

# A Framework for Understanding COVID-19 Impact on the Louisiana Budget

Public Affairs Research Council of Louisiana

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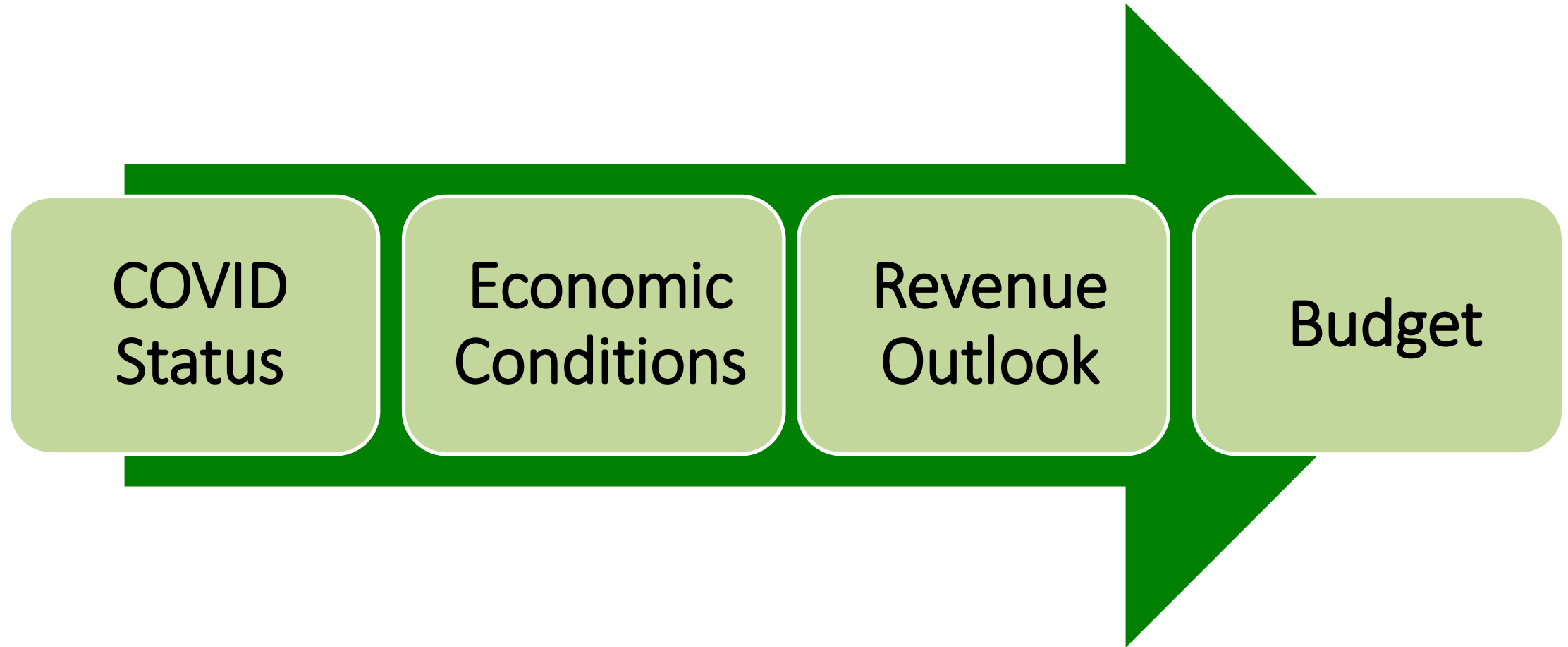
# What will Louisiana's budget look like?

Two answers:

1. The budget will depend on what happens with revenues and federal relief, which will depend on what happens with the economy which will depend on what happens with the virus.
2. No one really knows but the picture will become clearer over time.

This presentation walks through some of the major issues that will impact that state's budget.

