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Commentary

The Public Affairs Research Council of Louisiana

Session Relishes Stability but Not Reform

The calm 2019 waters hide deep problems

Perhaps the most extraordinary thing about the 2019 legislative season was the lack of extraordinary sessions. For the first year since the governor and current legislators were elected in 2015, we had no special session. Whether the reason was fatigue or election politics, our leaders in the Capitol determined that seven special sessions over the previous three years was enough. One major factor – and the most important characteristic of this session – was the existence of a more stable budget outlook based on a sales tax revenue stream established last year after much political wrangling. The 2019 session was the least contentious fiscal debate since the post-Katrina era. There were no mid-year budget cuts to adjust around, no drawdowns on the state rainy day fund and no obvious short-term gimmicks to prop the budget. The main theme was which programs to expand, not which to cut.

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Despite this being a "fiscal" session, hot button social issues such as abortion and the death penalty gathered a lot of attention. However, several important fiscal issues should be noted. Teachers got a pay raise, but the burdens of the state pension system took the edge off their gains. At long last, early childhood education got its foot in the door for a state appropriation that is expected to continue or increase in years ahead, but advocates may be surprised to see no overall boost in the number of children served by the program next year. A pot of BP oil-spill settlement money became a free-for-all road program grab, the manner and priorities of which will be questioned for years to come. In the end, for so many issues, there is still a need for comprehensive reform that did not happen.

Budget realities

The general appropriations budget, including federal dollars, will increase $784 million to $29.5 billion for the 2020 fiscal year that will begin July 1. Total spending, including the legislative and judicial branches, debt and other items not included in the general appropriations bill, will reach $33.8 billion. Spending from the state general fund, based on state taxes and revenue, is set at nearly $9.9 billion, a rise by $246 million above the level for the current year. The additional general fund money comes mainly from individual income, sales and severance taxes and represents a 2.6% increase.*

Health care makes up about half of general appropriations and is growing faster than the overall budget. Total means of financing for health care will rise $1.1 billion, or nearly 8%, to $15.2 billion. Fourth-fifths of the increase is federal money. A budget factor to watch in the next couple of years is the state's match for the Medicaid expansion for adults. Starting in 2020, Louisiana will have to increase its federal match rate for the Medicaid expansion from 7% to 10%, creating a greater need for state dollars toward the program. So far, Medicaid expansion costs have been largely offset by state insurance premium taxes applied to the managed care organizations covering the enrollees. The larger state match will place more pressure on the budget process in the future. Ultimately, the state should aim to reduce the number of enrollees through workforce development and other means to improve the lives and careers of those who now rely on the program.

Higher education institutions will get $23 million more in state funded expenditures, a reversal of a long trend, while the TOPS college scholarship program and the Office of Financial Assistance will get $15 million more. With a major budget increase to $13.6 million, the recently opened Acadiana Center for Youth will see its first entire year as a fully funded institution after sitting empty for years awaiting an operational budget. A pinnacle achievement of a juvenile justice reform effort that began in the early 2000's, the center is a symbol of the time and persistence needed to implement policy reforms.

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A large increase was granted for the K-12 education funding formula, a distribution of state money to local school districts. One batch of that new money, at $39 million, will be provided for district budgets generally (based on a per pupil increase of 1.375%). A $102 million batch is designated for teachers and support staff to get raises of $1,000 and $500 respectively. Of that, $21 million will go to cover retirement expenses, the super-great majority of which is pension debt rather than the normal costs of the retirement programs.

Calculated at more than a fourth of the salary increases, these payments to the retirement systems illustrate how the cost of pensions puts downward pressure on the ability of the state and local school boards to hire teachers and pay them more. On a per-pupil basis, Louisiana spends less on teachers' salaries than the southern regional average. When pension and healthcare benefits are included, the total cost to employ teachers is actually higher than the southern regional average. That is, Louisiana tends to spend more on teachers but they don't see the benefit because so much of the money goes to pay for unfunded liabilities in the retirement system. Worse, the Legislative Auditor and other actuarial analysts say that even with these high surcharges, we are still under-funding the real pension debt.

