation on roll-forwards would, however, be less pernicious than a cap on individual assessments, since it would not freeze and exacerbate existing inequities.

The blanket limitations or prohibitions on roll-forwards are not the only way of addressing potential wind-falls. A number of bills take another approach, attempting to rein in roll-forwards through explicit procedural safeguards. Some of these measures, such as those that improve notice requirements, address legitimate concerns and promote meaningful public participation. They help to create brakes without imposing blanket restrictions.

### Increasing the Homestead Exemption to \$150,000

A fiscal session of the State Legislature would not be complete without the introduction of one or more bills to expand the homestead exemption. This session is no different. A number of bills on the subject, including bills to raise the homestead exemption from \$75,000 to \$150,000 of property value, have been introduced.

Doubling the homestead exemption would increase the number of residential properties that are completely homestead-exempt from 37,971 to 62,783. If the bill passed, 80% of New Orleans homeowners would pay only the 10.47 mills levied for fire and police protection.

#### Impact on Government

BGR estimates that doubling the homestead exemption would cause total taxable assessed value to decline by \$180 million. A decline of that magnitude would cost all tax recipient bodies (including the City) \$29 million; it would cost the City \$6.4 million. The result would be severe service cuts or intense pressure to increase taxes on the remaining portion of the property base.

#### Impact on Taxpayers

The expanded exemption would reduce taxes for homes valued between \$75,000 and \$150,000 by an amount equal to 160.82 mills times the current non-homestead-exempt value. It would reduce taxes for homesteads valued above \$150,000 by \$1,206. The reduction would be partially offset by an increase in the millage rate for the Board of Liquidation, City Debt, which sets its rate each year at an amount sufficient to cover debt service on bonded indebtedness. The rate (currently 28.4 mills) would have to rise to offset the revenues lost from the reduction of the tax base. For example, if the total taxable assessed value declined by \$180 million as estimated by BGR, the millage for debt service would increase by 2.65 mills.



## A Novel Approach

In theory, local officials and the people who elect them are in the best position to determine if a roll-forward is justified. This proposition becomes dubious when large numbers of voters are not paying ad valorem taxes, directly or indirectly. A proposal before the Legislature would help to address one aspect of this issue by ensuring that all homeowners contribute something to the City, school board, and other tax recipient bodies.

The proposed constitutional amendment would keep the value of the homestead exemption at \$75,000. However, except in the case of older homeowners, the exemption would kick in after the first \$10,000 of fair market value and apply to value between \$10,000 and \$85,000.

The full impact on government would depend on the number of homestead-exempt homes, the number of older homeowners who would be exempt, and the value of homes assessed between \$75,000 and \$85,000. The proportion of homestead-exempt properties whose owners are under age 65 is not known.

The tax bill for the first \$10,000 of market value would increase by \$160.82, rising from \$10.47 (the police and fire millage) to \$171.29. Properties already valued at over \$85,000 would have no change in their tax bill. Owners of property valued between \$75,000 and \$85,000 would pay an additional amount equal to \$160.82 minus the tax (other than the police and fire millage) that they already pay on the value between \$75,000 and \$85,000.

To the extent that there is a revenue increase, tax recipient bodies could lower millages to remain revenue neutral or harvest the increase.

Properties that do not enjoy the homestead exemption, including rental and commercial properties, would see their tax bills rise slightly as the Board of Liquidation

adjusted millages upward to offset lost revenues. The owner of a commercial property assessed at \$300,000, who now pays \$7,708, would see his bill increase \$119.

## OVERHAULING THE SYSTEM

To provide adequate support for their general needs, the City and other local tax recipient bodies should have a tax structure based on a wide spectrum of the community, with taxes that are fairly apportioned, and with exemptions clearly based on need. The current property tax system fails under that test. Too many property owners pay little or no taxes on their properties; exemptions are granted regardless of need; and, as a result of inconsistent assessments, properties of similar value bear widely different tax burdens. Unfortunately, some of the pending legislative initiatives will compound the limitations and inequities in the tax system.

The current system is blatantly unfair and needs to be changed. But this is not just a matter of equity.

It is a financial imperative. New Orleans' chronic fiscal problems will not be solved by small-scale, stop-gap measures. Correcting assessments and expanding the tax

base by limiting exclusions would not just result in a fairer tax system; it would also provide an opportunity for a serious infusion of money into the public coffers.