# Budget Framework



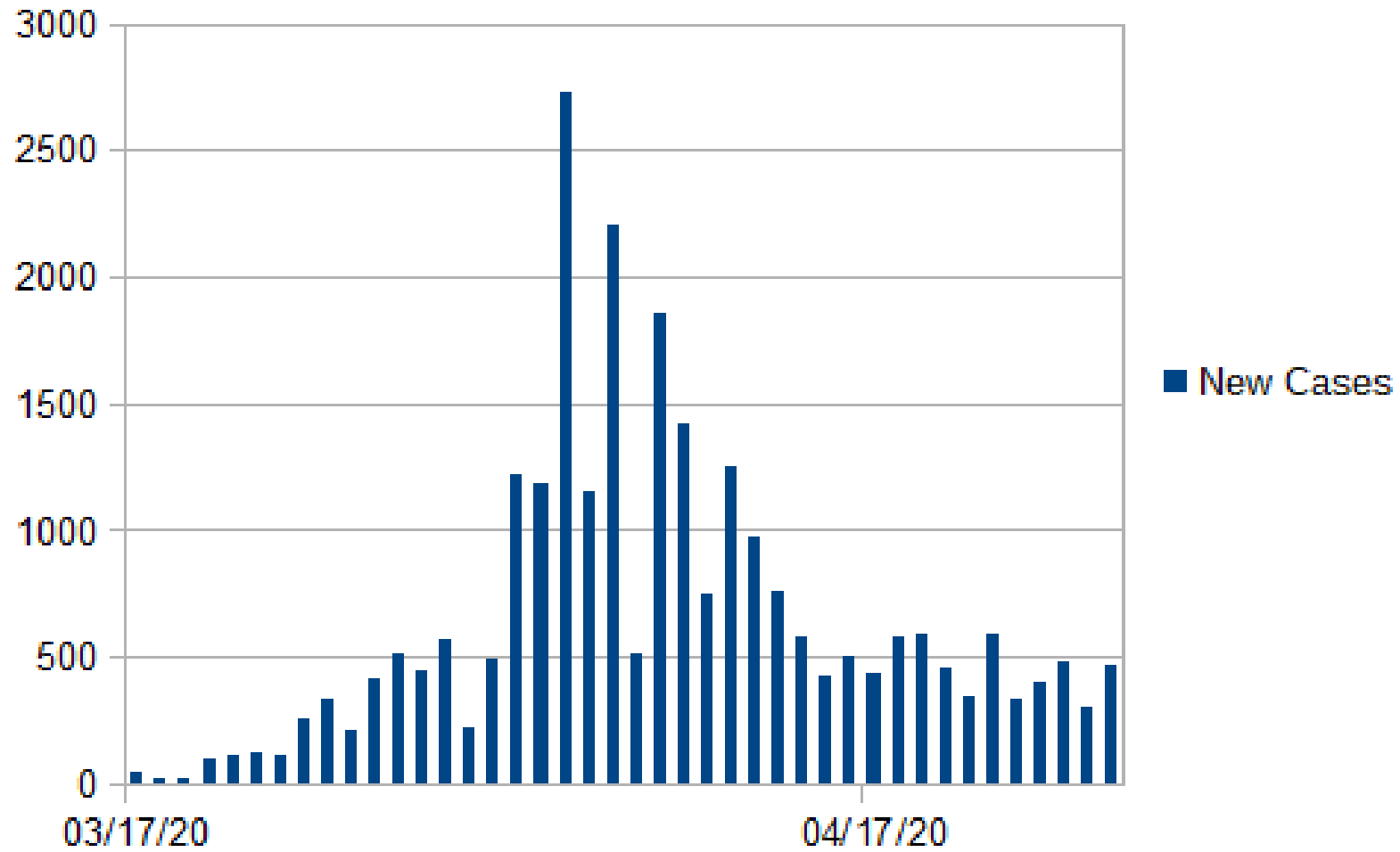
# COVID-19 and Louisiana



# Peak, Plateau or Relapse?

- Understanding the pandemic affecting Louisiana as well as the rest of the world is fundamental to understanding what will happen to the economy and eventually the state of the budget.
- Every day that passes under lockdown suppresses the spread of the virus but makes economic recovery more difficult.
- However, lifting restrictions threatens a resurgence in cases that could overwhelm the healthcare system and shatter confidence.
- Louisiana has been hit hard by the virus but there are signs of improvement.

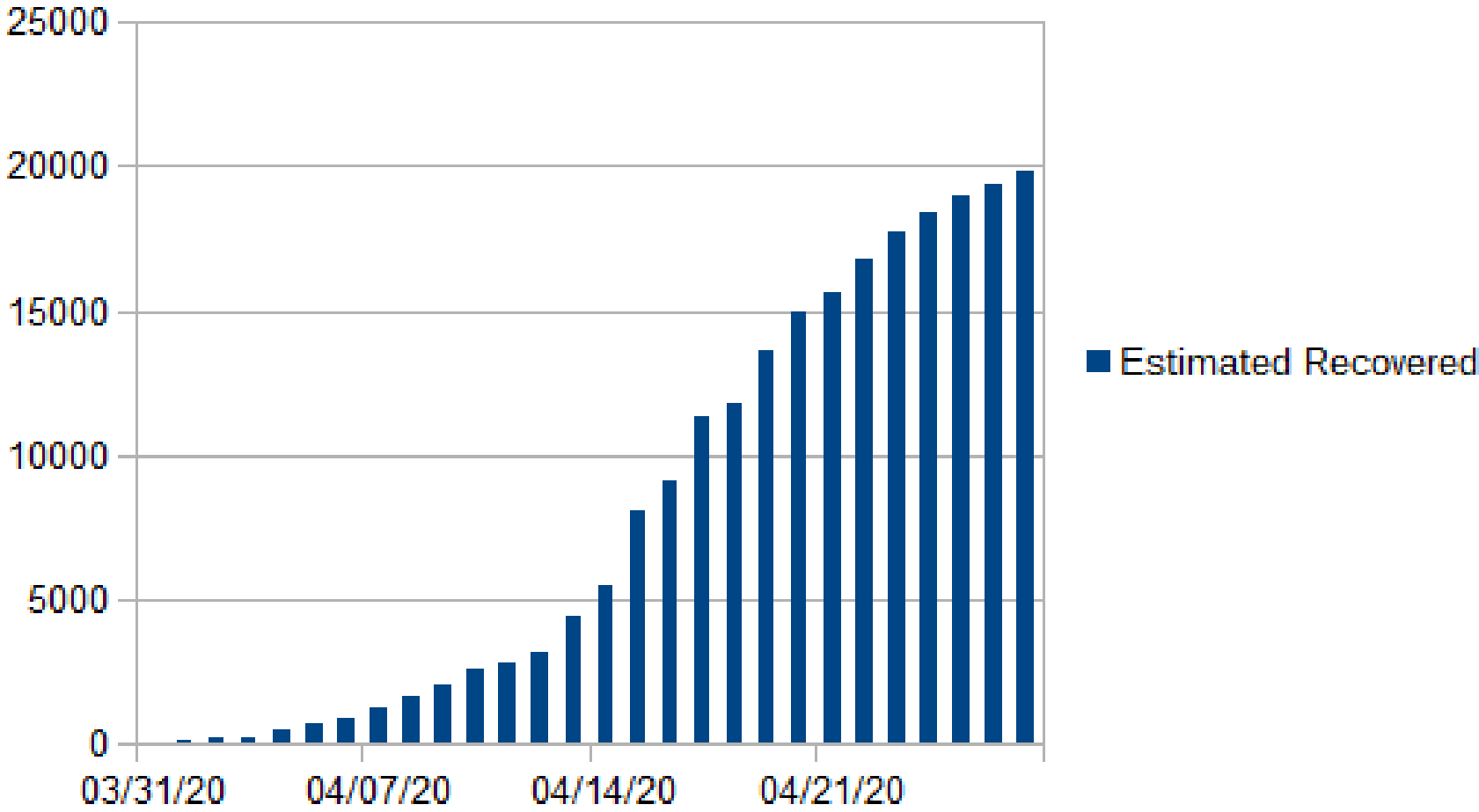
# New COVID cases in LA



# Estimating Recoveries

- Knowing how many have recovered from being sick can give a fuller picture of the situation.
- While manually tracking each recoveries case is time-consuming and difficult, it is possible to estimate recoveries.
- If we assume those that test positive recover after 14 days, we can create an estimate of the number recovered.
- The number of deaths is also subtracted to not count them in the recovery total.
- This does not exactly match LDH's estimation methodology which also takes hospitalizations into account.

