TAX FAIRNESS COMMISSION

Final Report

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I. Introduction and Fiscal Background

The City of New Orleans, like many large cities in the United States, faces the dilemma of a limited tax base coupled with large demands for public services. This situation is exacerbated in New Orleans by an aging infrastructure and lingering effects of Hurricane Katrina. The ability of local governments in Louisiana to respond to increased demands for services and infrastructure is limited by provisions on revenue raising in the Louisiana Constitution, state laws, the market, and the choices and preferences of the citizens of City of New Orleans itself.

Local governments must consider both the expenditure side and the revenue side of their responsibilities. The New Orleans Tax Fairness Commission, however, has been asked to focus only on the generation of revenues. The charge for the Commission, as outlined in Mayor Mitchell Landrieu's Executive Order Number MJL 10-07, "To analyze the following 3 main principles: (1) Fairness and Equity; (2) Economic Competitiveness; and (3) Stability and Adequacy." To that end, this report will focus on analyzing the current tax structure of the City with respect to these three principles and will consider how various alternatives may affect the performance of the tax structure in the context of the three principles.

There are many attributes of a "good" tax system as normally listed by economists. A tax system should work with a large tax base thereby allowing low rates, which minimize attempts by taxpayers to avoid the tax. The tax should not substantially distort private sector economic activity. It should be relatively stable even as the underlying economy ebbs and flows and revenues should grow as the economy grows thereby allowing public services to keep pace with the growth of the economy. In addition, taxes should not place an uneven burden on one segment or group of the society in deference to some other group. It should be easy to collect and should be tied to the benefits derived from the government activity financed as closely as possible. A local tax structure cannot focus mainly on a tax structure that has a predominantly redistributive goal because of the mobility of persons who are paying the tax. Yet, a local tax structure cannot place an inordinate burden on lower income citizens.

Clearly, some of these attributes are related and some are conflicting. The goal is to find a structure that has an adequate mix of the desired attributes to achieve a reasonable balance. In the end, the ultimate test of any tax structure is efficacy. Does it provide a sustained stream of revenues to support the public services deemed necessary by the local government? Does it create a competitive business environment? Does it maintain citizens in the middle and higher income brackets? Does it reasonably minimize the impact on lower income households?

Carrying out their charge, the Commission looked at the City of New Orleans current tax system and any future changes in that tax system in the light of three factors:

1. **The fairness and equity of the tax system**. Is the tax primarily borne by low-income taxpayers, middle-income taxpayers, or high-income taxpayers or by some other group of taxpayers such as the business community? Is the burden shared across the range of taxpayers/recipients of public services in a fair and equitable manner? Fairness and equity can also be related to taxpayers of similar income and wealth paying a similar proportion in taxes so everyone believes that they are being treated the same as other citizens.

2. **The economic competitiveness of the tax system.** Does the tax system distort economic activity in a significant manner? Does a high tax rate for one tax make the City of New Orleans uncompetitive for certain types of economic activity? Does the tax system drive away businesses or residents because it is higher than other cities or regions without corresponding improved public services?

3. **The stability and adequacy of the tax system.** Does the system produce adequate revenues to pay for City services over the ups and downs of the local economy?

Within this framework, the Commission looked at the major sources of tax revenue for the City of New Orleans – the ad valorem property tax, the retail sales tax including the sales tax on hotel and motel rooms, and the sanitation fee levied on each parcel of property in the City. The Commission studied the current tax structure of the City of New Orleans with respect to the three criteria defined above, looked at the effect of marginal changes in certain aspects of the tax structure such as lowering or reducing the homestead exemption or including certain currently tax exempt properties on the tax rolls, and finally looked at the impact of certain "what if" scenarios making major changes in the tax structure. In all cases, we examined the estimated impact of any tax structure on households in different income categories; on businesses in the city that are important for job creation; for the presently exempt properties such as nonprofit institutions and various governmental agencies; and, in New Orleans, given its tourist base, out-of-town visitors.

II. Description of the Current New Orleans Tax Structure

The first task of the Tax Fairness Commission is to identify the current tax structure of the City of New Orleans and to illustrate the expected economic incidence of this tax structure on various income categories and various groups of persons or businesses. Table 1 presents the current tax structure of the City of New Orleans as presented in the Mayor's Executive Budget. New Orleans receives about 50 percent of its revenues from sales and property taxes and the other half from other taxes, fees, fines, intergovernmental transfers, and other miscellaneous sources. This summary does not include taxes for other local government divisions such as the school board and the Regional Transit Authority. The City of New Orleans is only one segment of the local governments that will be supported mainly by local residents and businesses.

In Table 2 the sales tax rates and property tax rates for all governmental units in New Orleans are presented. The sales tax of 5 percent of general retail sales and 4 percent on hotel rooms is split between the City, the Orleans Parish School Board, and the Regional Transit Authority. For the sales tax, the City receives 2.5 percent, the School Board 1.5 percent, and the RTA 1.0 percent. For the hotel tax, the City receives 1.5 percent, the School Board 1.5 percent, and the RTA 1.0 percent.

The property tax is distributed among many public units, including the City, the Levee District, the School Board, the Sewerage and Water Board. Table 2 presents the recipient bodies for the sales and property taxes. For the property taxes, there are 90.29 mills for "city purposes." These include sewerage, drainage, the library system, and the Audubon Zoo and Aquarium. Some of these millages have been dedicated by the voters, such as the millage for the Audubon Zoo and Aquarium. Although these millages are for normal city purposes, they are not all forthcoming to the City. Many of these revenues go to separate boards and commissions that are appointed by the Mayor or the City Council but are not under the control of the City. This creates a problem for the Mayor and the Council in prioritizing spending across all city functions. The property tax rates in Table 2 do not include taxes of special districts such as the Downtown Development District. New Orleans has only a few special districts but they can make the property tax burden even higher within the confines of the district.

A resident of New Orleans or a business operating in New Orleans will face a 5 percent sales tax rate and overall millages of 146.63 for taxable property. Residents and businesses will also face service fees related to specific services provided by the city.

Table 1
City of New Orleans
General Fund Revenue, by Source, 2011

Source	Revenue	% of Revenue
Sales Taxes	$145,046,603	29.7%
Property Taxes	$108,475,191	22.1%
Other Taxes	$21,981,160	4.5%
Service Charges	$69,548,965	14.3%
Licenses and Permits	$63,433,534	12.9%
Fines and Forfeitures	$36,529,870	7.4%
Other Sources of Finances	$22,807,199	4.7%
Miscellaneous Revenue	$11,274,701	2.3%
Intergovernmental Revenue	$9,273,442	2.1%
Total General Fund Revenue	$488,370,665	

Source: City of New Orleans 2011 Operating Budget

Table 2
Local Sales and Property Tax Rates, 2011
(does not include state sales tax rate of 4.0% or dedicated hotel motel tax of 5.0%)

Tax Recipient Body	Tax Rate
General Sales Tax:	
City	2.5%
School Board	2.5%
RTA	1.5%
Total	5.0%
Hotel Tax:	
City	1.5%
School Board	1.5%
RTA	1.0%
Total	4.0%
Property Tax:	
General Purpose Millage	13.91
P&I of City Bonds (Board of Liquidation)	25.50
Drainage System (S&WB)	16.43
Police and Fire Special Millage	6.40
Audubon Zoo	0.32
Audubon Aquarium	2.99
Public Library	3.14
Police Protection (No HE)	5.26
Fire Protection (No HE)	5.21
Neighborhood Housing Improvement	0.91
New Orleans Economic Development	0.91
Parks and Parkways Commission	1.50
Street and Traffic Control	1.90
Capital Improvements	1.82
City Services	1.19
Orleans Law Enforcement District	2.90
Sub-Total City Purposes	90.29
NOPS	44.12
Levee Board (average of two)	12.22
Total	**146.63**

Source: City of New Orleans

Further information on the property tax is presented in Table 3. The property tax yield is estimated on the basis of data provided by the Assessor's Office, the City of New Orleans, The Bureau of Governmental Research (BGR), and GCR and Associates. The property assessed base of the City of New Orleans consists of several categories of property: commercial and industrial real estate and improvements; residential real estate and improvements; tangible personal property; public utility property; federal, state, and local government property; and property owned by non-profit agencies, including religious organizations. The latter two types of property — government entities and non-profit properties — are constitutionally exempt from local taxation. Hence, the taxable base, before exemptions, will only include commercial and industrial improvements, residential real estate and improvements, tangible personal property, and public utility property. The 2011 assessed property value for these groups is presented in Table 3. Based upon the assessed value of properties, government and non-profit entities own roughly 33.7% of the properties in the city. The assessed property consists of almost 50 percent residential properties and just under 20 percent for commercial and industrial properties.

Table 3

Property Assessed Value, 2011

Type of Property	Number of Properties	Assessed Value	% of Total
Total Commercial/Industrial Property	7,107	$667,861,480	17.0%
Total Government Property	8,564	$847,569,150	21.6%
Total Non-Profit Property	6,345	$474,602,710	12.1%
Total Residential Property	144,367	$1,936,720,910	49.3%
Total	166,383	$3,926,754,250	100%

Source: New Orleans Assessor's Office and Bureau of Governmental Research

Information on the sales tax is estimated using data provided by the Chief Economist of New Orleans. This information includes total monthly sales tax collections for a multi-year period for the three components of the local sales tax: the general sales tax, the hotel/motel tax, and the tax on automobiles. The tax base is determined by dividing the tax collections (calendar year 2010 was used for the calculations) by the tax rate for the tax in question. For the general sales tax and the automobile tax, the City of New Orleans tax rate is 2.5 percent; for the hotel/motel tax, the City rate is 1.5 percent. The reason that a separate calculation is needed for the auto tax is that the Louisiana Department of Public Safety collects this tax when a new or used car is purchased. The tax is based on the residence of the purchaser, not on the location of the purchase (as it is for the general sales tax). The tax bases for these components of the sales tax are presented in Table 4.

