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BGR MEDIA RELEASE

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Unfair Assessments, Excessive Exemptions

The Bureau of Governmental Research today released a study entitled *Unfair Assessments, Excessive Exemptions: How New Orleans Property Tax System Hurts Government and Taxpayers*. The study, which can be found at www.bgr.org, illustrates the impact of under-assessments and exemptions on local government revenues and taxpayers' bills. It also briefly examines the impact of proposed legislation affecting assessments and the homestead exemption.

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.

Under-assessments and homestead, nonprofit, and project-specific exemptions each have a significant fiscal impact. Collectively, they dramatically affect local government finance. BGR estimates that these

exemptions and under-assessments cost tax recipient bodies in Orleans Parish \$172 million annually.

Under-assessments and exemptions also force millage rates to a higher level than would be required to produce the same amount of revenue in a broad-based system. BGR estimates that correcting under-assessments and eliminating the homestead, nonprofit and project-specific exemptions would allow tax rates to drop from 171.29 to 104.7 mills. The impact could be far greater.

Under-assessments

The Louisiana Tax Commission found that residential properties in Orleans were under-assessed on average by 25%. The Times Picayune found under-assessments of 41% for homes valued at more than \$75,000. BGR estimates that correcting residential under-assessments of 25% would increase local government revenues by \$32 million. Correcting residential under-assessments of 45% would increase them by \$78.5 million. Alternatively, correcting under-assessments in those ranges could reduce millages by 9 to 20%.

Taxpayers whose properties are assessed at fair market value are subsidizing other taxpayers by paying at a higher effective rate than their under-assessed neighbors. Take, for example, the case of two homestead-exempt properties with the same fair market value (\$167,000) but different valuations from the assessors. The property that is valued for tax purposes at fair market value pays taxes at an effective tax rate of 99 mills. The other, which is under-assessed by 25%, pays at an effective rate of 76 mills. If assessments were corrected, similarly situated taxpayers would pay at the same rate.

Homestead Exemption

In New Orleans, more than 77,600 homeowners take the homestead exemption. Half of them pay no taxes except 10.47 mills levied for police and fire protection.

If the homestead exemption were eliminated and millage rates held at the current levels, tax recipient bodies in Orleans Parish would receive another \$64.5 million. Homesteads valued at or above \$75,000 would pay an additional \$1,206 in property taxes. Homesteads of lesser value would pay a smaller amount.

If the millage were lowered to a revenue-neutral level, the impact on taxpayers would depend on the value of their property. Taxes on lower priced homes would increase, but the increase from eliminating 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 millage decreases. Taxpayers with non-exempt properties, including rental properties, would see their tax bills reduced by 17.6%.

Nonprofit Exemptions

Exemptions for nonprofits significantly impact city revenues and taxpayers' bills. Working from the assessors' numbers, BGR estimates that the nonprofit exemption costs tax recipient bodies approximately \$50 million a year. The exemptions result in hidden donations from other taxpayers. If nonprofit property were placed on the tax rolls, tax recipient bodies could lower the millage rates by 13% without negatively impacting government revenues.

BGR notes that the assessors' numbers indicate a 28% decline in the assessed value of exempt property over a 10-year period. During that time, the assessed value of taxable real estate increased by almost 40%. The divergent trends suggest that the assessed value of nonprofit property is seriously understated and that the impact of the nonprofit exemption on governments and taxpayers is greater than the official numbers indicate.

Project-Specific Exemptions.

BGR estimates that project-specific exemptions cost tax recipient bodies in New Orleans \$25 million a year. If such properties were fully taxed, the millage rate could be reduced by 6.4%. This means that abatements and diversions currently cost residential taxpayers \$109 per \$100,000 of taxable property value and business taxpayers \$164.

David Guidry, BGR's Chairman, stated: "The City of New Orleans is in the midst of a financial crisis, frantically searching for revenues to meet court ordered back pay and salary increases for firefighters. It is time to face the fact that the City's financial problems will never be solved without addressing the distortions in its tax base. Correcting under-assessments and addressing excessive exemptions are critical steps for financial health."

Pending Legislation

Unfortunately, pending legislation would exacerbate existing inequities and further limit the revenue base of government.

Capping assessments would not only perpetuate the inequities flowing from the current uneven assessments of properties. It would increase disparities over time. In addition, it would disproportionately benefit properties with rapid appreciation.

Limiting roll-forwards to the consumer price index or some other measure that bears no relationship to movements in the housing market would unnecessarily restrict the revenue-generating capacity of local government. There are other ways of limiting revenue wind-falls without imposing blanket restrictions. These include improved notice requirements.

Extending the homestead freeze to older homeowners regardless of income would transfer more of the tax burden to younger taxpayers, irrespective of their financial capacity. Interestingly, the poverty rate for those 65 and older in New Orleans is 19%, versus 24% for those ages 18 to 64.

Increasing the homestead exemption to \$150,000 would cost tax recipient bodies in Orleans Parish \$29 million.

Overhauling the 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 provides an opportunity for a serious infusion of money into the public coffers.

Although local tax recipient bodies and taxpayers bear the brunt of the dysfunctional tax system, the power to remedy the problem lies, in many cases, with others: the State Legislature, Orleans Parish's seven assessors, and the Louisiana 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. In its report, BGR sets forth what each of these groups can do to improve the system. Some of the recommendations for the public, the City's elected officials and the legislature are set forth below:

What can the public do?

- Press for disclosure, consistency, and fairness in the assessment process and the administration of exemptions.
- Stop thinking of exemptions as free money.
- 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.
- Educate the public as to the need for a broad-based, equitably administered system and the cost of the current failings.

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 exemption elsewhere.

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. For more information call 525-4152 or visit BGR's website, www.bgr.org.