# Total Estimated Recoveries over Time

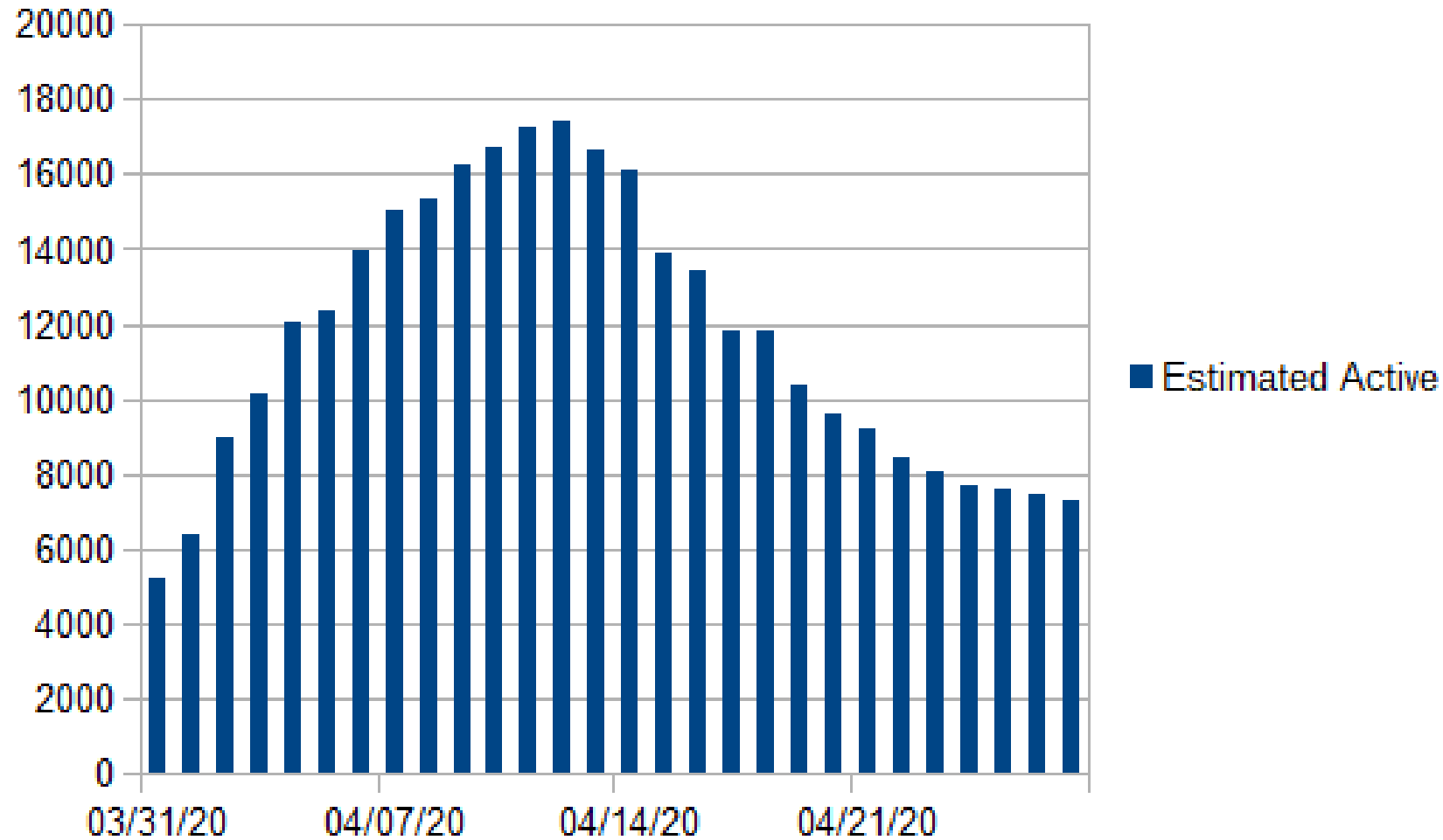




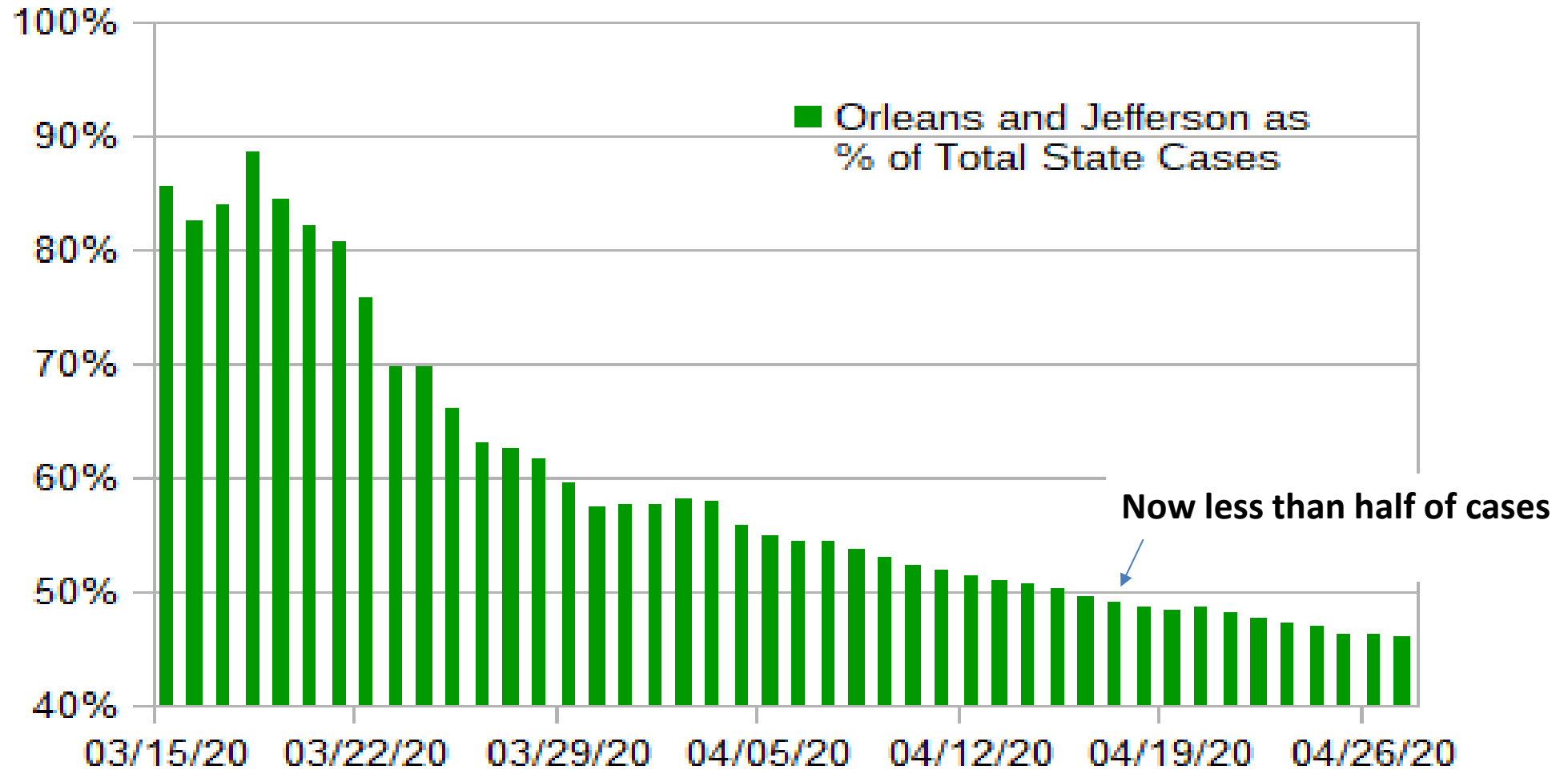
# Estimating Recoveries (cont.)

- Once we have an estimate of recoveries, we can use that to get an estimate of the number of people still sick.
- If we subtract the number of recoveries from the total that tested positive, we can create an estimate of the number currently actively sick and presumably still contagious.
- This does not include people who never tested positive but still might have contracted the virus.
- Using this method, we can see on the next page that we are "over the hump," at least for now.