Table 4
Sales Tax Base, 2011 Estimate for New Orleans

Sales Tax Source	Sales Tax Base
Sales Tax Base	$5,104,587,273
Hotel/Motel Tax Base	$719,564,009
Auto Tax Base	$311,736,257
Total Sales Tax Base	$6,135,887,539

Source: City of New Orleans Department of Finance and Authors' Calculations

Just over 55 percent of the City's revenues are generated by sales, property, and other taxes that are not specifically linked to a specific public service but are linked to general public services that citizens demand from their local government, such as police and fire protection, roads, and sanitation services. About 35 percent of the revenues are related more directly to specific services received, licenses and permits related to the ability to carry out a task, or fines and forfeitures related to an activity that the City wants to discourage. About 10 percent of the City's revenues will come from miscellaneous sources. The focus in this analysis will be on the general revenue sources, namely the sales and property tax in New Orleans, and also on the direct charges for services. Direct charges will typically be comparable to the cost incurred by the City to carry out the activity or, at least, not to exceed the cost of providing the service.

In establishing its tax structure, the City of New Orleans is obviously guided by the Louisiana Constitution and by state laws that are passed both to more effectively enforce the guidelines established in the Louisiana Constitution and to respond to overall market conditions. The Louisiana Constitution limits or prohibits in Louisiana the use of many taxes used by municipalities throughout the United States. Specifically, the Constitution prohibits local income taxes, local gasoline taxes, and local severance taxes.

Local governments can levy a sales tax on sale at retail; the use, lease, or rental of tangible personal property; and on sales of services as defined by law. The local rate of taxation cannot exceed 3 percent for all local governmental subdivisions without approval by the state legislature and a vote of the people who will be asked to pay the tax. The Constitution does not force the local government's sales tax base to correspond with the state's sales tax base. The Constitution does mandate that there be only one sales tax collector per parish.

In Louisiana, the property tax base is limited by a large number of exemptions affecting many types of property. The Louisiana Constitution mandates that property taxation be based on an assessment ratio of fair market value. This assessment ratio is 10 percent for land and residential improvements, 15 percent for business, commercial, and industrial properties, and all other business properties, and then 25 percent for utilities and other companies that can be classified as public utilities. The assessment ratio treats some property, namely land and residential improvements, more favorably than business property or public service properties.

In addition, the Constitution grants a homestead exemption of $7,500 for a single homestead. The Louisiana homestead exemption is the largest in the United States. This homestead exemption applies to all homes in the state that are owner-occupied and do not represent a second or third house in the state. No owner-occupied homeowner in Louisiana pays any parish property tax on the first $7,500 of the taxable value of his or her homestead. And these land and improvements are assessed at 10 percent of fair market value. The homestead exemption has not increased since 1980, so the real value of the homestead exemption has diminished over the last 30 years. Given that the value of housing has increased over this time period, property taxes on owner-occupied homes are proportionally increasing for local property tax collections. With a few exceptions that have been approved through Constitutional amendments, the only millage to which the homestead exemption does not apply is for the municipal millage, except in the City of New Orleans. The municipal millage in New Orleans is applied to the assessed value of owner-occupied residential property only after deducting the homestead exemption.

Industrial property is subject to the ad valorem tax, but such property can also apply for an industrial tax exemption. The industrial tax exemption limits the ability to tax industrial property for up to five years with the possibility of renewing the exemption for another five years. Basically, industrial property will be off the tax rolls for ten years. The industrial tax exemption is granted by the state even though all of the property tax revenues provide financial assistance to local governments.

The state constitution also exempts public lands, property owned by a nonprofit corporation dedicated places of burial, property owned by an association that is operated for religious, charitable, health, fraternal, or educational purposes and whose earnings, if any, are declared to be exempt from federal or state income taxes, property leased to a nonprofit corporation or association that uses the land for housing for homeless persons, property of a labor organization, and property of an organization such as a lodge or club organized for charitable and fraternal purposes. The nonprofits provide services that the community values, but the activities of the nonprofits require certain public services as well. Major cities such as New Orleans have significant nonprofit property within their boundaries, and this narrows the property tax base. Court decisions have furthered limited the taxation of any nonprofits.

The purpose of this report to the Tax Fairness Commission is to analyze the impacts of a wide range of suggested changes in the tax structure with respect to the criteria of fairness, competitiveness, and stability. For this report, we will present the alternatives and their estimated impacts and provide information to the various decision makers about the alternative tax structures. Ultimately, the choice of what tax system is appropriate for the City of New Orleans is a decision to be made by the citizens of the City and their representatives.

III. Methodology and Economic Background

There are several assumptions made when estimating the yield and the incidence of a tax system as well as the impacts of changes. The yield is defined as the amount of government revenue that will be derived by various tax policies. The incidence is defined as the distributional impacts of a tax. That distribution may be defined as the breakdown of the burden of the tax on residents versus businesses, on residents versus out-of-town taxpayers, or on rich versus middle-class versus poor taxpayers. The yield and the incidence of the tax structure are directly related to the conditions of the New Orleans economy, as well as the constitutional and statutory limitations.

Economic Background: Estimating the Tax Yield

New Orleans had a population of nearly 500,000 in 2000 and in 2005, just before Katrina, it was estimated by the U.S. Census that New Orleans had a population of just over 450,000. Based on the most recent census numbers, New Orleans has a population of just over 350,000. The income distribution in New Orleans as of 2010, based on the American Community Survey of 2009 (ACS) and the most recent information from the 2010 Census, is presented in Table 5, along with a comparison to the income distribution in the United States.

Table 5
City of New Orleans and United States
Income Distribution

Income Categories	New Orleans	United States
$0 to $24,999	36.0%	25.0%
$25,000 to $49,999	25.5%	25.2%
$50,000 to $74,999	14.3%	18.1%
$75,000 to $99,999	8.1%	11.5%
$100,000 to $149,999	7.2%	11.9%
$150,000 to $199,999	5.6%	4.4%
$200,000 and above	3.2%	3.8%

Source: American Community Survey, 2009 and updated with U.S. 2010 Census

Thirty-six percent of the households in New Orleans have incomes less than $25,000 compared to 25 percent throughout the country. Throughout the nation, roughly 2 in 3 households have incomes less than $75,000 while in New Orleans that ratio is closer to 3 in 4. New Orleans has proportionately more low-income households than the United States as a whole and fewer higher income households. Such an income distribution creates issues for raising revenue and is typically related to increased demands for social services. Moreover, the household economic characteristics of New Orleans cannot be altered quickly; indeed, it is something we gather information on in order to forecast various factors that must be dealt with to understand the current tax structure and to evaluate the possible outcomes of any change in the tax structure.

Information on the number of household ownership and residential renters in 2010 is presented in Table 6. Average home value and rents by income categories are presented in Table 7. The ACS allows us to estimate the average value of the home owned by families of various incomes and the amount spent on rent. The ACS was updated to the 2010 totals using the information from the 2010 census. Property tax liability for a homeowner is based on the value of the home and the tax rates imposed by the local governments. The property tax liability of a rental property is based on the value of the rental units and the tax rates imposed by the local governments. Exactly who ultimately pays this tax, the tenant or the landlord depends on the market conditions in the local economy as well as the time that elapses between when a property tax is imposed and when the landlord is able to embed the tax increase into the rent. Information in Tables 6 and 7 provide the background information necessary to calculate the tax burden of the property tax on various income categories.

In Table 6 the number of renters dominates the lower income categories. Among households with incomes less than $25,000, approximately two-thirds are renters; the proportion of renters in an income bracket will decline as income increases. In the highest income category (over $200,000) 13.6 percent of the households are renters; so over 85 percent of these households are homeowners. Because the Louisiana Constitution exempts homeowners from a portion of the property tax, the incidence of the property tax disproportionately burdens renters. In Table 7 it is shown that the fraction of a household's income used for paying rent declines dramatically from 163.8 percent for the lowest income category (less than $10,000) to 6.0 percent for a household in the above $200,000 income range. This is not surprising, but it illustrates the "equity" issues of property tax, namely how unequal the taxation of low-income households is compared to high-income households.

Table 6
New Orleans Households by Income and Homeownership, 2010

Income Range	Number of HHs that Own	Number of HHs that Rent	Total Households
Less than $10,000	4,782	13,711	18,494
$10,000 to $14,999	3,230	6,419	9,649
$15,000 to $24,999	8,634	14,459	23,093
$25,000 to $34,999	7,589	9,676	17,265
$35,000 to $49,999	10,315	8,647	18,961
$50,000 to $74,999	12,914	7,388	20,302
$75,000 to $99,999	8,258	3,292	11,550
$100,000 to $149,999	8,885	1,395	10,280
$150,000 to $199,999	6,911	1,085	7,995
$200,000 or more	3,949	620	4,569
Total	75,467	66,691	142,159

Source: ACS, 2010 Census of Population, Authors' Calculation

Table 7
New Orleans Home Value and Rental Payments by Income, 2010

Income Class	Average Home Value	Average Monthly Rent	Monthly Rent % Monthly Income
Less than $10,000	$81,558	$682	163.8%
$10,000 to $14,999	$84,761	$766	73.5%
$15,000 to $24,999	$90,700	$888	53.3%
$25,000 to $34,999	$96,072	$994	36.7%
$35,000 to $49,999	$103,977	$1,027	29.0%
$50,000 to $74,999	$125,371	$1,173	22.5%
$75,000 to $99,999	$147,384	$1,303	17.9%
$100,000 to $149,999	$205,176	$1,371	13.2%
$150,000 to $199,999	$297,642	$1,438	9.9%
$200,000 or more	$416,699	$1,506	6.0%

Source: ACS, 2010 Census of Population, Authors' Calculation

Information about the burden of the sales tax on New Orleans citizens will depend on how much of a household's income is spent on taxable commodities and services. The United States Department of Labor conducts a major survey of consumer spending nationally, upon which it bases the Consumer Price Index. This survey is called the Consumer Expenditure Survey, and the results of the latest Consumer Expenditure Survey were used to estimate the proportion of income spent on taxable goods and services. Table 8 presents the results of the consumer expenditure survey for homeowners and renters in New Orleans in 2010 for all taxable goods and services and for all taxable goods and services with the exception of food and drugs.

