

HOUSING TAX EXEMPTIONS IN NEW ORLEANS, OCTOBER 12, 2019

IN BRIEF

What is the proposition? Constitutional Amendment No. 4, which voters will consider on October 12, would allow the City of New Orleans to exempt from taxation properties with up to 15 residential units located within Orleans Parish for the purpose of promoting and encouraging affordable housing. Any exemptions granted by the City would apply not only to the City's property tax millages, but also to those of the Orleans Parish School Board, the levee districts and other parish taxing bodies. The amendment would prohibit any taxing body from increasing property taxes for other taxpayers to offset a revenue loss caused by the amendment. Short-term rentals would not be eligible for a tax break under the amendment.

The proposed amendment further provides that the City must follow certain procedures and conditions set by the State Legislature in creating any exemption program. The Legislature has established a requirement for City Council approval of the proposed program rules after a minimum 30-day public review period, a public hearing and a review by the New Orleans City Planning Commission.

Why is it on the ballot? The City administration, with support from the City Council, sought legislative approval this spring to place the amendment on the ballot. City officials and other proponents view the grant of tax exemption authority as a step toward developing new programs to facilitate the creation or preservation of affordable rental and homeowner units in New Orleans. The new authority would require an amendment to Louisiana's constitution, which establishes all property tax exemptions.

REPORT HIGHLIGHTS

- New Orleans has a higher incidence of cost-burdened renters and homeowners than the nation as a whole. Further, the number of renters who pay more than half of their income in rent and utilities has increased from 24% in 2004 to 38% in 2017. One report attributes this to a combination of rising rents and stagnant wages. Rising property values and the impact of blight on the available housing stock have also contributed to the problem.
- There is a broad array of programs available to assist renters and homeowners in New Orleans, such as rental housing vouchers, federally-financed rental unit construction and the homestead exemption. This raises questions for any new proposed exemption about whether existing incentives could be deployed to meet existing needs, what unmet needs require new or additional remedy, and whether a property tax exemption is the sole or superior tool for addressing unmet needs.

BGR's ON THE BALLOT SERIES

This report is the latest in BGR's *On the Ballot* series, which provides voters with objective, nonpartisan analysis of significant ballot propositions in the New Orleans metropolitan area. In producing *On the Ballot* reports, BGR recommends positions consistent with its mission of promoting informed public policy and the effective use of public resources for the improvement of local government. *On the Ballot* reports bring to light the strengths and weaknesses of ballot propositions and assess the potential for government expenditures or actions to efficiently achieve beneficial outcomes for citizens.

IN BRIEF CONTINUED

- BGR analyzed the necessity of the amendment in two parts. First, it reviewed proponents' argument that the amendment offers local control of the new housing tax exemption authority. They argue that local officials are better positioned than State lawmakers to understand the local housing market and develop exemption programs to address constituent needs. BGR cautions that this local control would not extend to other property tax exemptions, but rather introduce a new exemption. While BGR has specifically recommended local control over nonprofit property tax exemptions, it has done so primarily for the purpose of recommending local authority to limit, not expand, exemptions.
- BGR then reviewed the arguments that new housing tax exemptions are needed to address significant gaps in assistance for low-income homebuyers, support of small rental properties and the maintenance of affordable units in fast-growing neighborhoods. The City has identified these gaps in its strategic housing plans, and local production of affordable units has fallen short of its goals. The amendment would give the City flexibility to tailor new assistance to address those gaps and spur production. However, the City has not proposed specific exemption programs. Nor has it defined "affordable housing" as it would be applied in the context of this amendment. Open questions about the programs' scope, eligibility requirements, compliance and accountability measures, and cost from foregone taxes make it difficult for voters to judge the necessity of the amendment. Voters also must act without an assessment of funding alternatives.
- BGR analyzed the amendment's potential impact on citizens. While the new tax exemption authority may potentially help address housing affordability, improve neighborhood quality of life and enhance economic opportunities, the absence of an exemption plan leaves citizens uncertain about how any programs would deliver on those promises.
- There is also no estimate of the potential fiscal impact of the amendment on local governments. The Legislature has not set a cap on the amount or term of any exemption, or the amount or number of exemptions granted. While there are established practices for structuring tax exemption programs for greater efficiency, effectiveness and fiscal control, it is unclear whether and to what extent those practices would be implemented in New Orleans.
- More broadly, expanding tax exemptions would present concerns for transparency and accountability for citizens and governments. Exemptions create indirect subsidies for public purposes and circumvent the annual budget planning and prioritization process. This can obscure their costs for voters who must weigh the expansion of property tax exemptions for affordable housing amid multiple competing revenue needs for public services and infrastructure.

BGR POSITION

AGAINST. BGR acknowledges that housing affordability is a genuine and significant concern in New Orleans right now. However, there is not enough detail on how the City would use the new tax exemption authority for citizens to make an informed judgment of its potential benefits and impacts. Further, BGR has broader concerns about expanding property tax exemptions in New Orleans, when they already have a major impact on the local tax base and property tax rates. Neither the amendment nor the companion law limits the possible impact of the new exemptions on future revenue capacity to meet other public service and infrastructure needs. And the exemptions present transparency and accountability concerns as these tax expenditures would occur outside of local government budgeting processes. Citizens and policymakers could find it difficult to compare those subsidies to other competing revenue demands.