Early Childhood ups and downs

Elsewhere in the budget, legislators took the positive step of increasing state investment in early childhood education by $15 million. The program for four-year old children, LA4, currently gets $34 million from the state and will get an additional $4 million to replace a decrease in federal funding. The core program for children birth to age three, the Child Care Assistance Program or CCAP, currently receives no state dollars and is entirely federally funded. Significantly, next year CCAP will get $11 million in state funding. This includes $2 million to increase provider reimbursement rates to meet federal guidelines and $9 million to serve qualified families.

The appropriation of state money for CCAP is a true sign that the Legislature is at long last including this program among its priorities, albeit a low one. This general appropriation stands in contrast to the numerous attempts during the session to use early childhood education as an enticement to gain votes for special interest bills. For example, attempts to bring about sports betting and online fantasy sports gaming included dedications to early childhood education with comparatively trivial amounts of real financial support. The $15 million appropriation of state money is a far better result for children and families who cannot afford this opportunity.

The potential bad news is that fewer kids might be served by CCAP next year, even with the additional state dollars. A tapering of federal funding could result in a reduction that is more than the state dollars can replace. The state will not know how much we are getting from the federal government until perhaps October. At this point the number of children served could be more, fewer or about the same as this year. Early childhood education has taken a step forward and also maybe a step back, demonstrating that in an environment of temporary federal funding and an uncertain state commitment, this initiative will be a long-term process.

Surplus spending recheck

The state showed a $308 million surplus for the previous fiscal year, a bonus that lawmakers got to spend during the recent session. Surplus spending is restricted by law. The law required $77 million to go to the state's Budget Stabilization Fund, which will bring this "rainy day" fund's balance up to $404.6 million, or less than half the constitutional cap amount. About $31 million will go toward the state's $18 billion pension debt. About half the surplus was spent on various construction projects, such as improvements of college buildings and roads. Importantly, the Legislature allocated $55 million for coastal protection, some of which replenished the coastal trust fund after raids in years past that covered mid-year short falls. The coastal trust fund was raided in the current and former administrations; this is the first time that swept money has been returned. This allocation sends a positive message that Louisiana is taking its commitment to the coast seriously.

Infrastructure mythos

Legislators failed to provide a long-term solution to the state's transportation problems but in a single session they spent 13-years' worth of a new revenue stream to pay for a package of infrastructure work. Louisiana has been collecting annual economic damage payments from the BP Horizon oil spill for the past two years and it has 13 more years of payments – at $53 million apiece – still coming. This money could be considered recurring dollars and could be spent on virtually any priority. So, it must be observed that the Legislature's actions indicate that infrastructure, or at least pork projects, was its highest priority.

Before this settlement money began flowing, the Legislature took the noble gesture of passing a law that would direct it to the state rainy day fund and two mostly depleted health care trust funds, although the money never got to those destinations. In the past, the money was used to make ends meet for the general operating budget. It was only a matter of time before legislators – making an end-run around the state transportation priority plan and bypassing early childhood education and other program opportunities and needs – would start picking away at this particular BP revenue stream for projects in their regions. An anchovy had better chances with a school of mackerels.

Infrastructure work is a good thing. But some perspective is needed. House Bill 578 provides only partial funding for some large projects. Although the bill has been compared to the TIMED program started in the 1980s, which was based on a special 4-cent fuel tax, it is unlike that program in critical respects. The TIMED constitutional amendment directed the money for the completion of projects on its list. (That money ran out, leaving two TIMED projects still awaiting final funding, including one covered by this bill.) HB 578 is substantially different. For example, the Interstate 49 north connector project is a $600 million to $800 million endeavor, for which this bill contributes $100 million, maybe enough to get through some pre-construction costs. With luck maybe a Congressional earmark will help out, if Congress engages in that practice again. Federal matches for many of these projects are allowed but the amount available is restricted. So, if used for HB 578 work, Louisiana's federal dollars might likely be taken from other projects.

