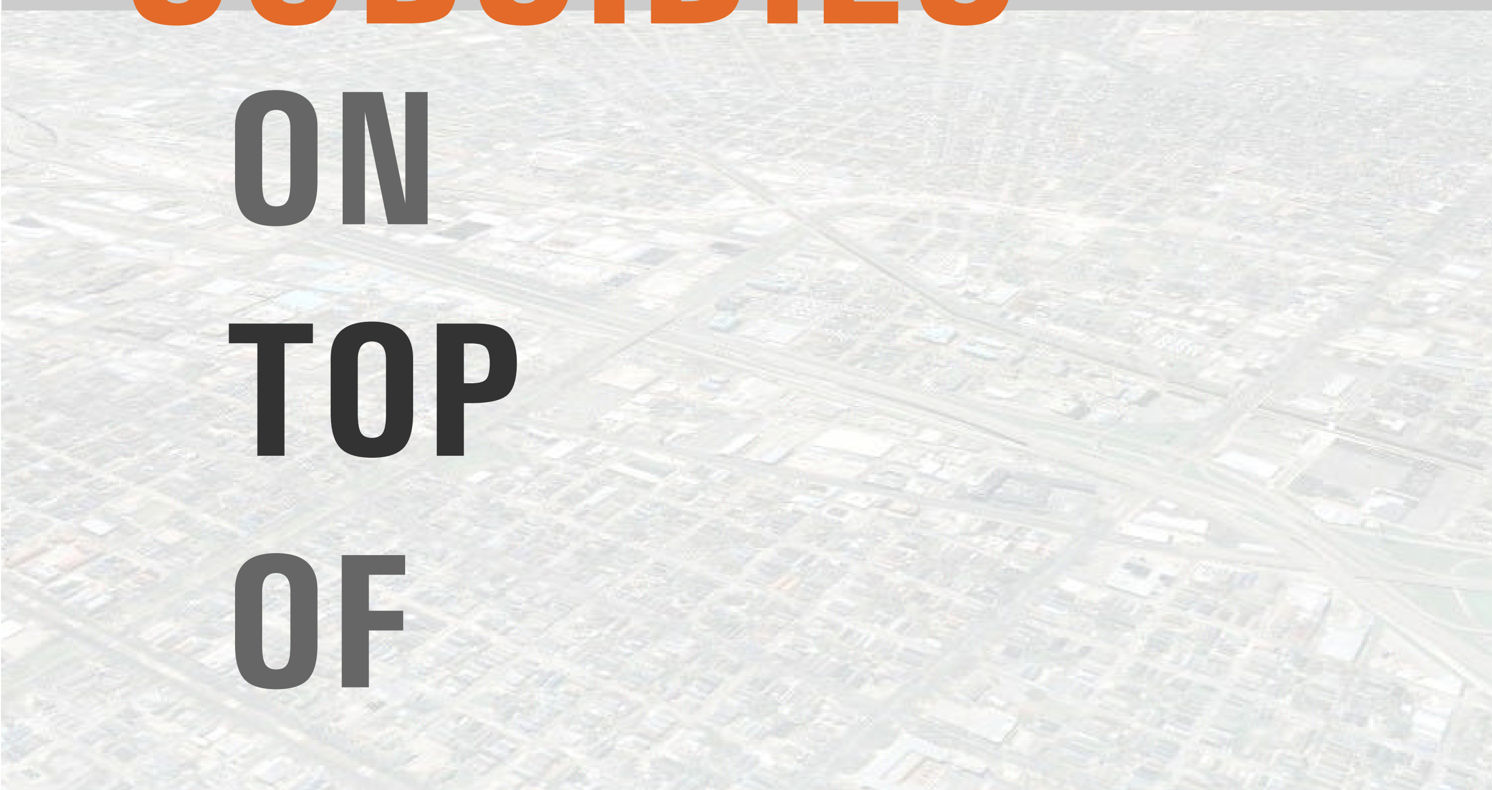
SEEKING SUBSIDIES ON TOP OF SUBSIDIES



A Report from the Bureau of
Governmental Research

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BGR

The Bureau of Governmental Research 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.

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BGR We report to you.