Households earning less than $10,000 per year are projected to spend over 100 percent of their income on taxable commodities and services subject to taxation, in addition to over 100 percent on rent. This is feasible since public assistance is not included in the definition of income. Households in this income category can get assistance in the form of food stamps, Medicaid, housing vouchers, or direct cash payments, though not all families in the lower-income categories receive public assistance. The fraction of income spent on taxable items declines as income increases. Again, this is not surprising, but it affects the distribution of who pays for local government if a major source of local revenue is the sales tax.

A disproportionate share of New Orleans households earn less than $25,000 annually; this group of citizens is much more likely to rent than to own and will spend more of their income on products and services that are subject to the sales tax. Moreover, New Orleans relies on property taxes, sales taxes, and service fees to support local governments, as do many other urban areas. These taxes are not easily designed in order to ensure vertical equity. Lower income households will not pay more absolutely than other groups of taxpayers in higher income categories, but the lower income households will almost surely pay a disproportionate share of their income in local taxes as compared to other income categories.

Table 8

Spending on Table Goods and Services in New Orleans by Income Class, 2010

Income Class	% Spent on Taxable Items	% on Taxable Items Except Food/Drugs
Less than $10,000	180.8%	115.1%
$10,000 to $14,999	57.3%	33.6%
$15,000 to $24,999	40.6%	25.8%
$25,000 to $34,999	36.0%	24.1%
$35,000 to $49,999	30.7%	21.4%
$50,000 to $74,999	26.0%	18.8%
$75,000 to $99,999	22.7%	16.9%
$100,000 to $149,999	19.4%	14.9%
$150,000 to $199,999	17.5%	13.6%
$200,000 or more	16.0%	12.7%

Source: BLS Consumer Expenditure Survey and Authors' Calculations

IV. Analysis of the Current New Orleans Tax Structure

Tax Incidence

The incidence of a tax refers to who ultimately bears the burden of a tax. The U.S. Congress, the Louisiana State Legislature, and the New Orleans City Council can levy a tax and, in the process of levying the tax, must clearly indicate who will be responsible for remitting the tax to the government. However, the person/organization/business that is legally responsible for remitting the tax to the government may not be the entity that ultimately bears the burden of the tax. Property taxes can be passed forward to renters or sustained by the current owners of the property due to lower market values when the property is put on the market, and sales taxes can be passed forward to consumers or backwards to various inputs in the production process. Government bodies control the legal administration of a tax, but these bodies do not control the ultimate individual, business, or organization. Tax incidence is a complicated phenomenon to estimate and the economic incidence of the tax, not the legal incidence, is the incidence that affects behavior.

In order to estimate the various incidences of the current and potential tax system of New Orleans, the authors developed a model based on income and other related characteristics of New Orleans residents. Generally, data to build such a model are only available with the Census Statistics of Income tapes. These are available two to three years after the Decennial census. There are a number of private sources that use the older Census data (in this case, the 2000 Census data) and update to the current period. Given the major changes caused by Hurricane Katrina, this methodology will not produce valid results for New Orleans.

Thus, the authors used a post-Katrina data source for income, the American Community Survey. The ACS is an annual survey of local residents conducted by the Census Bureau. The ACS has a relatively small sample size each year, but the data set is aggregated over a four-year period to produce statistically valid results. In this case, the period was 2005-2009. The ACS contains data for the number of homeowners and the number of renter households broken down by income. The ACS data was then adjusted for the fact that the total number of households estimated by the ACS was smaller than that estimated by the 2010 Census of Population (the only 2010 Census data released at this time).

We also have to make certain assumptions about economic conditions. For example, a property tax imposed on rental property can be passed along to the households renting the property, but if the landlord is charging as high a rent as the market will bear, the tax may have to be absorbed by the landlord. It is also conceivable that future renters may bear the burden of past taxes as the market permits higher rents; essentially, a landlord might seek to recover past costs by charging rents that maximize market permissibility.

The market will determine who ultimately will bear the burden of the tax. Any property tax increase will apply to all properties. All landlords face the same increase in doing business, and this will facilitate their ability to pass the increase in property taxes along to the households renting the places. As we illustrate the expected tax incidence of various changes in the local tax structure in New Orleans, we will make clear the assumptions we are using about the ability or inability to pass along tax decreases or increases to other persons/businesses.

Tax Burden According to Income Categories

The estimated economic incidence of the current New Orleans tax structure for all levels of governments is illustrated in Table 9 for homeowners and Table 10 for renters. Households in the lower income categories will pay more proportionately than those households in the higher income categories if they are homeowners or renters. This is true for several reasons. First, lower-income homeowners and renters will typically have a much higher ratio of value of house to income than a higher-income households; second, lower income households will spend a larger fraction of their income on taxable commodities and services than higher income households; third, any fixed fee, such as the sanitation fee that is paid equally by everyone regardless of income, will have a larger relative impact on a lower income household than a higher income household.

Low-income homeowners will, however, be much better off than low-income renters. For households making less than $10,000 who own a home, the tax burden is estimated to be just over 16 percent of their income; if they are renters and all of the tax is shifted forward to the tenant, then the fraction of income taken by the sales, property, and sanitation fee is estimated to be over 48 percent of income. If the property tax is borne by the landlord, as opposed to the tenant, then the low-income household will pay about 10 percent of their income in local taxes as opposed to the 48 percent previously computed.

These estimates are based upon statistical central tendencies of samples and populations. They provide insight based upon profiles of residents and households, but there is always the possibility that exceptions exist, and exceptions can have real and present impacts upon policy decisions. Ultimately, when aggregating information from surveys into categories, analysts face what is known as an ecological fallacy: we assume that individuals in a designated group have the characteristics of the group average. This is not always the case. Nevertheless, an analysis of this sort depends upon profiles in order to provide insight into forecasts about consequences of policies, and surveys such as the ACS or the Consumer Expenditure Survey of the US Bureau of Labor Statistics provide valuable information for doing so.

Lower income homeowners will pay up to 16 percent of their income in local taxes, but the income does not include any public assistance (food stamps, Medicaid, housing subsidies, and/or other public assistance). Similarly, low-income renters will pay up to 10 percent in local taxes if the property tax is not passed to the tenant or as much as 48 percent of their income in local taxes if the property taxes are passed forward. This is not to suggest that all low-income households receive public assistance, but most public assistance programs determine eligibility based upon income.

A household in the $50,000 to $74,999 income category, assuming the household is a homeowner, will pay about 2.8 percent of its income for local taxes in New Orleans. If renting and if the property tax is passed forward to the tenant, the household will pay about 6.4 percent of its income in local taxes. These estimates do not take into account the federal and state income tax advantages of owning your home as opposed to renting a home. The income category is defined as before tax income and not after tax income.

The pattern of local taxation in New Orleans is documented in Tables 9 and 10—lower income households pay a higher fraction of their income in local taxes and fees than higher income households. This pattern is not especially different from any other municipality since most municipalities depend on the same revenue sources that New Orleans does, namely the property tax, sales tax, and user fees. Some municipalities may be wealthier, but this still does not change the general distribution of the local tax burden with respect to the various income categories of households. The dramatic difference between the low-income homeowner and the low-income renter in New Orleans may not be quite as dramatic in other municipalities if those municipalities do not provide a substantial homestead exemption or other form of a circuit breaker based on a household's income.

Table 9
Estimated Economic Incidence of Current Local Tax Structure in New Orleans
Homeowners
(all local governmental organizations for Property and Sales Taxes)

Income Range	Property, 147.63 mills	Sales tax rate of 5.0%	Garbage Fee ($25 per month for residential)	Total Taxes Paid	Percent of Income	Observations
Less than $10,000	$97	$417	$300	$814	16.3%	Public Assistance not included in Income
$10,000 to $14,999	$144	$323	$300	$767	6.1%	
$15,000 to $24,999	$232	$361	$300	$893	4.5%	
$25,000 to $34,999	$311	$522	$300	$1,133	3.5%	Based on mid-point of income category
$35,000 to $49,999	$428	$583	$300	$1,310	3.1%	
$50,000 to $74,999	$743	$727	$300	$1,771	2.8%	
$75,000 to $99,999	$1,068	$889	$300	$2,257	2.6%	
$100,000 to $149,999	$1,921	$1,084	$300	$3,305	2.6%	
$150,000 to $199,999	$3,286	$1,225	$300	$4,811	2.7%	
$200,000 or more	$5,043	$1,650	$300	$6,993	2.3%	Based on $300,000

Source: Ryan and Richardson

Table 10
Estimated Economic Incidence of Current Local Tax Structure in New Orleans
Renters, assuming Property Tax Passed Forward to Renter
(all local governmental organizations for Property and Sales Taxes)

Income Range	Property, 147.63 mills	Sales tax rate of 5.0%	Garbage Fee ($25 per month for residential)	Total Taxes Paid	Percent of Income	Observations
Less than $10,000	$121	$417	$300	$838	48.9%	Public Assistance not included in Income and tax is passed on to renters
$10,000 to $14,999	$136	$323	$300	$759	20.5%	
$15,000 to $24,999	$157	$361	$300	$819	14.6%	
$25,000 to $34,999	$176	$522	$300	$998	10.3%	Based on mid-point of income category
$35,000 to $49,999	$182	$583	$300	$1,065	8.2%	
$50,000 to $74,999	$208	$727	$300	$1,235	6.4%	
$75,000 to $99,999	$231	$889	$300	$1,419	5.1%	
$100,000 to $149,999	$243	$1,084	$300	$1,627	3.9%	
$150,000 to $199,999	$255	$1,225	$300	$1,780	3.0%	
$200,000 or more	$267	$1,650	$300	$2,217	1.9%	Based on $300,000

Source: Ryan and Richardson

Tax Burden According to Sector Paying Tax

An alternative examination of tax incidence focuses upon various economic sectors. In New Orleans, as in any municipality, there are economic sectors that require and use local public services but do not necessarily pay sufficiently for them in taxation. The local economy can be divided into the following sectors: residential, commercial, industrial, government, nonprofit entities, and visitors to the city.