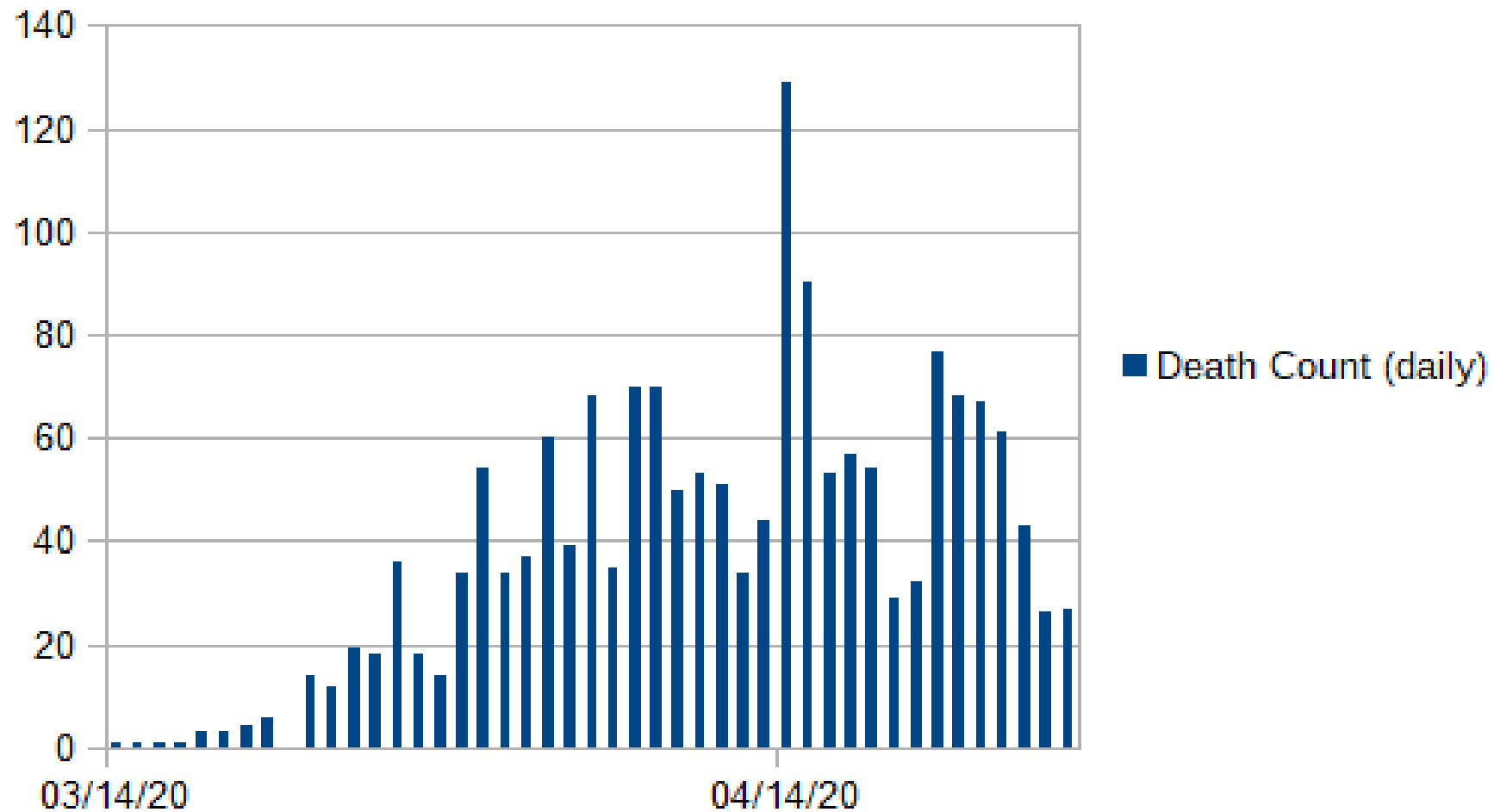
# Recoveries are starting to outnumber new cases



# Problem has grown beyond an Orleans area issue

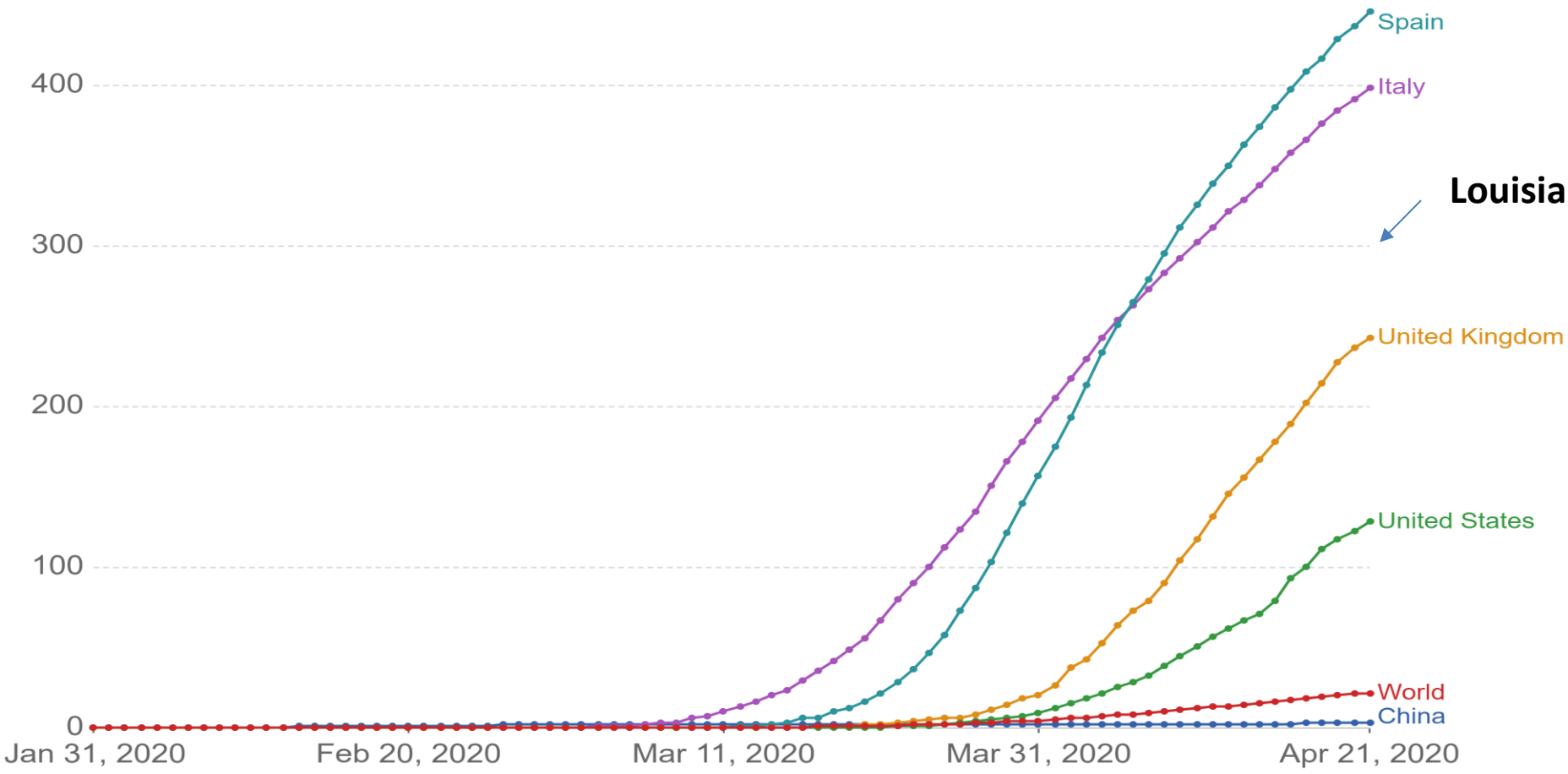


# Mortality Statistics



# Confirmed COVID-19 deaths per million people

Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true total number of deaths from COVID-19.