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In the wake of Hurricanes Katrina and Rita, the federal government and State of Louisiana offered substantial incentives and resources to help rebuild rental housing in the devastated parts of Louisiana. The federal government provided a special allocation of low income housing tax credits worth $1.7 billion for use in the parishes that fall within the Gulf Opportunity Zone (GO Zone Housing Tax Credits). The Office of Community Development provided $417 million of low- or no-interest loans (Gap Financing) to provide an additional funding source for tax credit developments that met certain criteria. These incentives dramatically expanded the arsenal of existing subsidies, such as public housing operating subsidies, project-based Section 8 vouchers, and the State's regular allocation of low income housing tax credits.

Responding to the incentives, developers submitted applications for GO Zone Housing Tax Credits to the Louisiana Housing Finance Agency, the state entity that administers low income housing tax credits. The agency awarded the tax credits to 178 developments with approximately 15,000 rental units. More than 30 of these developments received Gap Financing and/or other forms of federal or state funding or incentives.

Having availed themselves of public funding and incentives provided by the state and federal governments, some developers in Orleans Parish are now turning to local government for additional public assistance. They are seeking tax abatements on future development from the Industrial Development Board of the City of New Orleans, Louisiana (IDB), a little known economic development entity that serves as a conduit for the issuance of revenue bonds to finance eligible private projects. The tax abatement takes the form of a discounted payment in lieu of taxes (PILOT).[1] For additional information on how PILOTs work, see BGR's March 2007 report, *Protecting New Orleans' Tax Base: Which PILOTs Should Fly?*

On May 8, 2007, the IDB is scheduled to consider PILOT subsidies for three apartment complexes: The Crescent Club, The Preserve and 750 Jefferson Davis. It has pending before it another 23 requests for tax abatements for residential developments. The developments under consideration include market rate condominiums and apartments, private low- and mixed-income apartment complexes, scattered sites owned by the Housing Authority of New Orleans, and major public housing sites. For a list of pending residential and other applications, see Appendix 1.

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With the exception of the two market rate developments, the residential developments requesting tax abatements have already received substantial public subsidies from federal and state sources. GO Zone Housing Tax Credit equity alone is covering 38 to 92% of development costs for these projects. In many cases, the tax credit equity is combined with other subsidies to reduce the carrying costs dramatically. For information on the funding sources for the three housing-related transactions that the IDB will consider on May 8, see Appendix 2.

The residential developments are not only heavily subsidized. They are, in some cases, extraordinarily expensive. The total development costs for three of the public housing redevelopments exceed $300,000 per unit, with a median cost of $273,000.[2] This exceeds the median cost for other tax credit developments by more than $100,000.

* * *

Housing, particularly affordable housing, is a critical and emotional issue for the New Orleans area. It is

[1] In conjunction with the bond financing, the IDB takes title to the property and leases it back to the private entity. This removes the property from the tax rolls. To offset the loss of tax revenues, the IDB is authorized to require an annual payment in lieu of taxes (PILOT). In most cases the IDB sets the PILOT at an amount lower than what would have been payable had the property remained in private hands.

[2] BGR calculations based on data from low income housing tax credit applications submitted to the Louisiana Housing Finance Agency.

nonetheless an issue that must be addressed in the larger context of building a sustainable, economically viable community. While there are many factors that affect the health of a community, the ability of government to provide decent services and infrastructure is a basic one.

We are concerned that abating local taxes to reduce the operating costs for rental complexes is a short-sighted approach to the affordability issue. In attempting to address one problem, it creates another, longer term one by depriving local government of resources needed to meet the increased demand for services that residential development creates. It is also a troubling approach, given the large amount of subsidy that the developments are already receiving under federal and state programs.

Long before Hurricane Katrina, New Orleans suffered from having too much property off the tax rolls. BGR estimated that 65% of the property went untaxed because it was subject to the homestead exemption, owned by government or nonprofit entities, or benefited from project-specific abatements.[3] The result was crumbling infrastructure, reduced services and higher tax rates for the owners of the remaining 35%. Decisions being made now by the IDB will determine whether we exacerbate or start addressing the problem.