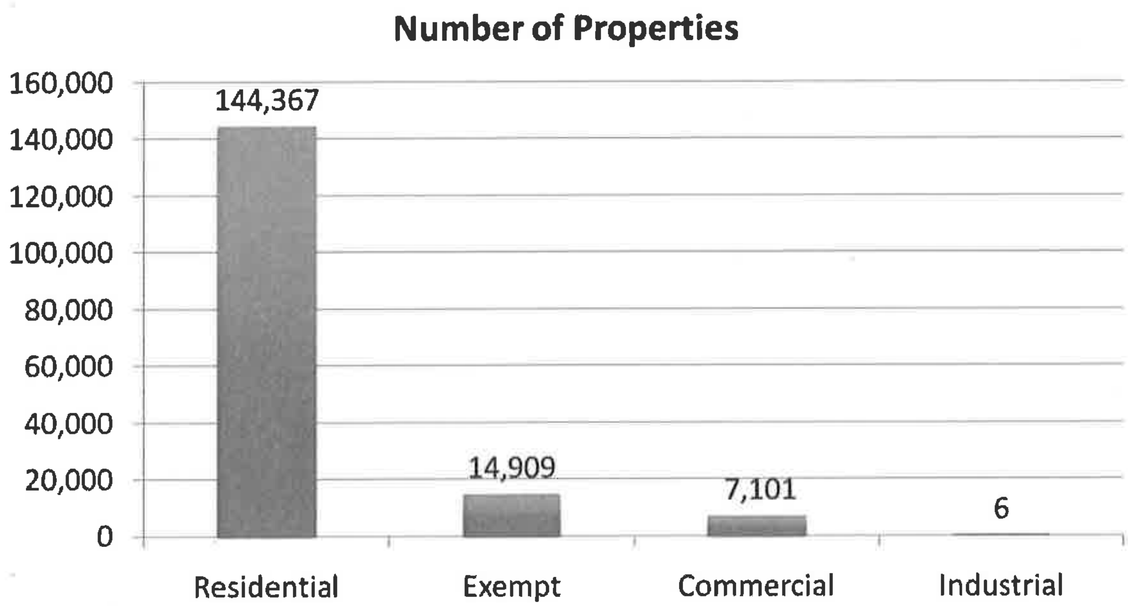
The tax burden of the property tax is illustrated in Figure 1 and Table 11. In Figure 1 the number of properties in New Orleans, as of 2011, is divided among residential properties, exempt properties based on the definition in the Louisiana Constitution, commercial properties, and industrial sites. By far the majority of properties, almost 145,000, are classified as residential, while there are almost 15,000 properties that are identified as exempt (including government, nonprofit, and all other definitions of exempt), just over 7,000 commercial sites, and only 6 industrial sites in Orleans Parish.

As illustrated in Table 11, residential properties constitute almost 50 percent of all assessed property in New Orleans and just over 60 percent of the taxable property, while commercial and industrial properties make up just under 30 percent of the assessed property in the city, but they make up about 37 percent of the taxable property. Both residential and commercial properties make up a much larger share of the taxable property than they do the assessed value of the property because exempt properties are assessed (or they are supposed to be assessed), but they are not taxable according to the state constitution.

Residential property and commercial property both pay substantial amounts of the total property taxes collected even though commercial property is a much smaller portion of the assessed property. However, one should remember that the Louisiana Constitution places an assessment ratio of 10 percent for residential properties and 15 percent for most business and commercial properties, that the Constitution exempts public property and nonprofit properties from state and local property taxation, and that homeowners have a $7,500 exemption that diminishes the residential tax base compared to other property tax bases. Commercial properties do not have any tax advantages built into the Louisiana Constitution.

It should also be noted that renters pay a substantially larger share of the property tax than homeowners because in New Orleans almost half of the households are renters and the renters do not get any homestead exemption. Over 40 percent of the property tax is paid by renters or landlords depending on the tax incidence, just over 22 percent is paid by homeowners, and 37 percent is paid by various businesses. The distribution of the property tax burden is illustrated in Figure 2.

Figure 1
Properties Identified by Primary Use of Property, 2011



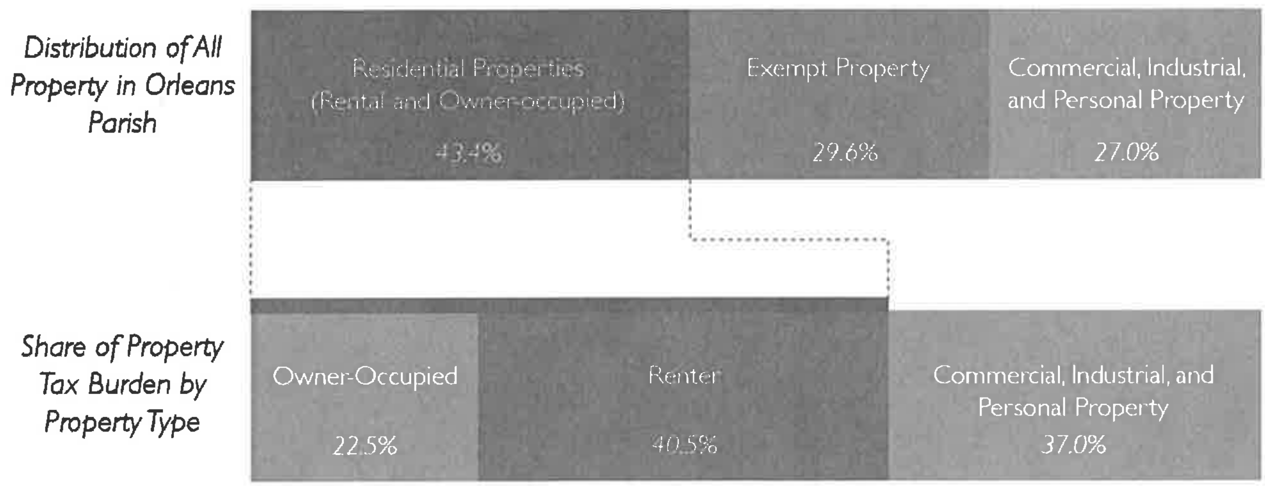
Source: New Orleans Tax Assessor Office

Table 11
Estimated Burden of New Orleans Property Tax on Various Types of Properties, 2011

Type of Property	Estimated Assessed Value	Estimated Taxable Value
Residential--Homeowners		22.5%
Residential--Renters	43.4%	40.5%
Commercial/Industrial	27.0%	37.0%
Nonprofit/Government	29.6%	0.0%

Source: Assessor's Office and Ryan and Richardson calculations

Figure 2
Property Tax Burden in Orleans Parish, 2011



The local sales tax burden is shared among a variety of groups, including residents of New Orleans, businesses based in New Orleans, and, given that New Orleans is a destination tourist site, visitors. The sales tax burden is illustrated in Table 12. The share paid by New Orleans residents is based on the projected average sales tax paid by a household in each income category times the number of households in each income category. Households are responsible for about 34 percent of total sales taxes paid in New Orleans. Tourists are also responsible for a large portion of the sales taxes collected in New Orleans. Based on about 8 million tourists visiting New Orleans and spending about $240 per day on taxable items, not including accommodations, tourists provide about 36 percent of all sales taxes collected by the city. Finally, this leaves about 30 percent of the sales tax collections to be paid by businesses. This estimate is very similar to state studies of the proportion of sales taxes paid by businesses.

Table 12
Estimated Tax Burden of Local Sales Tax Including Hotel/Motel Tax
New Orleans, 2011

Group Bearing Sales Tax Burden	Estimated Percent of Local Sales Taxes Paid		Observations and Information
	Hotel/Motel Tax Borne by Visitors	Hotel/Motel Tax Borne by Local Hotels	
New Orleans Residents	30.0%	30.0%	Based on U.S. Consumer Expenditure Survey—percent of income spent on taxable commodities and services
New Orleans Businesses	30.0%	34.0%	Based on State Estimates of Sales Taxes Paid by Louisiana Businesses
Tourists to New Orleans	40.0%	36.0%	Based on estimated 8 million tourists visiting New Orleans

Overall Tax Burden of Current New Orleans Tax Structure

The overall tax burden of the present tax structure in New Orleans, including the property tax, the sales tax, and the sanitation fee of $300 per year for all residents is presented in Figures 3 and 4. In Figure 3 it is assumed that the property tax on rental property is paid by the tenants and the hotel/motel tax is paid by the occupants or visitors. If the hotel/motel tax is absorbed by the local hotels, then the tax burden of visitors declines by 1.8 percent and the tax burden of local businesses rises by 1.8 percent. In Figure 4 it is assumed that the property tax on rental residential property is absorbed by the landowners. The assumption about who pays the property tax on rental property affects dramatically the tax burden of the tax structure. If renters pay the property tax, then renters in New Orleans pay for about 28.9 percent of the entire tax bill, while if this tax is absorbed by the landlords, then the renters only pay about 8.9 percent of the tax burden and businesses pick up over 50 percent of the tax burden. Homeowners pay about 21.2 percent of the tax burden in New Orleans. Businesses and renters/landlords pay over 60 percent of the tax burden in New Orleans. Visitors pay from about 16 percent to about 18 percent depending on who ultimately pays the hotel-motel tax and that will depend on overall market conditions.