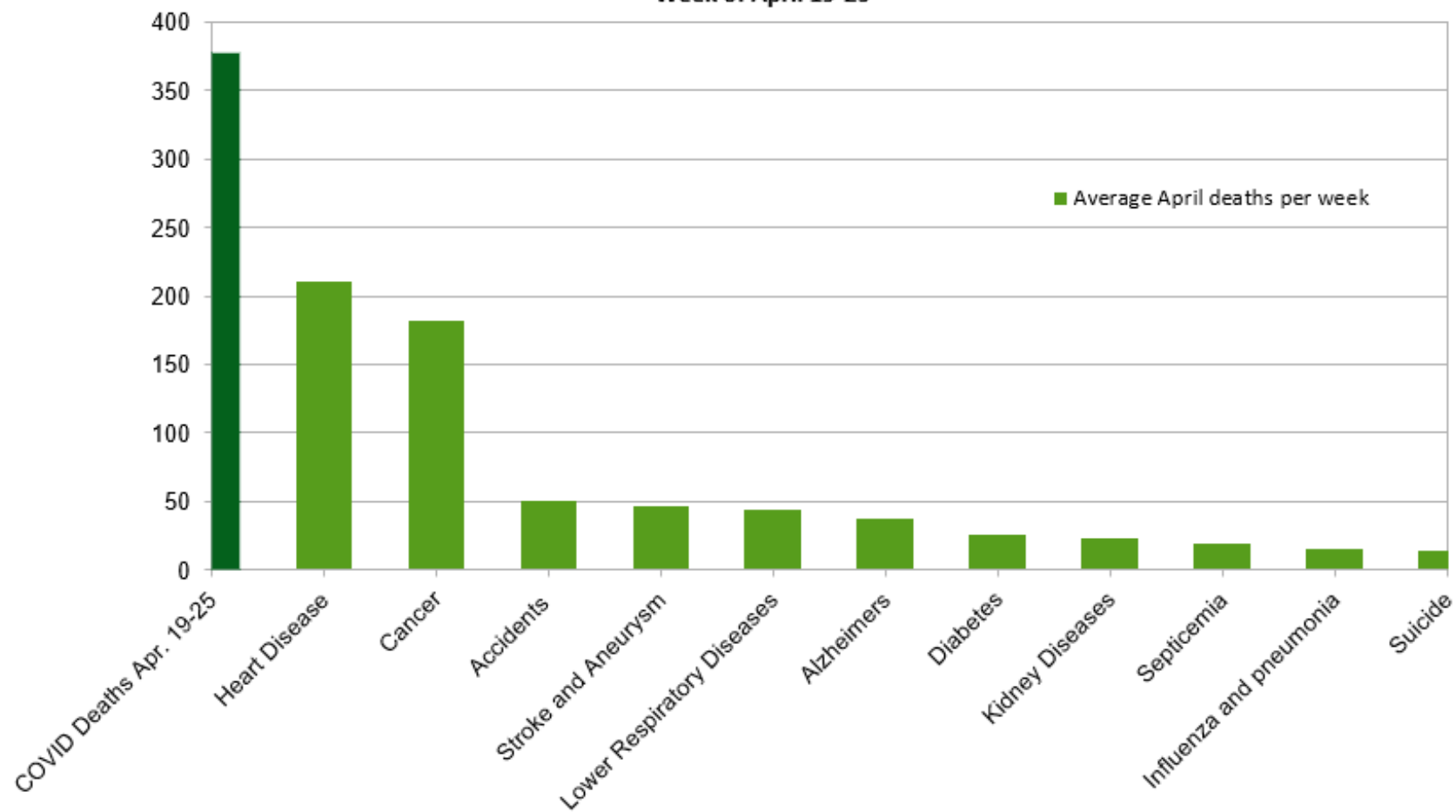


Louisiana is around 300

Source: European CDC – Situation Update Worldwide – Last updated 21st April, 11:45 (London time) OurWorldInData.org/coronavirus • CC BY

