



State/Local Revenue and Spending: How Louisiana Compares

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At the midway point in the current fiscal year (1999-2000), the state's financial condition officially dimmed. After six straight years of surpluses, a \$25 million year-end deficit was reported for fiscal 1998-99. The Revenue Estimating Conference lowered its revenue projection by \$104 million prompting immediate spending cuts to prevent a deficit for 1999-2000. At the same time, the Department of Health and Hospitals reported a \$153 million shortfall in funding its programs for the rest of the year.

While funding for the current year is tenuous, a \$600 million revenue shortfall is projected for the coming budget year 2000-01. And, the governor remains committed to raising teacher and faculty salaries to the southern average at a combined added cost of up to \$250 million, depending on the definitions used. In preparing to meet these fiscal challenges, it is useful to examine Louisiana's revenue structure and spending priorities in a national and southern context.

This research brief relies primarily on U.S. Bureau of Census governmental finance data for fiscal year 1995-96. This is the most recent comprehensive survey-based data that combines both state and local government finances. It is best to combine both levels of government in comparing states because of differences in how states assign responsibilities between them. PAR calculated revenue and expenditures per capita and per \$1,000 in personal income for the 50 states and the District of Columbia and for a 15-state south. PAR also examined trends in this data since 1988. In addition, PAR analyzed numerous other comparison and ranking studies that shed light on various aspects of Louisiana finances.

Significant findings regarding Louisiana governmental revenues and expenditures and their rankings among the states are summarized below.

COMPARISON HIGHLIGHTS

Total State/Local Revenue. Louisiana revenues, per capita, were below the U.S. average but above average for the south. As a poor state, Louisiana ranked well above the national average when revenues are measured in relation to personal income. However, federal aid, which favors poor states, made up a much higher-than-average share of Louisiana's total revenues.

Tax Collections Low. While Louisiana was about average in collecting revenue from its own sources, it relied much less on taxes and more on charges. Louisiana ranked 47th nationally in per capita tax collections but 12th in charges and miscellaneous revenue. Louisiana would have also ranked well below the U.S. averages for charges if not for collections by its unique charity hospital system.

Imbalanced Tax Structure. Louisiana's tax structure was imbalanced with an over-reliance on the gen-

eral sales tax. Most states rely more equally on at least two of the three major taxes. In per capita revenue collections, Louisiana ranked seventh nationally in general sales taxes, 47th in property taxes and 41st of 41 states levying an individual income tax.

Taxes Grow Slowly. Louisiana state and local taxes have failed to keep up with the growth in state personal income. One study calculated an elasticity index for the state/local tax structure of 94.7, meaning that if income grows 10%, revenues rise only 9.47%.⁽¹⁾ While Louisiana made progress in closing the gap between itself and the U.S. in per capita personal income in the 1990s, the gap in per capita taxes remained about the same. The states with the highest revenue elasticities all levy progressive individual income taxes.

Individual Income and Property Taxes Underused. Louisiana ranks low in per capita individ-

TABLE 1
States Ranked By Per Capita
State/Local Government Spending Amounts: 1995-96^a
(Amounts in Dollars)

