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To: Representatives Edwards, Geymann, Harris, Jackson, Leger and Robideaux

From: Robert Travis Scott, President, Public Affairs Research Council of Louisiana

Date: Wednesday May 18, 2013

Dear Representatives,

Thank you for your efforts to draft a “Deficit Reduction Plan” as a proposed House strategy for dealing with the state’s FY 2014 budget. As you know PAR has a strong interest in fiscal and tax issues and we appreciate your willingness to receive input on this important process. We are particularly glad that you chose to share details of your plan with the public. Given the short time frame and your busy schedules, we thought it would be most helpful if we could simply summarize for you some of our observations about your plan, which we know is still under development.

-The avoidance of using contingency, one-time money for recurring expenditures is to be commended.

-The plan would appear to prevent the state from using debt to pay back money drawn from a fund balance for recurring expenditures, and this part of the plan has real merit.

-The proposed House plan makes a positive contribution by attempting to return $28 million to the Transportation Trust Fund for highway projects. The TTF has been stagnant for at least 10 years and therefore the removal of money from the fund for other purposes – which has been done the past two years also -- could hamper the state’s efforts to build and maintain infrastructure.

-We encourage a healthy debate on whether the state should adjust or reduce certain tax credit and rebate programs. Some programs may be too generous or may not be structured to reap the best return on investment. For example, the Department of Economic Development has recommended changes in the movie tax credit and Enterprise Zone programs; the state should act on these recommendations to save money and to make these programs more effective in the long term. If and when adjustments are made in tax incentive programs, they should not reverse state contractual obligations upon which private parties have made business decisions.

-We urge you to take a second look at the figures representing revenue savings figures calculated by offering 85% of the value of certain tax credits, exemptions and rebates. Due to the nature of how some of these programs are pledged and administered, it seems unlikely that the state would receive 15% of the total estimated value of these exemptions in the next fiscal year. For example, once a film project has been certified, the motion picture tax credits will have a fiscal impact on the state only after a series of events that might last months or even years. (Certification, followed by production expenditures, reporting procedures, auditing, final determination and filing for the credit.) A reduction in the value of the credits would not necessarily result in a substantial near-term fiscal gain unless the state were to renege its pledges on existing credit arrangements. As another example, the Quality Jobs program would not provide a significant savings in the next fiscal year unless the state revoked its pledge to companies that already have qualified for the program. These observations are based on the information available about the Deficit Reduction Plan; we would be glad to discuss assumptions or data you might be using to arrive at these calculations that we have not considered.

-The larger question here is whether the state, once it has committed to provide a particular benefit to a specific party under a tax credit or rebate program, should follow through on its obligation. From the standpoint of fairness, reliability, legality and just the overall stability of the state's incentive programs, we think the answer has to be yes.

-Generally, looking forward, we may have an opportunity in the future to once again consider plans to restructure state taxes and exemptions in an effort to establish a fairer and more effective tax system. We understand and respect that the Legislature has not undertaken that broad reform during this session. In the future, the reduction or elimination of tax exemptions or credits could be used to offset decreases in taxes or tax rates as part of an overall restructuring plan.

-We appreciate that the proposed House plan has shed light on the numerous tax exemptions and credits offered by the state and the fact that many of these are forms of state investments and expenditures that are not included in the annual appropriations process. These are long-term obligations that have a life of their own and in some cases are unlimited. State officials should consider those factors before creating new programs.

We have other questions and points of clarification about the House plan, and I would be glad to discuss these with any of the plan proponents. In the meantime, we thank you for your efforts and we hope that a good compromise can be achieved through the cooperation of the House, Senate and administration.