July 19, 2016

Task Force on Structural Changes to the Budget and Tax Policy
State Capitol Building
P.O. Box 94062
Baton Rouge, LA. 70804

Dear Co-Chairpersons Robinson and Richardson & Members of the Task Force on Structural Changes in Budget and Tax Policy:

With Louisiana facing a continuing and extraordinary fiscal crisis, this is a critical time to analyze the link between state and local revenue sources, taxes and dedications and priorities. In analyzing the state's own fiscal situation, it is important the balance the fiscal impact on local governments, which due in large part to Louisiana's antiquated and piecemeal tax structure face their own budgetary challenges.

Local governments are largely dependent upon the state as a source of revenue due, in part, to significant limitations upon the powers of local governments to raise revenues and the requirement that the state allocate a portion of its revenues to local governments. The constitution requires that certain revenue-sharing funds be distributed to local governments and political subdivisions. Many statutes provide for other types of financial assistance by the state to local governments. Issues relating to sharing of responsibility for certain governmental functions by the state and local governments, the proper level of state financial assistance to local governments, and the appropriate balance between the taxing authority of the state government and of local governments continue to be important ones.

In New Orleans, recent estimates suggest that approximately 60% of property value is not taxed and local taxing bodies had to forego more than $125 million in revenue due to nonprofit exemptions alone. This is due to the overwhelmingly generous constitutional protections offered to non-profits. The Louisiana Constitution does not require that property owned by a nonprofit actually be used for the purpose on which its exemption is based. Rather, it states only that the property cannot be used for an unrelated commercial purpose. As a result, property that is idle, held for future investment or even used for a related commercial purpose is exempt from taxation. While nonprofits unquestionably provide value to communities, they also use services from local governments such as fire, police and EMS. Louisiana tax exemptions are granted to virtually any non-profit instead of organizations that provide for a specific public benefit. The legislature should submit a constitutional amendment that refines the eligibility requirement for this costly exemption, which unduly burdens local government and reduces government services to its citizens.

Additionally, the local ad valorem tax, the inventory tax credit, industrial exemptions,

have become one of the largest structural problems in the budget of the state of Louisiana and without reform this tax and the associated Louisiana tax system will continue to be one of the major drivers of future deficits. Furthermore, under the loose guise of economic development, property taxes are sometimes abated to assist private developments.

These project-specific subsidies are provided through several mechanisms, such as Restoration Tax Abatements, Industrial Tax Exemption and reduced payments in lieu of taxes. These sizeable exemptions and dedications limit the City's ability to meet basic responsibilities and pressing needs. Funding mechanisms such as these, pick the pockets of local governments to pay subsidies for entities that do not necessarily offer a solid return on investment for local or state government.

Governor Edward's recent Executive Order reforming the process for the Industrial Tax Exemption Program is a step in the right direction. Louisiana is the only state that operates such a program exclusively from the state level. The Louisiana Board of Commerce and Industry routinely awarded tax exemptions averaging approximately $1.4 billion in property taxes each year costing local government about $7 billion over the next five years. By giving local government input, and requiring local governing authorities to adopt resolutions authorizing the applications, there is a more equitable balance in tax allocation and exemption.

Another significant state commission that has a unique impact on local government finances is the Louisiana Tax Commission. This state agency is vested with extremely broad authority with regard to the administration and enforcement of the state property tax and assessment laws. The commission is composed of five members appointed by the governor from the state public service commission districts. The members of the commission serve at the pleasure of the governor. In addition to reviewing and accepting assessment lists from each parish, with the authority to reject or order individual changes, the commission issues rules and regulations which very narrowly prescribe how assessors are to perform their duties and responsibilities. This commission should unequivocally have representation of local government.

Another critical issue for local governments is the application of the homestead exemption. Local governments must provide essential services to all its citizens. However, across the state there are residential properties that are exempt from paying property taxes to local government due to the current application of the homestead exemption. A change the homestead exemption on property taxes to ensure that everyone pays something in property taxes regardless of the value of the property would bring tax fairness and equity to both local taxpayers and local governments. Currently, the first $75,000 in the value of a property is exempted under the homestead exemption, meaning any property valued below $75,000 does not owe taxes. Tax fairness requires the equitable allocation of the financial responsibility to be allocated across a broad base. Changing the current homestead exemption method would ensure that everyone contributes to their communities sustainability and growth.

Among the dedications I urge you to reconsider is the Assessor's Funding Formula. State law directs 2% of property taxes levied in Orleans Parish to the assessor's office. This funding mechanism is problematic because it gives the assessor more revenue each time voters approve taxes for unrelated purposes. The assessor's tax dedication has generated significant operating surpluses at the expense of other critical services. This is yet another example of a tax dedication that should be reconsidered in context of other needs facing local and state government. Simply put, it makes no sense to base funding for the assessor's office on total property tax collections. It is time to review current taxes in the state and identify those that are ripe for rededication to basic state and local needs.

All too often, the state or state entities singularly control the fate of local governments. The legislature creates new boards or commissions, or creates new local government mandates without funding streams, and local governments are left picking up the tab. Local government needs greater autonomy and financial flexibility in order to strengthen its self-sufficiency and likely relieve some pressure from the state budget. Local government's tax authority is significantly restricted by the constitution and through statute. If local government were free from these restrictions, it would allow local taxpayers and local governments a more equitable menu of financial options. Local government needs a seat at the table when discussing and crafting tax policy.

I strongly urge that the legislative tasks forces created to study these issues take a hard look at the tax dedications, exemptions, abatements and exclusions in Louisiana. The task of reforming the State's tax policy and budgeting practices is difficult and hard choices must be made, but I am confident that together we can find real solutions for the people of Louisiana.

Sincerely,

Mitchell J. Landrieu
Mayor, City of New Orleans