Rank	Direct General Expenditures ^b	Higher Education	Elementary & Secondary Education	Public Welfare	Hospitals	Health	Highways	Police	Fire	Corrections	Interest on General Debt Payments
1	AK \$10,395	DE \$624	AK \$1,947	DC \$2,171	WY \$ 637	DC \$305	AK \$1,153	DC \$460	DC \$165	DC \$541	AK \$765
2	DC 7,752	UT 593	NY 1,443	NY 1,381	AL 521	AK 265	WY 631	NY 255	RI 125	AK 243	DC 581
3	NY 6,614	NM 584	NJ 1,420	ME 1,030	SC 517	HI 262	SD 523	AK 241	CT 118	NY 210	DE 452
4	WY 5,613	ND 581	WY 1,361	AK 1,030	LA 507	RI 248	KS 518	CA 227	MA 106	CA 188	NY 397
5	HI 5,521	WY 576	MN 1,298	MA 1,005	DC 496	MA 224	NM 491	NJ 224	CA 94	NV 179	HI 396
6	CT 5,355	IA 548	CT 1,288	MA 950	MS 489	WA 220	IA 484	NV 214	NV 91	FL 175	NH 369
7	MN 5,317	VT 532	WI 1,218	NH 888	NY 469	MI 212	MT 474	FL 210	NY 89	MD 173	RI 349
8	NJ 5,248	AK 522	MI 1,177	NJ 886	GA 440	NY 211	DE 467	IL 191	AK 88	TX 167	CT 347
9	DE 5,203	MI 513	NE 1,171	RI 878	NC 393	DE 205	VT 458	MA 183	OR 83	DE 155	MA 328
10	MA 5,052	IN 494	WA 1,161	WV 873	IA 366	CA 203	ND 438	MD 177	FL 81	MI 153	KY 297
11	WA 4,896	CO 493	VT 1,128	CT 863	TN 351	SC 197	NE 436	DE 176	MD 78	VA 150	LA 289
12	RI 4,837	KS 489	OR 1,125	VT 861	MN 336	OH 189	NV 426	AZ 175	WA 74	GA 146	NJ 289
13	CA 4,754	NE 488	MT 1,119	PA 819	TX 320	NC 177	MN 419	CT 172	NJ 73	NC 145	CO 285
14	OR 4,723	WI 488	DC 1,106	HI 770	NE 307	AL 173	WV 409	WI 169	OH 72	CT 142	PA 275
15	WI 4,612	HI 488	DE 1,104	WI 759	CT 299	NM 172	ME 394	OR 167	IL 71	NJ 141	NV 268
16	NM 4,578	WA 469	KS 1,094	CA 759	NM 293	OR 168	MA 375	RI 166	WI 71	NM 141	MN 262
17	VT 4,481	NC 465	RI 1,085	IL 740	CA 280	MT 166	WI 370	NM 165	HI 69	PA 140	IL 258
18	MI 4,461	OR 464	GA 1,071	KY 718	NV 277	FL 165	ID 370	WY 162	NH 68	WA 138	WY 253
19	ME 4,363	AL 435	OH 1,065	TN 710	OK 277	IL 153	MS 367	CO 157	AZ 66	OR 136	MD 241
20	MD 4,296	MT 433	TX 1,058	OH 708	IN 273	ME 152	WA 362	LA 157	MO 64	AZ 134	FL 239
21	NV 4,291	ID 430	MD 1,055	MI 695	KS 256	WY 151	VA 340	OH 154	VA 63	SC 131	WV 222
22	IA 4,289	MS 424	ME 1,052	WA 689	FL 252	MN 148	OR 335	HI 152	CO 62	CO 129	WA 215
23	IL 4,270	AZ 410	NH 1,046	LA 686	ID 251	MD 142	AR 328	MI 150	OK 61	OH 126	WI 209
24	MT 4,247	SC 408	PA 1,043	NM 885	MA 239	WI 136	NY 328	WA 146	TN 60	WI 124	VT 207
25	CO 4,246	MD 407	UT 1,036	SC 685	AR 238	TN 133	NJ 322	PA 144	NM 59	MA 122	ME 207
26	PA 4,246	MN 405	IN 1,024	OR 666	WA 237	MO 132	FL 318	KS 141	IN 57	RI 118	CA 204
27	LA 4,238	VA 392	CO 1,022	GA 640	OR 225	KS 130	CT 312	MN 140	GA 57	WY 109	MT 197
28	FL 4,213	OK 385	VA 1,003	DE 637	MI 212	PA 129	CO 308	GA 137	ME 56	UT 109	AZ 197
29	NE 4,211	CA 376	IL 1,001	AR 633	CO 195	UT 126	KY 306	VA 137	KS 53	ID 105	SD 195
30	KS 4,188	TX 373	IA 997	IA 628	MO 191	AZ 117	IL 302	NC 137	LA 51	LA 101	OR 193
31	GA 4,179	WV 371	MA 997	NC 627	VA 191	CT 112	LA 296	TX 136	TX 51	IL 100	VA 193
32	ND 4,141	KY 364	WV 996	NE 618	NJ 155	AR 111	MO 292	MO 134	MI 50	TN 100	TX 185
33	OH 4,105	LA 360	ID 993	ND 614	HI 153	LA 107	HI 289	UT 131	WY 47	MN 98	KS 177
34	UT 4,084	TN 357	MO 965	MT 599	IL 152	IA 104	NH 287	ID 130	AL 46	OK 94	ND 169
35	NH 4,074	OH 357	FL 946	MS 593	UT 150	KY 101	OK 287	NH 126	ID 45	MS 90	MI 168
36	WV 4,034	IL 347	NV 943	AZ 592	OH 149	MS 98	TN 281	TN 124	MN 44	HI 89	AL 153
37	SC 4,024	PA 342	OK 941	MD 586	KY 147	WV 98	AZ 280	OK 122	NC 44	KS 86	NM 151
38	NC 3,967	AR 338	CA 941	CO 562	WV 142	NJ 98	GA 280	SC 120	NE 44	MO 86	OH 150
39	VA 3,920	NJ 328	ND 937	IN 556	WI 141	SD 96	TX 269	AL 117	UT 42	IN 85	UT 149
40	MS 3,870	RI 327	SC 926	SD 555	AK 139	VA 96	UT 269	IA 117	MT 40	NE 85	MO 140
41	AL 3,865	GA 325	AZ 922	AL 551	PA 138	OK 95	RI 269	MT 116	VT 40	MT 84	OK 138
42	SD 3,843	SD 319	SD 913	MO 549	SD 98	VT 95	AL 267	VT 115	MS 40	AR 81	MS 133
43	ID 3,832	ME 317	KY 886	TX 538	RI 91	TX 93	NC 263	SD 109	IA 39	SD 80	IN 132
44	AZ 3,824	MO 313	NM 881	WY 534	MT 86	NV 89	MD 258	NE 107	SC 38	KY 79	TN 132
45	TX 3,802	NH 311	NC 873	FL 512	ME 84	ID 88	OH 253	IN 106	ND 37	NH 76	GA 132
46	IN 3,783	NV 300	LA 869	OK 494	DE 80	CO 86	IN 252	MS 106	AR 37	AL 74	AR 129
47	KY 3,769	NY 298	MS 850	VA 493	AZ 71	IN 78	PA 247	ME 104	SD 36	VT 74	NC 126
48	TN 3,764	CT 273	AL 832	UT 475	ND 67	GA 78	MI 243	AR 101	KY 36	ME 73	SC 123
49	MO 3,572	FL 257	TN 802	ID 472	MD 62	NH 76	CA 202	KY 96	PA 32	IA 66	IA 120
50	OK 3,529	MA 248	AR 798	KS 438	NH 34	NE 70	SC 194	ND 83	WV 24	WV 57	ID 114
51	AR 3,465	DC 134	HI 798	NV 436	VT 16	ND 58	DC 165	WV 73	DE 22	ND 40	NE 106
U.S. Average	\$4,487	\$381	\$1,052	\$728	\$266	\$151	\$298	\$168	\$67	\$141	\$222
LA as % of U.S.	94%	95%	83%	94%	190%	71%	99%	93%	77%	71%	130%
South	\$3,962	\$365	\$957	\$589	\$320	\$125	\$290	\$144	\$56	\$138	\$187
LA as % of South	107%	99%	91%	116%	159%	86%	102%	110%	92%	73%	155%

