



**A Report from the Bureau
of Governmental Research**



Forgotten Promises

The Lost Connection Between
the Homestead Exemption
and the Revenue Sharing Fund

JUNE 2010

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INTRODUCTION

The homestead exemption has for decades been a sacred cow in Louisiana. But, once upon a time, the responsibility for feeding that cow was borne by the state, not local government.

This fact tends to be forgotten whenever state legislators introduce proposals to expand the exemption. Some proposals, such as Senate Bill 23 in the current session, would go so far as to double the exemption. No increases are proposed, however, for the state's Revenue Sharing Fund, which is supposed to offset the tax revenue losses suffered by local governments because of the exemption.

The Louisiana Constitution requires the State Legislature to appropriate to the fund a minimum of \$90 million a year. It may appropriate more money, but usually does not. When the state constitution was adopted in 1974, \$90 million was adequate to offset the revenue losses incurred by local government as a result of the exemption. But over time, with increases in the homestead exemption, the parity between the appropriation and the lost revenues has eroded significantly. In 2009, the \$90 million appropriation for the Revenue Sharing Fund offset only a fraction of the \$716 million in statewide tax losses on homestead-exempt property.¹

In other words, the state has steadily shifted the growing cost of the current exemption onto local governments. This makes it easy for legislators to propose increases in the exemptions. After all, they don't have to deal with the fiscal ramifications.

In a report last year,² BGR detailed the impacts of a proposed \$16,000 homestead exemption (\$160,000 of fair market value) on taxpayers in Jefferson, Orleans, St. Bernard and St. Tammany parishes. BGR found that 246,000 homeowners in the four parishes take the homestead exemption. Approximately 26% are fully covered by the exemption, meaning they pay no property taxes other than those for police and fire protection in New Orleans, and municipal taxes in the municipalities within Jefferson and St. Tammany parishes. In the four parishes BGR examined, raising the homestead exemption to \$16,000 would increase the percentage of homeowners fully covered by the exemption to 67%.

This would force local governments to cut back on services or raise millage rates to offset the revenue loss. The required millage rate increases would vary depending on what portion of the tax base is composed of owner-occupied properties valued above \$75,000. To offset the effect of an exemption covering \$160,000 of fair market value, BGR estimated that millage rates would rise 4% in St. Bernard, 8% to 10% in Orleans, 17% for parishwide taxes in Jefferson and 34% for parishwide taxes in St. Tammany. In some parts of St. Tammany, the increase would be 41%. For individual taxpayers, the homestead exemption increase – and subsequent millage adjustment – would result in property tax reductions for many homeowners but tax increases for owners of higher-valued homes, residential rental property and commercial property (and, indirectly, tenants).

BGR remains opposed to any increase in the homestead exemption for the reasons documented last year in its report. Increasing the exemption makes it more expensive to do business and rent property in Louisiana. It places downward pressure on the tax base, forcing governments to raise millage rates or cut back services.

If legislators nonetheless think a homestead exemption increase is warranted, they should return to the past practice of providing local governments with the state funds necessary to offset the revenues lost through the homestead exemption.

HISTORY OF THE REVENUE SHARING FUND

In 1934, as part of the state's response to the Great Depression, Louisiana voters approved a constitutional amendment creating a homestead exemption on the first \$2,000 of assessed value. The amendment also directed the legislature to create the Property Tax Relief Fund to offset local government revenue losses from the homestead exemption. The fund was supposed to be distributed to local governments based on the amount of revenue each had lost due to the homestead exemption.³

In June 1972, a federal court found that manipulations of assessments and millage rates at the local level were resulting in an arbitrary and inequitable distribution of

Table 1: Percentage of Homestead Exemption Tax Losses in 2009 (2010 in Orleans) Covered by Revenue Sharing

Parish	Homestead Exempt Assessed Value	Tax Losses on Homestead Exempt Assessed Value	Total Parish Distribution	% of Losses Covered by Revenue Sharing
Jefferson	\$766,827,201	\$73,249,125	\$8,760,355	12%
Orleans	362,665,406	55,342,741	5,959,530	11%
St. Tammany	498,976,767	72,910,393	4,914,559	7%

Source: BGR analysis of data in Act 525 of 2009 Regular Session and Louisiana Tax Commission Annual Report 2009, Table 43.

state funds, in violation of the Equal Protection Clause of the U.S. Constitution. The court directed the state to come up with a new distribution plan.⁴ Later that year, voters amended the state constitution to replace the Property Tax Relief Fund with the Revenue Sharing Fund.⁵ The new provision required the legislature to appropriate \$80 million a year for the Revenue Sharing Fund and allowed it to appropriate more. The constitutional amendment directed the legislature to create a distribution formula.

The legislature appropriated \$87 million for the Revenue Sharing Fund in the 1973-74 fiscal year.⁶ The appropriation exceeded the Louisiana Tax Commission's estimate of local government revenue losses attributable to the homestead exemption. The Tax Commission put those losses at \$64 million.⁷ On a parish basis, the distributions exceeded the exemption-related tax losses in Orleans Parish, and offset a substantial amount of the losses in Jefferson and St. Tammany.⁸

In 1974, voters approved a new state constitution. The constitution increased the homestead exemption to \$3,000 of assessed value and authorized the legislature, by a two-thirds vote of each house, to increase the exemption to \$5,000. It also continued the Revenue Sharing Fund, increasing the automatic annual appropriation to \$90 million and authorizing the legislature to appropriate additional sums to the fund.⁹