## COVID-19 vs. the historic causes of death in Louisiana

Week of April 19-25



# Random Guesses and Economic Forecasts

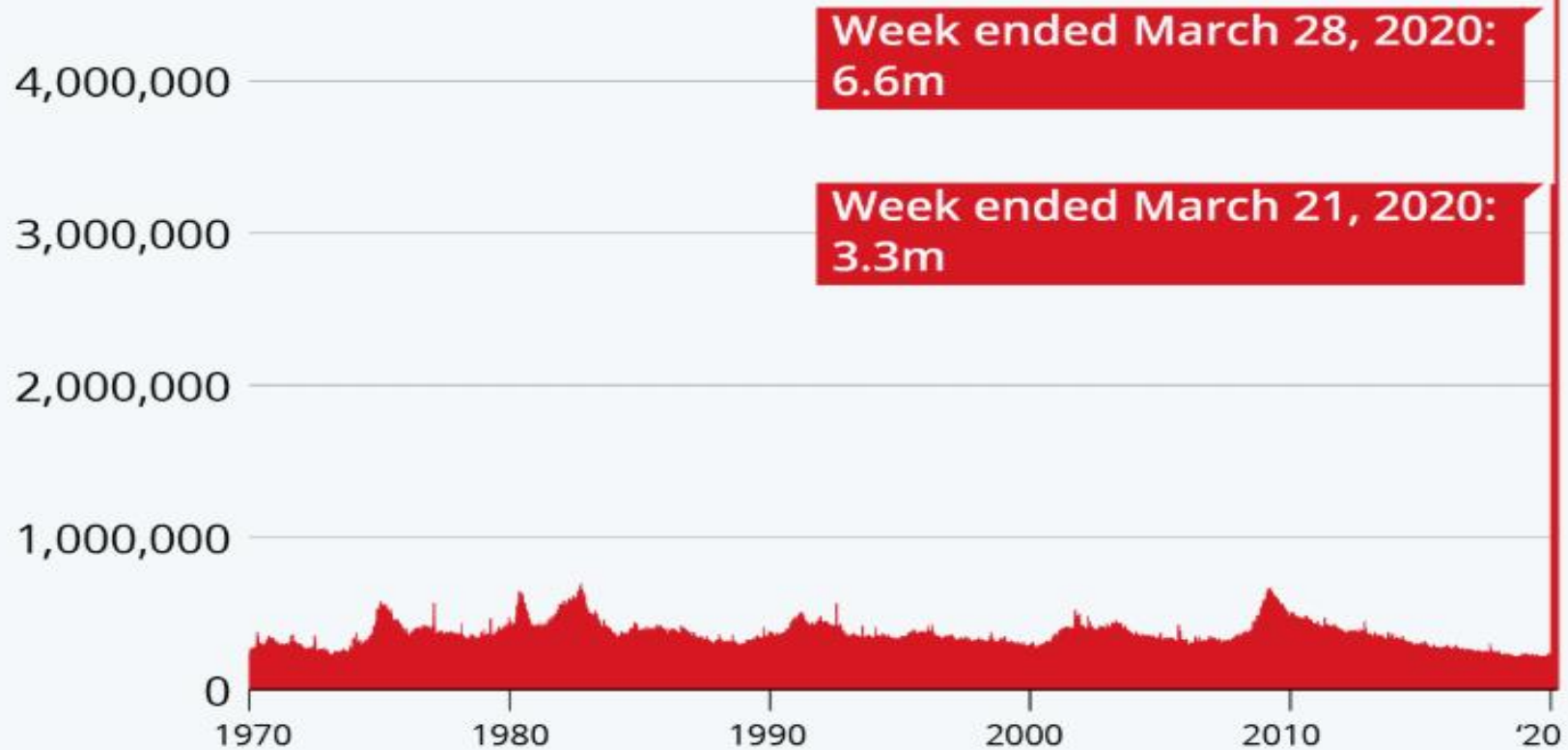


COVID-19 has already had a massive impact on the economy. Tougher is forecasting what will happen in the future.



# Initial Jobless Claims Are (Quite Literally) Off the Charts

Weekly initial jobless claims in the United States (seasonally adjusted)



Source: U.S. Department of Labor

# US Economic Forecasts (GDP)

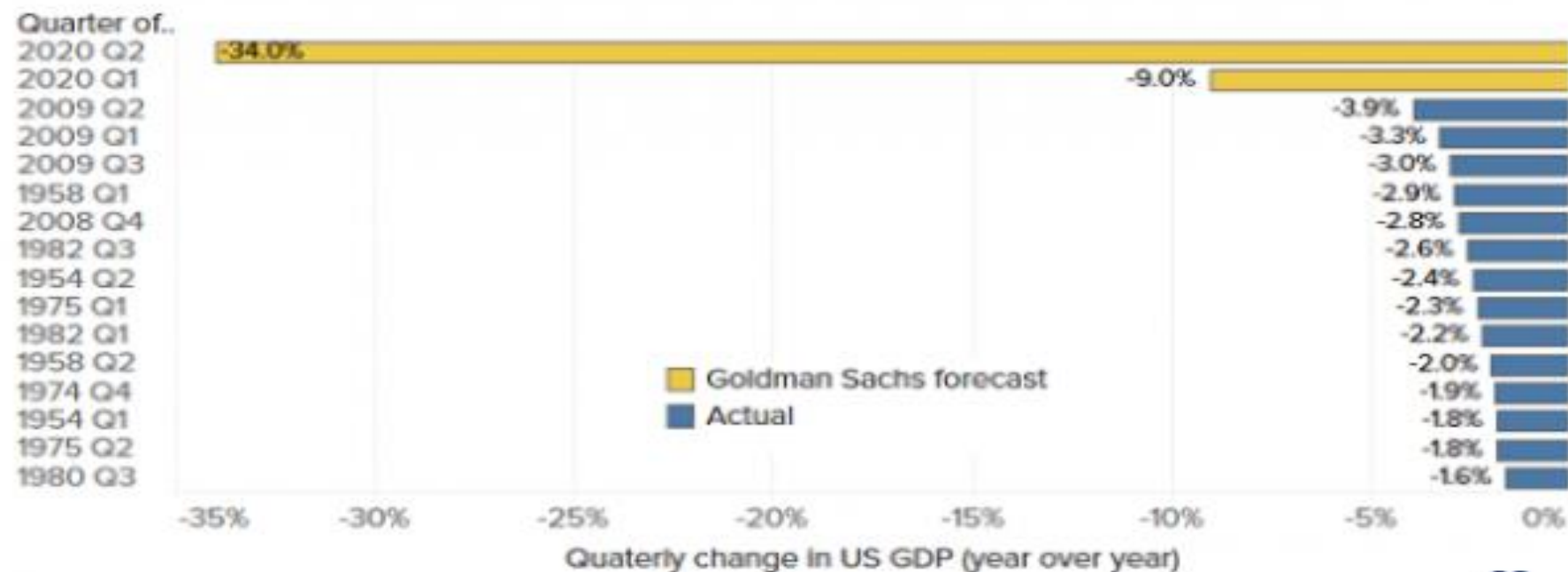
Forecasts can have a great deal of variance

Forecaster	2020 Quarters				
	I Q (Jan-March)	II Q (April-June)	III Q (July-Sept)	IV Q (Oct-Dec)	ANNUAL
Conference Board	-5.8	-33.3	0.1	27.4	-6.5
Consensus Forecast USA	-3.7	-25.7	10.7	8.2	-5.6
Wells Fargo	-1.2	-22.3	7.2	4.8	-3

