

REFORMING LOCAL GOVERNMENT

IN LOUISIANA

Many lawmakers have spent the past several years trying to convince the citizens of Louisiana that their state government has a revenue problem. It does not. Rather, the state has a spending problem—one caused in large part by a governance problem.

To put it bluntly, local and state government in Louisiana have a dysfunctional relationship, one in which each infringes on the autonomy of the other. Local governments spend much time and energy collecting revenues for the state—a task more efficiently accomplished at the state level—even as they lack the full power to manage the revenue they collect, due to state-imposed restrictions.

Instead of raising taxes yet again, Louisiana lawmakers should reform the relationship between the state and municipal governments. They should start by eliminating the sources of funding that encourage questionable or wasteful spending by parishes. They should give municipalities greater control over their own budgets and revenue streams. And they should reform and centralize tax administration, creating a more efficient environment for retailers and businesses, while broadening the sales tax base in ways that should allow for lower overall rates.

This reformed system would enhance government's accountability to voters. Just as states function as "laboratories of democracy," so too would parishes—and the local voters that elect parish officials—have the freedom and flexibility to choose the level of taxes and services they wish to see in their area. Rather than competing to command the most funding from the state, parishes could instead compete to offer the most pro-growth environment for business—one way to bring jobs, and residents, back to Louisiana.

FISCAL REFORM OF LOCAL GOVERNMENT

Eliminate Constitutional Provisions on Supplemental Pay

The Louisiana Constitution requires state government to fund the pay supplements of law enforcement and fire protection officers—which encourages parishes to shift their fire and police costs on to state government. Because of the distortions this provision creates, lawmakers should amend the Constitution to remove it. If parishes wish to increase fire and police salaries and services, they should have the freedom to do so—but should also pay for those services themselves.

Eliminate Revenue Sharing Fund

In conjunction with reform of the property tax homestead exemption discussed below, lawmakers should repeal another subsidy for local government, in the form of a \$90 million revenue sharing fund.

Eliminate Inventory Taxes—And the Inventory Tax Credit

In recent years, parishes have assessed a tax on business inventory, and the state has provided a refundable tax credit to businesses reimbursing them for this tax. However, the credit has encouraged parishes to increase inventory assessments of businesses to maximize their subsidies from the state, indirectly funneled through businesses via the credit. The Legislature should repeal the refundable credit, and start the process for repealing parishes' authority to assess inventory taxes, which represent an ineffective way for parishes to raise revenue.

Eliminate Other Subsidy Pools

As part of the broader rationalization of the state budget, lawmakers should examine other sources of local government funding, with an eye towards phasing out or eliminating as many of these indirect subsidies as possible.

INCREASED LOCAL AUTONOMY

Homestead Exemption

Lawmakers should propose a constitutional amendment repealing the \$75,000 property tax homestead exemption, which results in many homeowners paying no property tax at all. If parishes wish to retain a homestead exemption on the local level, they should have the power to do so. However, given that the state Constitution includes five other separate provisions limiting the impact of the property tax, the homestead exemption unduly limits parishes' ability to raise revenue.

Reform Property Tax Millage Procedures

When addressing the homestead exemption included in the Constitution, lawmakers should also reform provisions that automatically adjust millage rates following a re-assessment of property values.

End Legislative Approval of Local Sales Tax Rates

Consistent with the principles of this plan—which envisions state government removing the myriad subsidies it provides to parishes, in exchange for additional fiscal autonomy—the Legislature should repeal the requirement for legislative approval of a local tax referendum. If the voters of a particular authority wish to approve a sales tax increase, state lawmakers who reside in other parishes should have little reason to object, or intervene.

Industrial Tax Exemption Program (ITEP)

When they re-evaluate the property tax homestead exemption, the Legislature should re-examine the industrial tax exemption program. As with the homestead exemption, if parishes wish to offer companies property tax incentives—whether those currently provided by the Constitution, or any other type of incentives—they should have the right to do so. But state government eroding parishes' tax base unilaterally raises larger issues that the Legislature should consider carefully when determining the relationship between municipalities and state government.

REFORM OF SALES TAX AND TAX ADMINISTRATION

Eliminate Exemptions and Lower Rates

To reform the sales tax, the Legislature should reduce overall rates by at least one percentage point, to 3.45%, and ideally as low as 3%. It can do so by eliminating some existing tax exemptions, and/or applying the sales tax to professional services or other items, to lower rates overall. The Legislature could also use some of the proceeds of the fiscal reforms regarding state and local government to repeal the harmful tax increases enacted in the past several years.

Uniform Collection and Administration

The Legislature should apply its expansion of the state sales tax base to parishes as well, creating a uniform tax base throughout Louisiana and allowing parishes to lower their sales tax rates. In conjunction, the Legislature should also create a single system of state and local sales tax collection and auditing, which would reduce administrative costs for government and businesses.

Online Sales

If Louisiana wishes to require out-of-state retailers to collect and remit sales taxes to the state in response to this year's Supreme Court ruling, it should not do so unless and until it has streamlined its own tax system for all businesses. Moreover, the funds from online sales taxes should not increase overall government revenue, but should be used to lower sales tax rates overall.

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