Figure 3
Tax Burden of Current Tax Structure in New Orleans
(property tax on rental property paid by tenants)

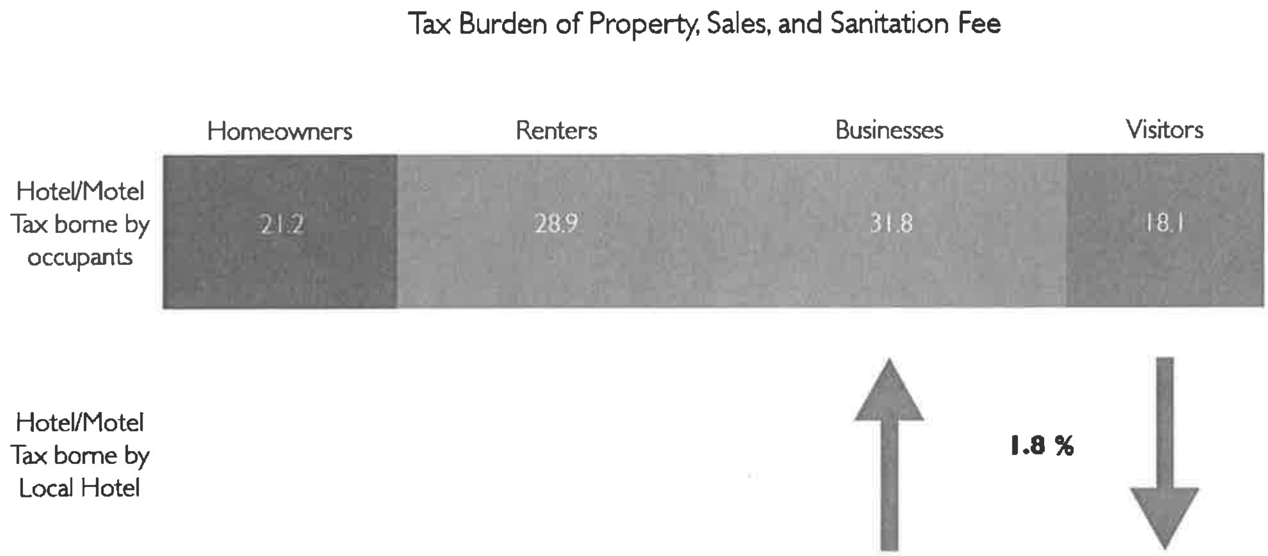
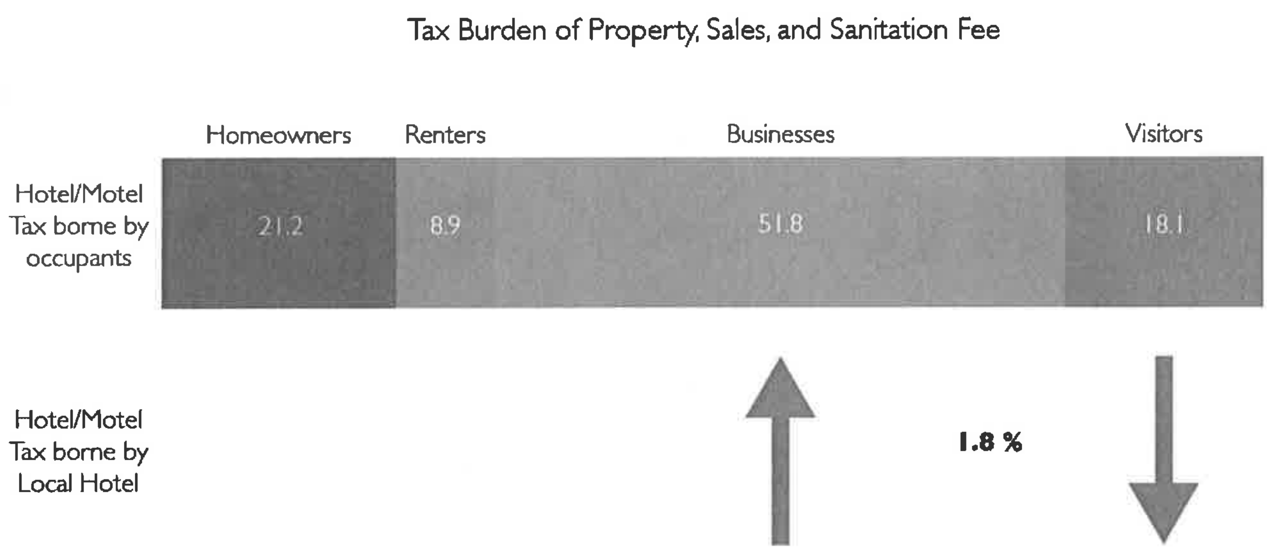


Figure 4
Tax Burden of Current Tax Structure in New Orleans
(property tax on rental property absorbed by landowners)



V. Analysis of Incremental Changes in the New Orleans Tax Structure

The tax model for New Orleans has been developed so it could reveal the possible impact of changes in the tax structure on income categories and different sectors of the economy. Proposed tax changes are all to be revenue neutral and to provide for an equitable, competitive, and sustainable local tax structure. We must also consider that any proposed changes are restricted by the Louisiana Constitution, state statutes, and local decisions that have been made over a number of years. Any and all changes will be incremental, but the goal is to make sure the changes make the tax structure more equitable, more competitive, and more stable, to whatever extent possible. The changes analyzed in this report will be revenue neutral—that is, promoting a more economically efficient tax structure without expanding public services.

The tax changes that have been compared in this paper are as follows:

(1) Eliminate the homestead exemption and reduce the millage by 2.86 mills—a revenue neutral change with this proposal putting more of the tax burden on the homeowners and reducing the tax burden on renters/landlords and businesses;

(2) Gradually eliminate the homestead exemption and reduce millage by 1.61 mills—a revenue neutral change with this proposal putting more of the tax burden on the homeowners and reducing the tax burden on renters/landlords and businesses;

(3) A per parcel fee of $47.96 offset by reducing property tax millage by 2.86 mills or reduce the sales tax by .15 percent;

(4) A per parcel fee of $150 with a credit against property taxes paid up for the amount of property taxes paid but with the credit not exceeding $150 offset by reducing property tax millage by 1.76 mills or reduce the sales tax by .10 percent.

These alternative changes offer different ways of restructuring the New Orleans tax system. The proposed changes also provide a view of what happens to different groups of taxpayers if the homestead exemption is eliminated, either completely or gradually, and millages are lowered to retain revenue neutrality. The impact on homeowners and renters will be noticeable. The purpose of examining a variety of changes is to appreciate the different impacts on various groups of taxpayers.

Option 1 – Eliminate the Homestead Exemption from Municipal millage and Lower Millage by 2.86 Mills for Revenue Neutrality

Table 13 presents the impact of eliminating the homestead exemption from the City's 13.91 general millage while also decreasing the millage rate by 2.86 mills. This is forecasted to achieve revenue neutrality for all taxpayers as a group, but not revenue neutrality for each taxpayer. In this option, the tax rate is reduced for rental properties and commercial and industrial property creating a $4.5 million *decline* in property taxes paid by business. Businesses will have a reduction of $1.5 million in property taxes paid and rental properties will have a reduction of $3.1 million in property taxes paid. Homeowners will pay an additional $4.6 million in property taxes.

The combination of eliminating the homestead exemption and adjusting the millage rate downward by 2.86 mills reduces the overall tax burden for the extremes of the income distribution. If rents are reduced in line with the savings in property taxes, renters in the lowest income category will have an overall savings. Homeowners in the highest income category are likely to see a savings because of the reduced millage rate. Middle-class households (those in the $50,000 to $150,000 income ranges) will bear the most significant impact.

Table 13
Impact of Eliminating the Homestead Exemption from 13.91 Mills
and Decreasing the Property Tax Rate by 2.86 Mills

Income Class	$ Change Homeowners	$ Change Renters	$ Change Total	Percent of Income
Less than $10,000	$81.00	$(33.52)	$11.08	0.22%
$10,000 to $14,999	$80.08	$(37.62)	$16.87	0.13%
$15,000 to $24,999	$78.38	$(43.61)	$18.47	0.09%
$25,000 to $34,999	$76.85	$(48.84)	$22.91	0.07%
$35,000 to $49,999	$74.59	$(50.47)	$31.44	0.07%
$50,000 to $74,999	$68.47	$(57.61)	$35.23	0.06%
$75,000 to $99,999	$62.17	$(64.02)	$37.21	0.04%
$100,000 to $149,999	$45.64	$(67.34)	$35.83	0.03%
$150,000 to $199,999	$19.20	$(70.67)	$12.79	0.01%
$200,000 or more	$(14.85)	$(73.99)	$(16.82)	(0.01%)

Source: Authors' Calculations

The estimated change in the tax burden is illustrated in Figure 5. The impact on homeowners goes up by 1.16 percent, while the impact on business goes down by 0.85 percent and on renters/landlords by 0.31 percent.