The constitutional provision establishing the fund required that annual distributions be based on the proportion of the population and number of homesteads in each parish to the population and the number of home-

steads statewide.¹⁰ The provision allowed for deductions from each parish's share for state-mandated local contributions to retirement systems and for commissions for parish tax collectors.¹¹ The remaining funds were to be distributed to tax-recipient bodies within the parish, as defined by law, to offset current losses because of homestead exemptions.¹²

DISTRIBUTION FOR THE 2009-10 FISCAL YEAR

Statewide, the \$90 million minimum funding level established in 1974 was adequate to offset revenue losses from the newly raised homestead exemption. The parity between the funding and the losses quickly eroded, however, due to subsequent increases in the homestead exemption. In 1976, the legislature exercised its power to raise the homestead exemption to \$5,000.¹³ In 1980, voters amended the constitution to increase the exemption to \$7,500, the current level.¹⁴

The Revenue Sharing Fund, by contrast, stands at the 1974 level. Annual appropriations made for the past five fiscal years and the one proposed for the upcoming fiscal year have been the flat \$90 million. For fiscal year 2010, the City of New Orleans, Jefferson Parish and St. Tammany Parish received allocations of \$6 million, \$8.8 million and \$4.9 million, respectively.

Parish allocations from the Revenue Sharing Fund (including deductions and commissions) offset only a fraction of each parish's total tax losses, as illustrated in Table 1.

Table 2: Revenue Sharing Distributions and Homestead Exemption Tax Losses Per Homestead

Parish	Total Parish Distribution	Number of Exempt Homesteads*	Average Distribution per Homestead	Average Tax Losses per Homestead
Jefferson	\$8,760,355	107,367	\$81.59	\$682.23
Orleans	5,959,530	57,265	104.07	966.43
St. Tammany	4,914,559	71,325	68.90	1,022.23

*The state used the number of homesteads in 2008 to calculate the total parish distributions from the Revenue Sharing Fund for the 2009-10 fiscal year.

Source: BGR analysis of data in Act 525 of 2009 Regular Session and Louisiana Tax Commission Annual Report 2009, Table 43.

To offset the full amount of tax losses caused by the current homestead exemption, each parish’s allocation would have to increase many times over – more than eight times in the case of Jefferson, more than nine times in the case of Orleans and 15 times in the case of St. Tammany. Table 2 compares the distribution and tax losses on a per-homestead basis.

CONCLUSION

Born in the Great Depression and expanded during the oil boom, the homestead exemption has become a cherished tax break for Louisiana homeowners. But the exemption also came with the state’s promise to reimburse local governments for their tax losses, a promise that has been forgotten.

The tax losses caused by the current exemption have continued to grow, reaching \$716 million statewide for 2009. Yet the state continues to appropriate to the fund only the minimum \$90 million required by the state constitution. As a result, Jefferson, Orleans and St. Tammany parishes receive reimbursements for only 7% to 12% of their losses.

Another increase in the homestead exemption would force local governments to either cut services to deal with the revenue loss or consume some of their limited tax capacity by forcing millage rates higher. Expanding the popular tax break without increasing the compensation provided to local governments through the Revenue Sharing Fund would be irresponsible.

END NOTES

- 1 Louisiana Tax Commission, Annual Report, 2009, Table No. 43. This table compiles calculations made by parish assessors applying current millage rates to the current assessed value of homestead-exempt property.
- 2 The report, entitled *Who's Behind the Tree? The Homestead Exemption and Taxpayers in the New Orleans Area*, was published in March 2009 and is available on BGR's web site, www.bgr.org.
- 3 *Levy v. Parker*; Civil Action No. 70-243, 1972 U.S. Dist. LEXIS 13000 (E.D. La. June 28, 1972).
- 4 *Ibid.*
- 5 Amendment to the 1921 Constitution approved November 7, 1972.
- 6 Act 153 of 1973 Regular Session.
- 7 Louisiana Tax Commission, *Sixteenth Biennial Report: 1972-1973*, Table No. 62, pp. 142-143.
- 8 The City of New Orleans, with a population of nearly 600,000 at the time, received a total distribution of \$13.1 million; Jefferson Parish, \$8.2 million; and St. Tammany Parish, \$1.6 million. According to the Louisiana Tax Commission, the tax losses for the 1973 tax year (1974 in Orleans Parish) were \$8.6 million in Orleans, \$11.2 million in Jefferson and \$1.9 million in St. Tammany.
- 9 La. Const. art. 7, § 26.
- 10 The legislature carries out this provision through an annual appropriations act. Each parish's total allocation is calculated based on a formula weighted 80% on its share of the state population and 20% on its share of the state's homesteads.
- 11 Commissions are paid to the tax collectors (sheriffs) in all parishes other than Orleans. The retirement system deductions are allocated based on the statutory deductions from property taxes that parishes are required to pay into the systems. State law allows certain retirement systems, such as the Assessors' Retirement Fund, to capture additional portions of a parish's revenue sharing funds to cover unpaid amounts owed pursuant to those statutory deductions.
- 12 Not all tax recipient bodies are eligible to receive revenue sharing funds. Eligible ones in Jefferson and St. Tammany parishes include the parish councils, school boards and certain special districts. In the City of New Orleans, the appropriations act specifically limits the eligible bodies to the city, the Orleans Levee District, the Sewerage & Water Board, the Orleans Parish School Board and the Orleans Parish Board of Assessors. However, the assessors have not received revenue sharing funds since 2006, when their funding changed from a property tax millage to a percentage of property taxes levied in the city.
- 13 Act 387 of 1976. This increase did not become effective until 1978.
- 14 This increase did not take effect until 1982.



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