We urge the IDB to address in detail the impact of the proposed developments and tax abatements on future delivery of services. We also urge it to carefully consider, not just alleged economic benefits and fiscal impacts, but also whether local tax abatements are needed to produce affordable housing. Answering this question requires an in-depth analysis of alternative funding sources, possible development cost reductions, and an evaluation of other approaches to and programs for producing such housing. The large subsidies and high costs suggest that there may be other solutions that are gentler on the local treasury.

[3] BGR, *Property Taxes in New Orleans: Who Pays? Who Doesn't? And Why?* (1996)

APPENDIX 1: Developments Seeking Property Tax Abatements as of April 30, 2007

Developers for the following projects have submitted to the IDB applications indicating their intent to pursue a negotiated PILOT.

Name	Type of Use	Location
Tax Credit Developments:		
750 Jefferson Davis	Low income apartments	Mid-City
The Crescent Club	Mixed income apartments/retail	Mid-City
The Preserve	Mixed income apartments	Mid-City
Peltier Gardens	Low income apartments	Eastern N.O.
Clio Village	Low income apartments	Central City
HANO Public Housing Redevelopments:		
Fischer-I	Low income apartments	Algiers
Fischer-IV-3	Low income rental units/community center	Algiers
Fischer-IV-5	Lease-to-own homes	Algiers
Guste II-A	Low income apartments	Central City
Guste II-B	Low income apartments	Central City
Guste III	Low income apartments	Central City
B.W. Cooper I	Mixed income apartments	Central City
B.W. Cooper II	Mixed income apartments	Central City
St. Bernard I	Mixed income apartments	Gentilly
St. Bernard II	Mixed income apartments	Gentilly
C.J. Peete I	Low income apartments	Central City
C.J. Peete III	Mixed income apartments	Central City
Lafitte I	Low income apartments	Sixth Ward/Lafitte
HANO Smaller Redevelopments		
Mazant Royal	Low income apartments	Bywater
Tchoupitoulas	Low income apartments	Tchoupitoulas Street
Imperial I	Low income apartments	Gentilly
Imperial II	Low income apartments	Gentilly
Imperial III	Low income apartments	Gentilly
General Ogden	Low income apartments	Hollygrove
Market-Rate Residential and Commercial		
930 Poydras Street	Apartments/ retail/ parking	CBD
210 Baronne Street	Condominiums/ apartments/ retail/ parking	CBD
521 Tchoupitoulas Street	Hotel addition/parking	CBD
Canal Place III	Retail/hotel/condominiums/ parking	CBD
Robert Fresh Market-1	Grocery	Lakeview
Robert Fresh Market-2	Grocery	S. Claiborne and Carrollton
Walgreens	Drug store	S. Claiborne and Carrollton
St. Julien	Hotel	CBD

Source: Applications filed with the Industrial Development Board.

APPENDIX 2: Housing Developments on the IDB's May 8 Agenda

750 Jefferson Davis

759 S. Jefferson Davis Parkway
72 Low Income Apartments
IDB Bond Request: $ 500,000

Funds	**Total (in millions)**	
Low Income Housing Tax Credit	$12.9	91.5%
First Mortgage	$0.7	5.0%
Deferred Developer Fee	$0.5	3.5%
Total Sources	**$14.1**	
Total Development Cost	**$14.1**	

Crescent Club

3000-3100 Tulane Avenue
226 Mixed Income Apartments/Retail
IDB Bond Requested: $1 million

Funds	**Total (in millions)**	
Low Income Housing Tax Credit	$20.0	39.7%
GO Zone Gap Financing	$19.6	38.9%
First Mortgage	$8.9	17.7%
Deferred Developer Fee	$1.9	3.8%
Total Sources	**$50.4**	
Total Development Cost	**$50.4**	

The Preserve

4301 Tulane Avenue
183 Mixed Income Apartments
IDB Bond Request: $1 million

Funds	**Total (in millions)**	
Low Income Housing Tax Credit	$16.1	39.3%
GO Zone Gap Financing	$16.0	39.0%
First Mortgage	$7.3	17.8%
Deferred Developer Fee	$1.6	3.9%
Total Sources	**$41.0**	
Total Development Cost	**$41.0**	

Source: All numbers are from applications filed with the IDB.

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