Figure 5
Estimated Tax Incidence of Eliminating Homestead Exemption And Lowering Millage for Revenue Neutrality

<u>Option 2 –Phase Out the Homestead Exemption from Municipal millages and Lower Millage Rates by 1.61 mills for Revenue Neutrality</u>

Table 14 presents the impact of phasing out the homestead exemption from the City's 13.91 general millage and decreasing the millage rate by 1.61 mills. Like option 1, the tax rate is reduced for commercial and industrial property creating a \$2.3 million *decline* in property taxes paid by business. Businesses will have a reduction of \$0.3 million in property taxes paid and rental properties will have a reduction of \$1.7 million in property taxes paid. Homeowners will pay an additional \$3.0 million in property taxes.

This combination of elimination of the homestead exemption and the downward adjustment of the millage by 1.61 mills reduces the overall tax burden of the lowest income category because so many households are renters in this income category with this property tax reduction including the income bracket up to \$35,000. All other income brackets will pay a slightly higher property tax. This revenue neutral proposal has a modest impact but the households in the \$50,000 to \$150,000 ranges will bear the most significant impact. Homeowners' tax burden rises by 0.76 percent as illustrated in Figure 6 and renters/landlords' tax burden declines by 0.18 percent and the tax burden of business declines by 0.58 percent.

Table 14
Impact of Phasing Out Homestead Exemption from 13.91 Mills and Decreasing the Millage Rate by 1.61 mills

Income Class	$ Change Homeowners	$ Change Renters	$ Change Per HH	Percent of Income
Less than $10,000	$(1.06)	$(18.87)	$(5.83)	(0.12%)
$10,000 to $14,999	$(1.57)	$(21.17)	$(6.12)	(0.05%)
$15,000 to $24,999	$(2.53)	$(24.55)	$(7.05)	(0.04%)
$25,000 to $34,999	$27.36	$(27.49)	$5.91	0.02%
$35,000 to $49,999	$26.08	$(28.41)	$9.05	0.02%
$50,000 to $74,999	$53.39	$(32.43)	$29.27	0.05%
$75,000 to $99,999	$80.60	$(36.04)	$53.55	0.06%
$100,000 to $149,999	$71.29	$(37.91)	$59.58	0.05%
$150,000 to $199,999	$56.40	$(39.78)	$46.61	0.03%
$200,000 or more	$37.24	$(41.65)	$29.24	0.01%

Source: Authors' Calculations

Figure 6
Change in Tax Burden with Gradual Elimination of Homestead Exemption and Reduction in Millage of 1.61 for Revenue Neutrality

Option 3 – Flat $47.96 Parcel Fee on all Parcels in New Orleans coupled with either a decrease in the property tax millage or a decrease in the sales tax rate.

Option 3 levies a flat fee of $47.96 on each parcel of property in New Orleans, including governments, nonprofits, residential, commercial, and industrial properties. The $47.96 parcel fee is comparable to the $25 per month sanitation fee currently imposed by the City of New Orleans though, with several conditions regarding the number of tenants in a building. The parcel fee covers all taxpayers. Relatively, it has a greater impact on the lower income categories than the higher income categories. But, if all citizens use public services, then this per parcel fee catches all parties. No one escapes this form of revenue adjustments.

To retain revenue neutrality in this option, we consider two alternatives: lowering the property tax rate by 2.86 mills or lowering the sales tax rate by .15 percent. The net impact of changing the parcel fee and reducing the millage by 2.97 or reducing the sales tax by 0.15 percent is illustrated in Tables 15a and 15b. A direct parcel fee always increases relatively the tax burden on lower income households and more affluent households will come out ahead because they simply have a larger tax bill so any reduction in tax rates will mean a greater savings on their part.

Residents, both homeowners and renters, will pay the parcel fee, with approximately 87 percent of the total revenues being paid by these groups. Businesses will pay approximately 4 percent of the parcel fee and governments and nonprofits will pay 9 percent of the parcel fee.

Table 15a
Impact of Imposing a Parcel Fee of $47.96 per parcel
And Reducing Property Tax Rates by 2.86 Mills

Income Class	Parcel Fee	Property Tax	Net Change	Percent of Income
Less than $10,000	$47.96	$(26.39)	$21.57	0.43%
$10,000 to $14,999	$47.96	$(27.04)	$20.92	0.17%
$15,000 to $24,999	$47.96	$(30.19)	$17.77	0.09%
$25,000 to $34,999	$47.96	$(31.27)	$16.69	0.05%
$35,000 to $49,999	$47.96	$(28.67)	$19.29	0.05%
$50,000 to $74,999	$47.96	$(31.39)	$16.57	0.03%
$75,000 to $99,999	$47.96	$(34.43)	$13.53	0.02%
$100,000 to $149,999	$47.96	$(43.04)	$4.92	0.00%
$150,000 to $199,999	$47.96	$(67.32)	$(19.36)	-0.01%
$200,000 or more	$47.96	$(98.45)	$(50.49)	-0.02%

Source: Authors' Calculations

Table 15b
Impact of Imposing a Parcel Fee of $47.96 per parcel
And Reducing Sales Tax Rates by .15 Percent

Income Class	Parcel Fee	Sales Tax	Net Change	Percent of Income
Less than $10,000	$47.96	$(11.75)	$36.21	0.72%
$10,000 to $14,999	$47.96	$(9.31)	$38.65	0.31%
$15,000 to $24,999	$47.96	$(10.55)	$37.41	0.19%
$25,000 to $34,999	$47.96	$(15.19)	$32.77	0.10%
$35,000 to $49,999	$47.96	$(16.94)	$31.02	0.07%
$50,000 to $74,999	$47.96	$(21.13)	$26.83	0.04%
$75,000 to $99,999	$47.96	$(25.83)	$22.13	0.03%
$100,000 to $149,999	$47.96	$(31.54)	$16.42	0.01%
$150,000 to $199,999	$47.96	$(39.83)	$8.13	0.00%
$200,000 or more	$47.96	$(62.42)	$(14.46)	0.00%

Source: Authors' Calculations

Option 4 – $150 Parcel Fee with a Credit Against Property Taxes Paid Offset by Reducing Property Tax Millage by 1.76 Mills or Reduce the Sales Tax by .10 Percent.

Option 4 is another effort to eliminate some of the holes in the property tax base caused by exemptions. It calls for a $150 per parcel fee that is credited against property taxes paid. Thus homeowners, rental property owners, and businesses currently paying more than $150 in property taxes would see no increase in taxes owed. Homeowners who, because of the homestead exemption, pay less than $150 in property taxes and owners of exempt properties would incur a net increase in taxes. This would be offset by either a 1.76 mill reduction in property tax rates or a .10 percent decrease in the retail sales tax rate. Tables 16a and 16b present the distributional affects of this tax.

This option has the impact of adding slightly to the tax burden of the lowest income categories while increasing to a lesser extent the burden of the middle and higher income categories.

Table 16a
Impact of Imposing a $150 Property Fee with a Credit
for Property Taxes Paid up to $150
and Reducing the Property Tax Rate by 1.76 Mills

Income Class	Parcel Fee	Property Tax	Net Change	Percent of Income
Less than $10,000	$90.79	$(15.56)	$75.24	1.50%
$10,000 to $14,999	$61.87	$(15.94)	$45.93	0.37%
$15,000 to $24,999	$8.24	$(17.79)	$(9.55)	-0.05%
$25,000 to $34,999	$-	$(18.43)	$(18.43)	-0.06%
$35,000 to $49,999	$-	$(16.90)	$(16.90)	-0.04%
$50,000 to $74,999	$-	$(18.50)	$(18.50)	-0.03%
$75,000 to $99,999	$-	$(20.29)	$(20.29)	-0.02%
$100,000 to $149,999	$-	$(25.36)	$(25.36)	-0.02%
$150,000 to $199,999	$-	$(39.67)	$(39.67)	-0.02%
$200,000 or more	$-	$(58.02)	$(58.02)	-0.02%

Source: Authors' Calculations

Table 16b
Impact of Imposing a $150 Property Fee with a Credit
for Property Taxes Paid up to $150
and Reducing the Sales Tax Rates by .10 Percent

Income Class	Parcel Fee	Property Tax	Net Change	Percent of Income
Less than $10,000	$90.79	$(6.93)	$83.87	1.68%
$10,000 to $14,999	$61.87	$(5.49)	$56.38	0.45%
$15,000 to $24,999	$8.24	$(6.22)	$2.03	0.01%
$25,000 to $34,999	$-	$(8.95)	$(8.95)	-0.03%
$35,000 to $49,999	$-	$(9.98)	$(9.98)	-0.02%
$50,000 to $74,999	$-	$(12.45)	$(12.45)	-0.02%
$75,000 to $99,999	$-	$(15.22)	$(15.22)	-0.02%
$100,000 to $149,999	$-	$(18.59)	$(18.59)	-0.01%
$150,000 to $199,999	$-	$(23.47)	$(23.47)	-0.01%
$200,000 or more	$-	$(36.79)	$(36.79)	-0.01%

Source: Authors' Calculations

VII. Analysis of Major Shifting of the New Orleans Tax Burden

In this section of the report, we analyze the impact of very large changes in the tax system of the City of New Orleans as oppose to the incremental tax changes reviewed previously. The incremental changes made very small changes in the distribution of the tax burden. We want to examine what a more significant change in the tax structure would suggest about the tax burden. What we mean by very large or significant are changes that amount to a total of $60 million in a fiscal year. In other words, we will examine the impact of raising one tax source by $60 million and lowering another one by the same amount. The exercise will allow us to determine how the fairness and equity of the system, the economic competitiveness of the system, and the stability and adequacy of the system will be affected by major shifts among and between tax sources. The way this section will be presented is by showing the impact of an increase in certain taxes. Then that increase will be offset by a reduction in certain taxes to give a revenue-neutral analysis.