# Worse case...looks pretty bad

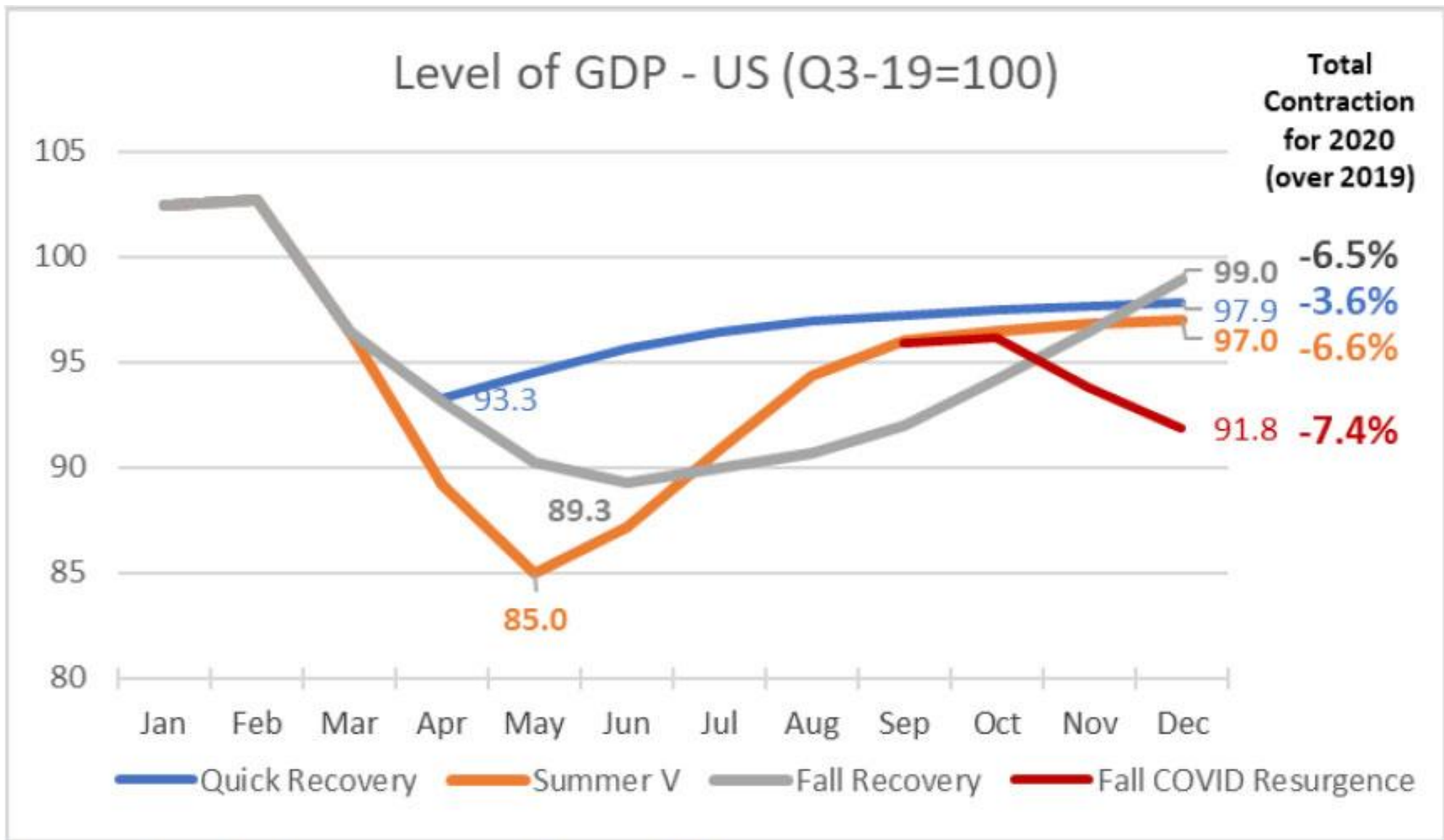
## Worst GDP quarters

Goldman Sachs analysts are predicting a drop in U.S. gross domestic product that would dwarf the worst declines since 1948.



It is useful to look at various scenarios to examine different potential economic paths.

How might a quick summer recovery differ from a resurgence of the virus in the fall?



Source: The Conference Board, April 2020

# Louisiana Small Business

- Small business have least ability to weather the economic downturn
- 53% of all employees work for a small business (10th nationally)
- 11.9 Average Number of Employees per Minority-owned Employer Business (4th nationally)

# State Revenue

What are some of the factors the state Revenue Estimating Conference (REC) will be examining?



# FY21 State Revenue Forecast (Pre-COVID)

As of (4/10/19)

Major Revenue Source	Millions
General Sales Tax	\$3,514
Vehicle Sales Tax	\$466
Individual Income	\$3,611
Corp Income and Franchise	\$400
Severance	\$581
Royalties	\$185
Riverboat Gaming	\$430
Racetrack Slots	\$53
Video Poker	\$189
Land based Casino	\$60
Other	\$555
<b>Total State Funds</b>	<b>\$10,044</b>

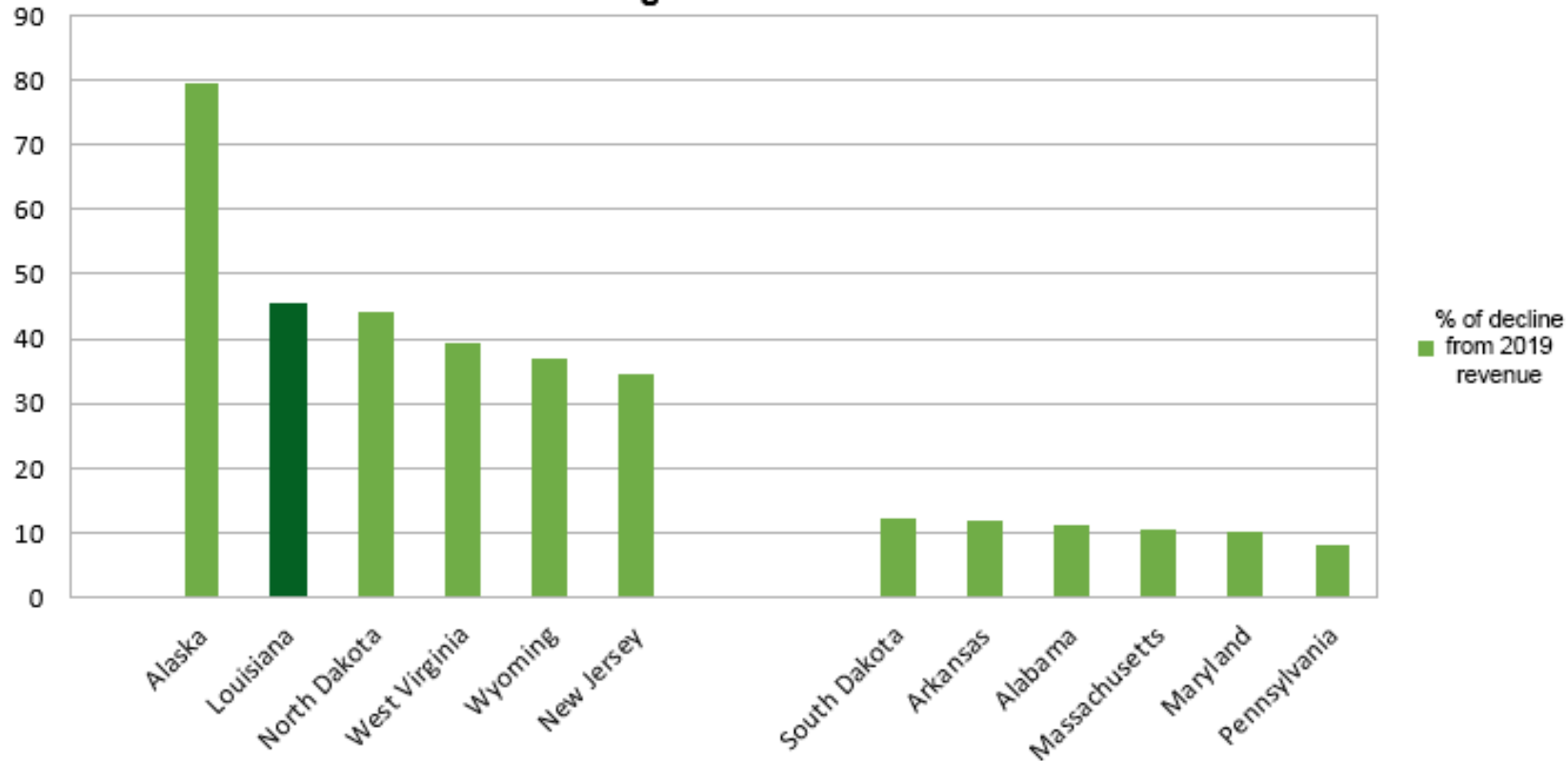


# Louisiana Specific Concerns

- Restaurants, hotels and small businesses disproportionately affected
- General sales tax is 23% of an average state's budget
- General sales tax is 34% of Louisiana's general fund revenue
  
- Mineral Revenue is based on \$60/barrel
- Oil is currently around \$13/barrel and temporarily went negative
- Major oil producers have agreed to a reduction in production
  - Does not start until May and there is a glut of oil being stored
  - Demand will depend on overall economic improvement

# Louisiana could face second largest revenue shortfall

**Estimated General Fund Revenue Declines  
Largest & Smallest**



Source: Moody's Analytics severe scenario

# Budget Possibilities



Budget Area	General Fund FY19-20 in \$Millions
Health	2461
K-12 Education	161
• MFP	3558
Higher Education	752
• TOPS	310
Youth Services	122
Children and Family Services	208
Corrections	517
Debt Payments	450
Legislative	62
Revenue Sharing Fund	90
Locals	311
Judicial	151
Other	584
Total State Fund	9737

# Budget Scenario for FY20-21

- Hypothetical Scenario: 5% cut to \$10 billion revenue (state general fund)
  - So approximately \$500 million
- Assume increased expenses related to COVID-19 are covered by federal assistance
- Standstill budget based on the current year budget (FY19-20) creates about \$308m in savings
- So only \$192 million left to cut! Easy, just do 2% across the board!

