



2.10.15

Commentary

The Public Affairs Research Council of Louisiana

Don't Raid the Coastal Fund

Sweeping dedicated coastal dollars into the general operating budget would break a strong precedent and raise costly questions about Louisiana's coastal spending stewardship

The administration would be making a mistake to take money from the state's Coastal Protection and Restoration Fund to spend on state operating expenses. In fact this is the exact kind of slip that President Obama is probably hoping Louisiana will make, because it would bolster the President's argument that the Gulf states should be denied their share of coastal restoration money due from offshore drilling royalties. Although the governor currently has the legal authority to tap the Coastal Fund for non-coastal purposes, doing so would set a new and detrimental precedent. The state's commitment to disciplined coastal spending could be questioned by Congress, other states, the authorities allocating the various BP settlements, stakeholder groups and the general public.

The situation

Until now, Gov. Jindal and his coastal restoration and fiscal teams have been good stewards by creating and vetting a coastal master plan based on scientific standards and broad public input. They have safeguarded our scarce financial resources dedicated to the coast. Most of the money the state spends on coastal projects comes through the Coastal Fund, a constitutionally protected account that draws its money from the state, the federal government, various settlements related to the BP oil spill, mineral revenues from oil companies and other sources. For example, the Coastal Fund received \$29.5 million from royalties and severance taxes on mineral production and exploration in fiscal year 2014. The state Constitution says that once money is placed in the fund, it must be spent on projects consistent with Louisiana's coastal master plan.

There is an exception to this rule. To balance a mid-year budget deficit, the governor has the constitutional prerogative to skim a small portion of cash from a large variety of state funds, including the Coastal Fund. A deficit of \$103.5 million was recently declared for the current fiscal year. The governor is required to take action to correct the imbalance. His fiscal team announced a plan on Feb. 6.

It should be noted that much of the mid-year budget fixes are not real reductions in recurring government spending but are in fact revenue patches afforded by one-time fund sweeps. Still, difficult decisions have to be made. The administration has identified a wide range of adjustments and turned over many a stone to look for cost-saving ideas for this year and next. While the task of restoring our coast is momentous, no agency should receive a free pass from this important exercise, even the Coastal Protection and Restoration Authority.

The plan for a Coastal Fund raid

What is troubling is that the administration's plan to reduce "excess budget authority" for the CPRA relies on tapping the Coastal Fund. This action appears on paper to be an agency budget reduction but is, in fact, a fund raid. The amount is relatively small, with \$1.2 million being cut this round and \$987,000 from a previous reduction, for a total of \$2.2 million that potentially can be swept. It is significant because it breaks the state's practice of truly protecting the Coastal Fund from diversions that boost the state general operating budget. The fund sweep would demonstrate that Louisiana is now willing to cross the line to misspend precious, dedicated coastal resources when the budget-going gets tough. A fund raid of this magnitude is hardly worth the trouble it will cause.

Last year PAR decried the planned use of the Coastal Fund as a kind of fiscal washing machine to churn one-time non-coastal revenue into general operating dollars for the state budget. Fortunately the Legislature saw fit to stop using the Coastal Fund for that kind of budget gimmick. This time, with the planned mid-year fund sweep, the Coastal Fund will have been raided of funds that were to be spent on coastal restoration projects and management. That is a key difference.

The mineral revenues that flow into the Coastal Fund are the only predictable state funding source. Because the price of oil has declined, CPRA already will be taking a reduction in funding. The Revenue Estimating Conference has reduced the estimates for state mineral revenues, so CPRA will be hit with an approximate \$4.5 million reduction in this year's and next year's budgets. In other words, the \$29.5 million CPRA received in fiscal year 2014 will be reduced to about \$25 million for fiscal years 2015 and 2016. So, the agency is withstanding a large revenue cut, even apart from the fund-sweep mechanism. That's tough but OK under the dire budget circumstances for the state.

New coastal funding sources jeopardized

The more significant long-term funding sources are the federal government, BP settlement dollars and federally shared offshore drilling royalties from oil companies. With an annual need between \$500 million to \$1 billion per year to implement the state's Coastal Master Plan, Louisiana will not be able to meet this challenge with state funding alone. The perception of Congress, the courts, the BP settlement authorities and others will help determine how and when these external dollars will be entrusted to Louisiana to deal with coastal damage and protection. Louisiana's spending practices via the Coastal Fund will be the No. 1 focus of scrutiny, especially by those seeking to smudge Louisiana's hard-won reputation for fiscal responsibility and transparency on this issue.

Planned future funding sources for coastal restoration include offshore revenue sharing as part of the Gulf of Mexico Energy Security Act (GOMESA). Until GOMESA, the royalties paid by Gulf offshore oil and gas producers in federal waters went exclusively to the federal government. Starting in fiscal year 2017, GOMESA opens the revenue-sharing formula to a larger number of production sites. The federal law requires 37.5% of eligible royalties and other offshore revenue to go to four states (Louisiana, Texas, Mississippi and Alabama) and to local governments along the coast. (Additional shared revenue will be placed in the federally controlled Land and Water Conservation Fund, which is routinely swept of money by the federal government for other purposes.) The federal government will continue to consume the lion's share of the offshore revenue while the state and local government share is capped at \$375 million. Still, GOMESA will provide significant new revenue for Louisiana's coastal projects, with \$140 million estimated for Louisiana in 2017.

President Obama's proposed budget would redirect GOMESA program funds from the Gulf states to the rest of the nation. The President has allies in his effort, as some interested lobbying groups and lawmakers have long sought to reverse GOMESA and prevent it from expanding further. Louisiana's congressional delegation is united in trying to keep that from happening.

Scrutiny of BP oil spill funds

Another example of funds flowing to the Coastal Fund are the BP Deepwater Horizon oil spill dollars that Louisiana stands to get as part of the RESTORE Act. A significant amount of the RESTORE Act funds are dependent on the outcome of court cases and the decisions by the RESTORE Council that oversees distribution.

As Gulf states have to fight to protect their funds, and as Louisiana has to protect its share of restoration dollars from other Gulf states, a raid on the Coastal Fund is a bad idea, even of a small amount. Doing so would validate criticism that Louisiana cannot be trusted to spend coastal money wisely, or that these new funds would get diverted to non-coastal needs. Lawmakers in other states are sure to ask why the federal government should make coastal restoration a priority if Louisiana will not. Also, we should not cut our Congressional delegation's effort off at the knees as they fight to protect our federal coastal dollars. And state legislators seeking quick cash and pork programs will turn to the Coastal Fund to raid it with greater ease in the future. The governor will have set the bad example.

PAR's past commentaries have weighed in on major budget issues with high dollar figures and more will be forthcoming. For this commentary, the message is that the small raid on the Coastal Fund sets a precedent with negative reverberations. Rebuilding the coast is a long-term project. Once the state heads down this fund-sweep path, short-term budget pressures will trump long-term planning again and again. Gov. Jindal has a strong record for good management of Louisiana's coastal master plan and spending priorities. PAR would like to see that record become part of his legacy as well as set an example for his successor.

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