Four of these projects are not in the statewide transportation plan. Port cranes are a valuable asset for state commerce but in the past have found alternative revenue sources, including the private sector. The bill virtually forces the state to bond out the money and yet does not seem to take into account the cost of bond debt. It is simply a list of projects with no flexibility on the amounts. Presumably other funds down the road will cover those costs. The bill also declares that the bonds would not count toward the state debt ceiling. Essentially, HB 578 is a massive dedication that has not yet met up with the realities entwined in the bonding and construction costs. Its aversion to the normal capital outlay process will warrant scrutiny. As a statutory measure, subsequent bills in future sessions could tinker with the priorities, but once the bonding goes forward the cast will have been set. Perhaps the bill's biggest impact could be the false perception that Louisiana's infrastructure needs are now largely met. It's actually about 5% of the state's total infrastructure price tag.

Tax reform postponement

The best that can be said for tax reform in the 2019 session is that things didn't get worse. A well-meaning bill that would have granted state sales tax exemptions for purchases of diapers and feminine hygiene products did not become law. Legislators also stalled bills for sales tax holidays. Every new exemption is a step back from the goal of eventually lowering the overall state sales tax rate, which is especially a burden to lower income residents. Louisiana has the second highest combined state and local sales tax in the country but is middle of the pack when it comes to collecting revenue. This is due to numerous and expensive exemptions granted which require high rates to collect the revenue needed. Attempts to centralize the state and local sales tax collection system also failed, unfortunately for Louisiana's business climate. Tax cuts were off the table. Legislators enjoying new found budget stability were in no mood to undermine that position.

Constitution complicated

The Legislature passed five constitutional amendment proposals though only four will be on the ballot this fall. One of the amendments says that nothing in the Louisiana Constitution protects the right to an abortion; that proposal will be set before voters in the fall of 2020. The four other proposed amendments deal with comparatively mundane topics such as adjusting the recipients of a constitutional fund, expanding the powers of Board of Tax appeals, exempting property destined to the Outer Continental Shelf and giving the City of New Orleans the power to exempt residential properties from ad valorem taxes to promote affordable housing.

Like always, PAR will cover these four proposals in greater depth this fall in our guide to the constitutional amendments. However, the specific, technical nature of these proposals once again illustrates how far our Constitution has strayed from a fundamental document to that of a cluttered set of "super laws" that just have a higher hurdle to change.

Time for a RESET

The new-found budget stability should not let us think the state has arrived where it needs to go. There are still major structural issues that need to be fixed. Additional support for early child education was a step in the right direction, but it still seemed more an afterthought used to gain votes on unrelated bills than a policy priority. Additional funding for teacher salaries belies the weight of the current pension system on local school boards. The $700 million for infrastructure projects will help, but still leaves us $13.3 billion short on our $14 billion project backlog. Legislators wanted no part of reforming a tax system that has some of the highest rates in the country. Previous fervor in the Legislature for constitutional reform has apparently relaxed. These issues require a sea change in our approach to state government. In short, it requires a RESET.

That is why the Public Affairs Research Council of Louisiana (PAR) has collaborated with the Committee of 100 and the Council for a Better Louisiana to form RESET Louisiana's Future. Through this initiative our organizations will educate candidates and citizens about the problems facing our state and what we can do about them. The coming turnover brought about by term limits means a flood of new legislators next term. We focus on the key areas of education, state finances, infrastructure and criminal justice/public safety. To learn more about RESET Louisiana's Future, see the link on the PAR website or visit Reset-Louisiana.org.

**Endnote: Budget numbers in this commentary are non-final estimates based on a Legislative Fiscal Office analysis just prior to the final appropriations bill and forecasts for the current fiscal year. State budget numbers back out inter-agency transfers.*

Public Affairs Research Council of Louisiana

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