# Budget Scenario for FY20-21 (cont.)

- BUT what if you exclude Healthcare, MFP, TOPS, debt payments, legislature, judiciary, Revenue Sharing Fund and locals?
- That leaves a budget of \$2,344 million to be cut of which \$192m is 8.2%.
- So corrections, colleges, the Education Department , social services, etc. are each cut 8.2% on top of a stand still budget.
- Higher education also receives about \$1.5 billion in tuition so student recruitment and retention will be key to fiscal stability.
- (Note these scenarios simplify a lot of complicated issues for simplicity sake)

# Budget Scenario for FY20-21 (cont.)

- Hypothetical Scenario: 10% cut (\$1 billion in cuts)
- Same \$308m in savings based on Standstill budget
- Still \$692m left to cut. So roughly a 7% across the board cut
- If the previous restrictions are used (Healthcare, MFP, etc.) then each remaining agency gets a 30% general fund cut instead.
- Those agencies whose primary funding is from the general fund would have to reduce services and/or undergo major restructuring. Other agencies who can draw on other funds or fees might do better or worse depending on the specifics involved.

# Current Budget Year - FY19-20

- Revenue drops will also affect the current budget year.
- Unfortunately by the time new revenue forecasts are adopted there will be very little time to make any budget adjustments.
- This could add to next year's fiscal problems as the Louisiana constitution requires that if "a deficit exists in any fund at the end of a fiscal year, that deficit shall be eliminated no later than the end of the next fiscal year" - Art. VII Sec. 10 (G)



# Deficit Mechanisms

There are some tools to deal with unexpected revenue shortfalls:

- The Budget Stabilization Fund "Rainy Day Fund"
  - \$135 million available for this fiscal year
  - As much as \$181 million for next year IF nothing is used for the current year
- 5% fund cuts
  - The constitution provides that during a revenue shortfall 5% of most funds, including constitutionally projected funds, can be redirected.
- PAR has addressed these and other potential budget solutions in another [publication](#)

# Federal Assistance

Most federal funding provided to the state is tied to additional expenses related to COVID-19. Some of the major items that could help with budget shortfalls include:

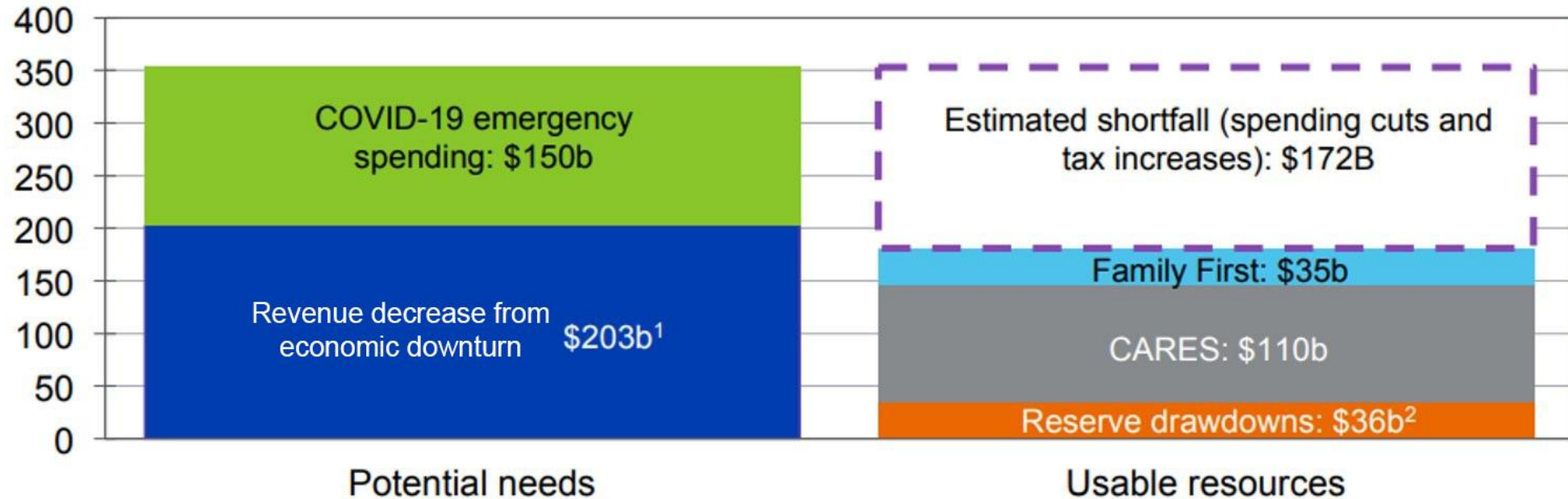
- FMAP rate increase (~\$280m per 6 months)
- \$1.8b for COVID expenses (but for both state and local combined)
- Education funding for both institutions and students
  - \$287m K-12 (90% districts/10% state)
  - \$190m Public and Private colleges and universities
    - \$147 for public institutions
  - \$50m Governor's fund

# Public College CARES Act Distribution

System	CARES Allocation	50% Student Aid	50% Institutional Aid
Louisiana Community & Technical College System	\$41,299,997	\$20,649,999	\$20,649,999
University of Louisiana	\$64,892,132	\$32,446,066	\$32,446,066
LSU	\$26,475,156	\$13,237,578	\$13,237,578
Southern	\$14,473,581	\$7,236,791	\$7,236,791
Total	\$147,140,866	\$73,570,433	\$73,570,433

# Federal assistance helps but will not fill the gap

All State Governments Through Fiscal Year 2021 - In Billions (\$)



- 1) Impacts through FY21. Impacts through FY22 could be at least another \$100 bil.
- 2) Assumes states will initially only draw on approximately half of their reserves.

Sources: NASBO, Moody's Analytics

# Summary

- How the budget will look depends on a lot of factors which are very tough to predict.
- Primary among the issues is how Louisiana deals with the COVID pandemic and restarting the economy.
- Louisiana faces some specific economic challenges.
- Restrictions and politically protected programs make the remaining areas much more susceptible to budget cuts.