BGR has in a series of reports documented the systemic problems with New Orleans' limited tax base. It has also laid out a detailed road map for addressing the issue. Major recommendations include:

- Extensive improvements in the assessment system to improve objectivity.
- Strict interpretation and rigorous enforcement of exemptions.
- Review of all exemptions to determine whether they should be retained, eliminated or modified.
- No new exemptions.
- Elimination of the homestead exemption for municipal taxes in New Orleans.
- Development of a strategic plan, evaluation procedures and criteria, and accountability for project-specific tax abatements and diversions.

Although local tax recipient bodies and taxpayers bear the brunt of the dysfunctional tax system, the power to remedy the problems lies, in many cases, with others: the State Legislature, Orleans Parish's seven assessors, and the Tax Commission. This is not to say, however, that local government officials and the public have no role. On the contrary: they must serve as the catalyst for change.

## What can the public do?

- Start focusing on the big picture, rather than the individual tax bill. Press for disclosure, consistency, and fairness in the assessment process and the administration of exemptions.
- Stop thinking of exemptions as free money. In economic terms, the distinction between revenue foregone and revenue expended is spurious. Although exemptions occur off the books and are seldom accounted for in public budgets, they have real financial consequences for government finances and non-exempt taxpayers.
- Demand that the assessors and other elected officials devise and implement a fair tax system.
- Support the constitutional and statutory changes needed to eliminate excessive exemptions. Oppose constitutional and statutory changes that add or expand exemptions.

## What can the Mayor and City Council do?

- Take ownership of the problem and use their political capital to create a rational tax system capable of meeting the reasonable needs of a well-managed local government.
- Make tax reform the City's top legislative priority. Work with the City's legislative delegation for the necessary constitutional and statutory changes. A sound

tax structure, honest government, and a strong education system are critical to the economic health of the region.

- Educate the public as to the need for a broad-based, equitably administered system and the cost of the current failings.
- Manage government in a transparent and efficient manner to create confidence that public funds are being well spent.

## What can the assessors do?

- Replace the practice of "sales chasing" (reassessing property at fair market value only when it sells) with regular, updated valuations of all properties in a market area based on sales data in that area.
- Expedite implementation of a parishwide, objective, computerized assessment system and valuation models.
- Implement in-house performance measures and evaluation procedures.
- Strictly apply eligibility requirements for exemptions.
- Assess exempt property accurately and as frequently as taxable property is assessed.
- Utilize internet technology to make exemption data more easily accessible to the public.

## What can the State Legislature do?

- Overhaul the constitutional and statutory provisions governing exemptions to provide specificity and limit their reach.
- Allow suits by tax recipient bodies to force general reassessments based on fair market value.
- Reject bills for new or expanded exemptions and bills that cap or freeze assessments or millage rates.
- Eliminate the homestead exemption for municipal taxes in New Orleans, placing it on the same footing as every other municipality in the state.
- Eliminate or reduce the homestead exemption everywhere.

## What can the Tax Commission do?

- Continue pressing for fair assessments in Orleans Parish.
- Stringently review the accuracy of assessments in neighboring parishes to determine whether properties are being fairly assessed.
- Systematically audit exempt property.
- Standardize the administration of nonprofit exemptions throughout the state.

## ENDNOTES

1. The millages used in the calculations do not include the 28.4 mills currently levied by the Board of Liquidation to support the City's debt. The Board of Liquidation fixes its millage each year to generate the amount required for debt service. Thus, an upward reassessment would result in a downward adjustment in the millage rate, rather than an increase in revenues.
2. Correcting underassessments of 25% increases the assessed value of such property by 33%. Correcting underassessments of 35% and 45% results in increases of 54% and 82%, respectively. For example, a property worth \$100,000 and underassessed by 25% would be on the tax roll at \$75,000. Bringing that \$75,000 property to fair market value of \$100,000 would require a 33% increase in the assessment.
3. Because of the homestead exemption, all the effective rates are less than the millage levied by tax recipient bodies.
4. Louisiana Tax Commission, internal document, Abstract 2004 #2.
5. City of New Orleans.
6. Louisiana Tax Commission, *Twenty-Seventh and Thirty-First Biennial Reports*, Table 41. Assessed value, not fair market value, is reported.
7. The dollar amount is adjusted for inflation each year. The calculation for 2005 tax bills, \$56,744, was included in a notice mailed to homeowners by Assessor Janyce Degan.
8. In the 2000 census, 11.7% of Orleans Parish residents were 65 or older and 73.9 % of the population had income under \$50,000. The number of homeowners who fit in both the age and income cohorts is unknown.

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