NOTE: The 15 southern states are shaded to allow for regional comparisons.

a Includes the District of Columbia.

b Includes amounts not shown separately.

SOURCE: U.S. Bureau of the Census, Governmental Finances and PAR calculations.

ual income tax revenues due to the state's low incomes and low tax rates. The state's effective tax rate is lower than the U.S. average above the \$20,000 income level and the gap widens greatly as incomes increase.⁽²⁾

Louisiana taps little of its property tax potential due in part to having the nation's most liberal homestead exemption. A 1998 national comparison showed Louisiana had the lowest tax on a \$70,000 home, an average tax on commercial property and above average taxes on industrial property.⁽³⁾

Low Fiscal Capacity and Lower Tax Effort. If it applied U.S. average tax rates to its own tax bases, Louisiana would have had the capacity to generate only about 88% of the revenue the average state raised in 1995-96. In addition, Louisiana only used 83% of its potential tax capacity.⁽⁴⁾

Individual Tax Burden Low. The data and studies examined here do not clearly show who pays taxes initially or ultimately. However, Louisiana's homestead exemption, low individual income tax and high federal aid combine to reduce the burden on individuals. Past studies consistently ranked Louisiana's state/local household tax burdens among the lowest in the nation.^(5, 6)

Spending, Needs and Aid High. Louisiana's total state/local spending per capita was about average for the U.S. but was the second highest in the South. This spending level is higher than would be expected from the state's low fiscal capacity and tax effort, due largely to the fact that federal aid programs favor needy states. One study rated Louisiana the fifth highest state on a "fiscal need index" calculated using relative state and local government workload factors.⁽⁴⁾

Higher Education Spending Low. Louisiana nearly caught up with the southern average in per capita higher education funding by 1995-96 but still ranked 33rd in the nation. However, for 1997-98, Louisiana's per-student operating appropriations for four-year universities was the lowest among the Southern Regional Education Board (SREB) states and was less than two-thirds (63.7%) of the SREB average.⁽⁷⁾