Analysis of Major Changes in Property, Sales, and Parcel Fees on a Revenue Neutral Basis

When analyzing the impact of tax structure changes it is necessary to look at "revenue-neutral" changes. The following set of tables compares the tax increases in property, sales, or per-parcel fees to corresponding reductions in other taxes to get true revenue-neutral shifts. Table 17 through 24 look at the following sets of comparisons:

1. A $60 million increase in the property tax versus a $60 million decrease in sales taxes (Table 17).
2. A $47.92 million increase in property taxes versus a $47.92 million decrease in the sanitation fee (note that we did not use the $60 million figure since the current sanitation fee does not raise $60 million in total). (See Table 18)
3. A $60 Million increase in property taxes versus a $30 million reduction in the sales tax and a $30 million reduction in the sanitation fee (Table 19).
4. A $47.92 million increase in the sales tax versus a $47.92 million decrease in the per-parcel fee (Table 20).
5. A $60 million increase in the sales tax versus a $30 million reduction in the property tax and a $30 million reduction in the per-parcel fee (Table 21).
6. A $60 million increase in the per-parcel sanitation fee versus a $60 million reduction in the property tax (Table 22).
7. A $60 million increase in the per-parcel fee versus a $60 million reduction in the sales tax (Table 23).
8. A $60 million increase in the per-parcel fee versus a $30 million reduction in the property tax and a $30 million reduction in the sales tax (Table 24).

Table 17
Impact of Increase $60 million in Property Taxes
Versus a $60 million Reduction in Sales Taxes

Income Group	Property Tax Increase	Sales Tax Decrease	Net Change	Percent of Income
Less than $10,000	$197.39	$(63.90)	$133.49	2.67%
$10,000 to $14,999	$202.22	$(46.63)	$155.59	1.24%
$15,000 to $24,999	$225.80	$(57.18)	$168.62	0.84%
$25,000 to $34,999	$233.88	$(86.97)	$146.92	0.45%
$35,000 to $49,999	$214.42	$(100.98)	$113.43	0.27%
$50,000 to $74,999	$234.73	$(130.46)	$104.27	0.17%
$75,000 to $99,999	$257.46	$(163.70)	$93.76	0.11%
$100,000 to $149,999	$321.87	$(206.80)	$115.07	0.09%
$150,000 to $199,999	$503.46	$(264.26)	$239.20	0.14%
$200,000 or more	$736.26	$(423.04)	$313.22	0.10%

Source: Authors' Calculations

Table 18
Impact of Increase $47.92 million in Property Taxes
Versus a $47.92 million Reduction in Per-Parcel Fees

Income Group	Property Tax Increase	Per Parcel Decrease	Net Change	Percent of Income
Less than $10,000	$157.65	$(288.00)	$(130.35)	-2.61%
$10,000 to $14,999	$161.51	$(288.00)	$(126.49)	-1.01%
$15,000 to $24,999	$180.34	$(288.00)	$(107.66)	-0.54%
$25,000 to $34,999	$186.80	$(288.00)	$(101.20)	-0.31%
$35,000 to $49,999	$171.25	$(288.00)	$(116.75)	-0.27%
$50,000 to $74,999	$187.47	$(288.00)	$(100.53)	-0.16%
$75,000 to $99,999	$205.63	$(288.00)	$(82.37)	-0.09%
$100,000 to $149,999	$257.07	$(288.00)	$(30.93)	-0.02%
$150,000 to $199,999	$402.10	$(288.00)	$114.10	0.07%
$200,000 or more	$588.03	$(288.00)	$300.03	0.10%

Source: Authors' Calculations

Table 19
Impact of Increase $60 million in Property Taxes
Versus a $30 million Reduction in Per-Parcel Fees
and a $30 million Reduction in Sales Taxes

Income Group	Property Tax Increase	Sales Tax Decrease	Per Parcel Decrease	Net Change	Percent of Income
Less than $10,000	$197.39	$(31.95)	$(184.49)	$(19.05)	-0.38%
$10,000 to $14,999	$202.22	$(23.32)	$(184.49)	$(5.58)	-0.04%
$15,000 to $24,999	$225.80	$(28.59)	$(184.49)	$12.72	0.06%
$25,000 to $34,999	$233.88	$(43.48)	$(184.49)	$5.91	0.02%
$35,000 to $49,999	$214.42	$(50.49)	$(184.49)	$(20.57)	-0.05%
$50,000 to $74,999	$234.73	$(65.23)	$(184.49)	$(14.99)	-0.02%
$75,000 to $99,999	$257.46	$(81.85)	$(184.49)	$(8.88)	-0.01%
$100,000 to $149,999	$321.87	$(103.40)	$(184.49)	$33.98	0.03%
$150,000 to $199,999	$503.46	$(132.13)	$(184.49)	$186.84	0.11%
$200,000 or more	$736.26	$(211.52)	$(184.49)	$340.25	0.11%

Source: Authors' Calculations

Table 20
Impact of Increase $47.92 million in Sales Taxes
Versus a $47.92 million Reduction in Per-Parcel Fees

Income Group	Sales Tax Increase	Per Parcel Decrease	Net Change	Percent of Income
Less than $10,000	$51.03	$(288.00)	$(236.97)	-4.74%
$10,000 to $14,999	$37.25	$(288.00)	$(250.75)	-2.01%
$15,000 to $24,999	$45.67	$(288.00)	$(242.33)	-1.21%
$25,000 to $34,999	$69.46	$(288.00)	$(218.54)	-0.67%
$35,000 to $49,999	$80.65	$(288.00)	$(207.35)	-0.49%
$50,000 to $74,999	$104.20	$(288.00)	$(183.80)	-0.29%
$75,000 to $99,999	$130.75	$(288.00)	$(157.25)	-0.18%
$100,000 to $149,999	$165.16	$(288.00)	$(122.84)	-0.10%
$150,000 to $199,999	$211.06	$(288.00)	$(76.94)	-0.04%
$200,000 or more	$337.87	$(288.00)	$49.87	0.02%

Source: Authors' Calculations

Table 21
Impact of Increase $60 million in Property Taxes
Versus a $30 million Reduction in Per-Parcel Fees
and a $30 million Reduction in Sales Taxes

Income Group	Property Tax Increase	Sales Tax Decrease	Per Parcel Decrease	Net Change	Percent of Income
Less than $10,000	$63.90	$(98.70)	$(184.49)	$(219.29)	-4.39%
$10,000 to $14,999	$46.63	$(101.11)	$(184.49)	$(238.97)	-1.91%
$15,000 to $24,999	$57.18	$(112.90)	$(184.49)	$(240.21)	-1.20%
$25,000 to $34,999	$86.97	$(116.94)	$(184.49)	$(214.46)	-0.66%
$35,000 to $49,999	$100.98	$(107.21)	$(184.49)	$(190.71)	-0.45%
$50,000 to $74,999	$130.46	$(117.37)	$(184.49)	$(171.39)	-0.27%
$75,000 to $99,999	$163.70	$(128.73)	$(184.49)	$(149.52)	-0.17%
$100,000 to $149,999	$206.80	$(160.94)	$(184.49)	$(138.62)	-0.11%
$150,000 to $199,999	$264.26	$(251.73)	$(184.49)	$(171.96)	-0.10%
$200,000 or more	$423.04	$(368.13)	$(184.49)	$(129.58)	-0.04%

Source: Authors' Calculations

Table 22
Impact of Increase $60 million in Per-Parcel Fees
Versus a $60 million Reduction in Property Taxes

Income Group	Per-Parcel Fee Increase	Property Tax Decrease	Net Change	Percent of Income
Less than $10,000	$368.98	$(197.39)	$171.58	3.43%
$10,000 to $14,999	$368.98	$(202.22)	$166.75	1.33%
$15,000 to $24,999	$368.98	$(225.80)	$143.17	0.72%
$25,000 to $34,999	$368.98	$(233.88)	$135.09	0.42%
$35,000 to $49,999	$368.98	$(214.42)	$154.56	0.36%
$50,000 to $74,999	$368.98	$(234.73)	$134.25	0.21%
$75,000 to $99,999	$368.98	$(257.46)	$111.51	0.13%
$100,000 to $149,999	$368.98	$(321.87)	$47.11	0.04%
$150,000 to $199,999	$368.98	$(503.46)	$(134.48)	-0.08%
$200,000 or more	$368.98	$(736.26)	$(367.28)	-0.12%

Source: Authors' Calculations

Table 23
Impact of Increase $60 million in Per-Parcel Fees
Versus a $60 million Reduction in Sales Taxes

Income Group	Per-Parcel Fee Increase	Sales Tax Decrease	Net Change	Percent of Income
Less than $10,000	$368.98	$(63.90)	$305.08	6.10%
$10,000 to $14,999	$368.98	$(46.63)	$322.34	2.58%
$15,000 to $24,999	$368.98	$(57.18)	$311.80	1.56%
$25,000 to $34,999	$368.98	$(86.97)	$282.01	0.87%
$35,000 to $49,999	$368.98	$(100.98)	$267.99	0.63%
$50,000 to $74,999	$368.98	$(130.46)	$238.51	0.38%
$75,000 to $99,999	$368.98	$(163.70)	$205.27	0.23%
$100,000 to $149,999	$368.98	$(206.80)	$162.18	0.13%
$150,000 to $199,999	$368.98	$(264.26)	$104.72	0.06%
$200,000 or more	$368.98	$(423.04)	$(54.06)	-0.02%

Source: Authors' Calculations

Table 24
Impact of Increase $60 million in Per-Parcel Fees
Versus a $30 million Reduction in the Property Tax
and a $30 million Reduction in Sales Taxes

Income Group	Per-Parcel Fee Increase	Property Tax Decrease	Sales Tax Decrease	Net Change	Percent of Income
Less than $10,000	$368.98	$(98.70)	$(31.95)	$238.33	4.77%
$10,000 to $14,999	$368.98	$(101.11)	$(23.32)	$244.55	1.96%
$15,000 to $24,999	$368.98	$(112.90)	$(28.59)	$227.48	1.14%
$25,000 to $34,999	$368.98	$(116.94)	$(43.48)	$208.55	0.64%
$35,000 to $49,999	$368.98	$(107.21)	$(50.49)	$211.28	0.50%
$50,000 to $74,999	$368.98	$(117.37)	$(65.23)	$186.38	0.30%
$75,000 to $99,999	$368.98	$(128.73)	$(81.85)	$158.39	0.18%
$100,000 to $149,999	$368.98	$(160.94)	$(103.40)	$104.64	0.08%
$150,000 to $199,999	$368.98	$(251.73)	$(132.13)	$(14.88)	-0.01%
$200,000 or more	$368.98	$(368.13)	$(211.52)	$(210.67)	-0.07%

Source: Authors' Calculations

There is a great deal of data presented in Tables 17 through 24. We will leave it to the reader to analyze these data in their entirety but a few words are in order. The basic picture presented in these tables indicates that the per-parcel fee is the worst tax from an equity point of view. It hits low-income homeowners and renters very hard. A change that would reduce this revenue source and replace it with any other is a desirable change from a fairness point of view. The advantage of the fee is that is not very disruptive to economic activity since the fee is tied directly to the expenditure provided.