K-12 Education Spending Low. Louisiana lost ground to the South and U.S. in K-12 education spending in the early 1990s leaving the state ranked 46th by 1995-96. Since then, according to NEA estimates for 1999-2000, the state's per-pupil operating expenditures have risen from 77% of the U.S. average to 86% (36th highest in the nation).⁽⁸⁾

Medicaid Program Spending Slowed. The federal Medicaid program has driven the changes in the state's welfare, health and hospital spending this decade. Growth rates over 25% a year in federal Medicaid fund-

**TABLE 2
Louisiana State/Local Revenue Rankings^a
1995-96**

Source	La. Rank in U.S.		La. Rank in South	
	\$/cap.	\$/1,000 P.I.	\$/cap.	\$/1,000 P.I.
Total General Revenue	33	16	4	3
Federal Revenue	16	12	3	3
Own Source Revenue	39	24	7	5
Total Taxes	47	44	11	11
Property	47	48	12	14
General Sales	7	5	2	1
Motor Fuel	26	16	9	7
Individual Income ^b	41	41	12	12
Corporate Income ^c	33	30	6	7
Charges and Misc.	12	7	2	1

a The national rankings are for 50 states plus the District of Columbia and the southern rankings are for a 15-state south.

b Forty-one states nationally and 12 states in the south levy an individual income tax.

c Forty-seven states nationally and 14 states in the south levy a corporate income tax.

ing from 1991 to 1995 greatly expanded Louisiana's program spending. Sharp cutbacks in the federal match forced a \$1 billion cut in the state programs in 1995-96. Since then Medicaid spending has only grown about 0.6% per year.

Hospital Spending Quite High. Louisiana's per capita hospital spending was fourth highest in the nation. The high spending level is due, in part, to the high level of need and to the way Medicaid and uncompensated care payments are made to the unique state-owned charity hospital system. In other states more of these payments would go to private service providers for the same services. The high hospital spending is somewhat offset by the lower-than-average spending on other health services.

Corrections Spending Surprisingly Low. Louisiana spending on corrections was well below the national average despite the fact its incarceration rate was second highest in the nation. Helping to keep costs down were the low pay for state corrections officers and

**TABLE 3
Per Capita State/Local Revenues
1995-96**

Source	La.	South	U.S.	Diff. La.-U.S.	La. as % of U.S.
Total General Revenue	\$4,200	\$4,039	\$4,600	\$-400	91.3%
Federal Revenue	1,025	779	886	+139	115.7
Own Source Revenue	3,175	3,260	3,726	-551	85.2
Total Taxes	1,951	2,179	2,598	-647	75.1
Property	313	607	788	-475	39.7
General Sales	818	648	637	+181	128.4
Motor Fuel	116	116	101	+15	114.9
Individual Income	267	329*	554*	-287	48.2
Corporate Income	75	63*	121*	-46	62.0
Charges and Misc.	1,225	1,081	1,127	+98	108.7

* Including states that do not levy the tax.



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the fact that over 40% of all state prisoners were kept in even lower-cost parish jails.

Debt Interest Down But Still Too High. In 1990, Louisiana governments spent nearly twice as much per capita on general debt interest as the average state. By 1995-96, Louisiana had closed much of the gap but still ranked 11th in the U.S. and second in the South. At the state level, self-restraint in issuing new debt and a constitutional debt reduction plan have helped to lower this cost.

Public Employment Remains High. Louisiana governments continued to employ far more people, on a per capita basis, than average and pay them less. Louisiana's 1998 ratio of 623 public employees per 10,000 population exceeded the U.S. ratio of 536 by 16%. At the U.S. ratio, Louisiana would have had 38,000 fewer employees, including 20,000 fewer hospital workers and 10,000 fewer education employees.⁽⁹⁾

CONCLUSION

Louisiana has a relatively low capacity to generate state and local tax revenue and makes a lower-than-average effort to use the tax base that is available. Its overall tax structure is slow growing and imbalanced, relying far too heavily on sales taxes and underusing individual income and property taxes. Louisiana households bear a relatively low tax burden.

The state's high level of need for governmental services draws above-average federal aid which in turn helps keep Louisiana's spending relatively high for the South, in total, and particularly for health and welfare programs. Higher education and K-12 education rely more on the state's ability and willingness to use its own revenues. In spite of funding gains since 1995-96, education funding remains relatively low at both levels.

Basic Sources:

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