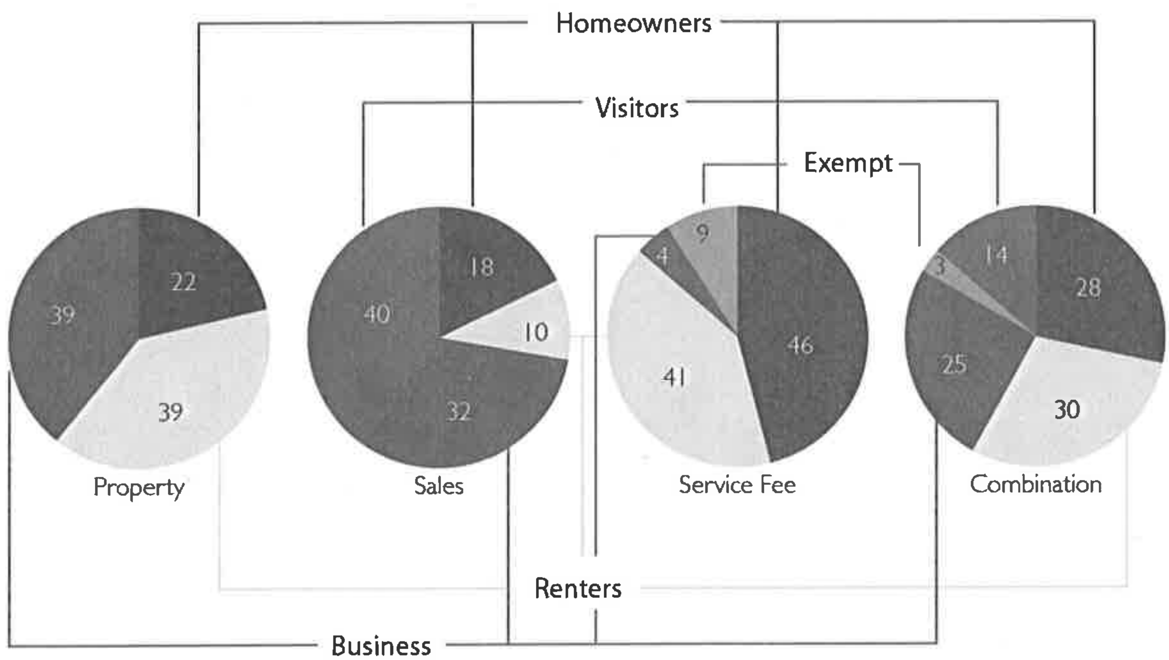
The second interesting observation is that a sales tax/ property tax trade-off comes out in favor of the sales tax (see Table 17) from an equity viewpoint. This might tempt policy makers to consider such a shift. This must be balanced against the fact that an increase in sales tax rates might make the City less competitive for tourism dollars, although there seems to be some opportunity to raise this rate in comparison to other competitive cities.

Finally, the comparisons in Tables 17 through 24 provide information on the impact on residents according to income classifications—a major concern in terms of the voters of the parish. Increases in property taxes and sales taxes also affect businesses as well. Businesses pay about 30 to 35 percent of the property and sales tax so any increase in the property tax and reduction in the sales tax should not alter the share of the tax burden borne by business. We cannot estimate that every business will be the same in terms of its tax burden. More emphasis on parcel fees will reduce the business tax burden.

The impact on various sectors of the economy is illustrated in Figure 7. The burden of paying the property tax is illustrated in the first pie chart; the burden of paying the sales tax is illustrated in the second pie chart from the left; the tax burden of a service fee is illustrated in the third pie chart from the left; and, finally, the burden of having all three taxes/fees is in the pie chart on the left side of the chart. In the charts we are assuming the tenants ultimately pay the property tax on rental properties and that visitors ultimately pay the hotel/motel tax.

If we substitute a sales tax for the property tax, we reduce the tax burden directly on the residents and businesses in New Orleans by transferring some of the burden to visitors. However, there is a limit to how much of the tax burden you can transfer to visitors without reducing the number of visitors that might come to New Orleans. Figure 7 does not give the specifics of each of the above tables, but it permits one to appreciate the group of taxpayers that will be affected differentially by the various tax policies.

Figure 7
Comparison of Revenue Options
Tenants Pay Property Tax
Visitors Pay Hotel/Motel Tax



VIII. Summary and Conclusions

New Orleans is a city with a relatively large number of low-income citizens compared to the United States. It is a city that has a municipal tax base defined by the Louisiana Constitution, state statutes, and local preferences as determined by decisions made by the local government and local citizens. And, as in other municipalities, the tax base is defined by the market conditions and the fact that local governments are always disciplined by the reality that resources are mobile and can relocate if public services are not satisfactory, if taxes are too high, or if the comparison between taxes paid and public services received is viewed negatively.

New Orleans has decided on a tax base of sales, property, and other taxes making up about 55 percent of its revenue base, with the remainder consisting of fees such as the sanitation fee, licensing fees, fines, and intergovernmental transfers. The Tax Fairness Committee, as created in an executive order by Mayor Mitchell Landrieu of New Orleans, has been asked to review the overall tax structure in New Orleans with respect to equity, competitiveness, and stability within the limitations and constraints as imposed by the Louisiana Constitution, state statutes, and simple market conditions.

The sales tax and property tax undoubtedly impose a larger financial burden on low-income households than on high-income households. Even among low-income households, this burden may vary substantially depending on if the household owns a home or is renting or leasing. The impact on renters depends on the ability of landlords to pass along any property tax to the tenant. We believe that, in the short-term, the landlord may not be able to pass along the entire tax due to contracts, market conditions, and maintaining their tenant base. However, in the long-term, a property tax increase is a cost of doing business and will eventually get to be part of the price of a rental unit.

Property and sales taxes can also be borne by other groups such as commercial and industrial businesses. It is important to appreciate that businesses are taxpaying organizations and will consider local taxation as one of the determinants of business location. Property taxes and sales taxes become part of the cost of doing business in any city.

In New Orleans, as of 2011, residential properties, both owner-occupied and rental units, pay about 63 percent of all property taxes while commercial and industrial properties pay about 37 percent. With respect to the sales tax, New Orleans residents pay about 30 percent of all sales tax collections in the City, businesses pay about 30 percent, and visitors to New Orleans, given the large tourist base, pay about 40 percent of all local sales tax collections assuming that the hotel/motel tax is paid by the occupants. If market conditions force local hotel/motel owners to absorb the hotel/motel tax, then New Orleans residents pay about 30 percent of the sales tax burden, businesses pay about 34 percent of the sales tax burden, and visitors to the city pay about 36 percent of the sales tax burden.

A model has been devised to examine the potential impact of various changes in the tax structure to ascertain the impact on various income groups, on residents versus businesses, on local residents versus visitors, and other such comparisons. The models can be used to revise the current tax structure given revenue neutrality or to identify the groups that will be paying if additional revenues are required.

Finally, after a series of various property and sales tax variations, there are several conclusions that we can reach. First, it is nigh impossible to put together a municipal tax structure that does not disproportionately affect lower income households. This may be a more significant issue in New Orleans than other municipalities because of the larger number of low income households, but it is an issue in every municipality in the country. Second, the issue then becomes how to mitigate the impact on lower income households in an urban setting such as New Orleans.

Tax fairness can be viewed as vertical equity and the City of New Orleans, or for that matter any major city, can do very little to promote vertical equity. Resources are simply too mobile. Tax fairness can be viewed as treating all taxpayers in the same income classification similarly or all various users of public services all the same. From this perspective there are several anomalies in New Orleans. Low-income homeowners have a definite local tax advantage compared to low-income renters. This divergence is due partly to a state constitution that provides a major tax advantage for home ownership. The homestead exemption also aggravates the division of fiscal responsibility between homeowners and commercial and industrial properties. This division of fiscal responsibility is further aggravated by the constitutional assessment ratios that favor land and residential improvements over commercial and industrial improvements. Finally, the amount of land that is not taxed because it is governmental or nonprofit in nature creates a burden on other taxpayers in the city, including individual households and businesses.

Tax fairness can also be viewed as everyone should pay something for public services. All citizens are consumers of the public services so all should pay for them. The issue then becomes absolutely or proportionately. Low-income households will never pay absolutely what high income households pay, but the issue is how big a difference should this be.

Selecting the appropriate tax structure for a community depends on judgment calls backed up with the best information available. The economic models developed in this study provide the mechanism to get information about almost any combination of tax alternatives, either for revenue raising or revenue neutral. Judgment then becomes the responsibility of the community and its elected officials.