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Commentary

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Crisis Management

Federal largesse and leadership cooperation got the new Legislature through its first budget crisis. Now on to the next one.

The Legislature has come and gone, but their decisions and the pandemic are still with us. Almost as soon as the newly elected legislators gathered in early March for the first session of their new term, they postponed the formal process to make way for the lockdown due to the spread of the coronavirus. Two shortened legislative sessions later, what can we say happened? In this commentary, let's follow the money. Spending is the most important job of the Legislature. So, what exactly did they do?

Who's in charge?

The governor relinquished the agenda to the Legislature and showed less influence than traditionally seen. His office was thin on legislative initiatives as he and his team found themselves engulfed in orchestrating state agency responses to COVID-19 and shepherding massive federal resources. Further, the political power structure of both the House and the Senate was stacked against the governor on majority votes and, critically, committee assignments. The power vacuum was filled by conservative leadership backed by their own appointed recovery task force.

Still, the Legislature gladly embraced the governor's coronavirus-revised budget, thanks in large part to the administration's ability to navigate the federal rescue dollars and infuse them into the state spending scenario. Plus, the governor has the veto pen and has shown he's willing to use it. The 4th Floor's dialogue and cooperation with legislators affected the outcome of key issues, such as tort reform, the capital outlay budget, the Main Street Recovery Program and the jurisdictional battle over the unclaimed property fund. Generally speaking, the virus was in charge but couldn't thwart process or progress.

The surplus

While coping with a sudden giant shortfall in state revenue, the Legislature had to consider how to spend the \$535 million windfall surplus from fiscal year 2019. Although the Constitution mandates that such one-time money be spent only on certain items including infrastructure or debt, there is always opportunity for mischief. This time, they did not screw up.

The surplus was used to pay down retirement debt (\$53 million), toward coastal restoration (\$60 million), highway construction (\$70 million) and other capital outlay projects (\$110 million). A minimum of \$133 million was constitutionally required to be placed into the state's Rainy Day

Fund. The Legislature put that plus an additional \$90 million into the fund strategically to maintain it at a higher level to tap later if necessary.

The state budget

The pandemic did not create budget pandemonium. It did create uncertainty, which has not gone away. Plenty of resources became available to craft the \$34 billion state budget for the current 2021 fiscal year, which began on July 1. This was thanks to federal largesse and the administration's quickly acquired expertise at managing the federal relief money. The patient demeanor of the chairs of the House and Senate budget committees was helpful to the process.

The outcome was also partly due to the surprisingly optimistic new revenue forecasts adopted in May. Yes, the economists estimated a big dip in revenue, but the outlook was buoyed by a prediction of sustained receipts from the individual income tax. That will be something to keep an eye on.

There was much publicity given to the fact that the estimate for the 2021 fiscal year was reduced by about \$900 million, but that was an estimate reduced from an earlier estimate. What was the real year-to-year comparison of general fund revenue between 2020 and 2021? The state had been operating its fiscal year 2020 budget according to expected general fund revenue of \$9.72 billion and the new estimate shaved this to \$9.59 billion. The new general fund estimate for fiscal year 2021 was placed at \$9.14 billion, which represented \$585.6 million less than what the state had been operating on for most of the prior year. If you are looking for a relevant figure to describe this year's state general funding versus last year's, that would be the number. Of course, time and the economy will tell what the real numbers will be.

The rescue plan

In a remarkable move, the administration calculated nearly \$600 million in fiscal year 2021 expenses that could use federal CARES Act funding instead of drawing from the general fund. More federal money replaced other categories of expenditures and the federal match for some Medicaid programs was increased. In addition, \$74 million stored in the Lottery Fund was used. The new budget eliminated \$92

SYMPTOMATIC BUDGET

The economic crisis caused by the pandemic has impacted the state general fund, which is based on official estimates of state tax revenue. The state fiscal year (FY) runs from July 1 to June 30. Although the overall budget is in the \$34 billion range, these figures represent the key state revenue portion.

ORIGINAL FY 2020

This was the assumed state general fund budget until the spring of 2020.

\$9.72 billion

REVISED FY 2020

Reduced by \$131.9 million after pandemic revision

\$9.59 billion

CURRENT FY 2021

Down \$453.6 million compared with the revised 2020 number; down \$585.6 million compared with the original 2020 number; down \$904.9 million compared with the pre-coronavirus revenue estimate for 2021.

\$9.14 billion

PROJECTION FY 2022

Assumes state revenue will increase \$673.7 million beyond the 2021 number.

\$9.81 billion

million in previously sought increases that the governor had proposed earlier in the year, such as additional funding for higher education, K-12 and early childhood education.

Another \$122 million in reductions fell mostly on the Department of Health, higher education and sheriffs to house state prisoners. However, colleges received direct federal support to help offset those cuts. The Legislature halted funding for state employee raises, sparing about \$60 million. An agreement between the governor and the state treasurer over unclaimed property freed up \$58 million to be used in the budget and to offset various economic stimulus costs. The Budget Stabilization Fund, known as the Rainy Day Fund, was tapped for \$90 million, which is less than the \$135 million that would have been constitutionally allowed.

The budget included about \$70 million in general fund spending increases, which covered the mandate for the state's school funding formula and to address dedicated funds where dedicated revenue fell short due to COVID-related economic conditions.

In all, new funding for early childhood education spending and other aspirations had to be set aside, but government programs and state employees weathered the first phase of the pandemic without the deep pains felt in much of the private sector. Like all of us, legislators are unsure of the near-term recovery and expect to return for another special session within the next four months.

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Next year

The many gifts that succored the Legislature and administration through the recent budget crisis may not be available when lawmakers return to work next year on the fiscal year 2022 budget. Next time, there might be no federal bailout or large funds to tap. If current forecasts are accurate – and even the economic forecasters say they probably are not – the fiscal year 2022 general fund will be almost \$700 million higher than the current year. Can the state economy improve enough to support an 8 percent increase in state revenue?

And then there's the looming problem with the state pensions. The final tally is not yet in, but as of May the state employee and teacher pension systems were on track to lose in the neighborhood of 4 percent on their investments for the fiscal year. This will trigger a mandate for state government agencies and local school districts to increase their contributions to the pension systems starting in fiscal year 2022. Pension reforms, while needed, can alleviate these types of problems in the long term though not in the near term.

What the future holds

From here out, a lot depends on the national economy and the conditions wrought by the pandemic. It is not just governments that are affecting commerce and social interactions; businesses across the nation are forming their own policies about the workplace and how they will handle the recovery period. We will need to monitor how many small local enterprises choose to go out of business as their periods of dormancy or slow sales endure. Gambling – a major revenue generator for state and local governments – was out of business for weeks and

will face a slow climb up, especially considering its basis of public venues. Oil prices, which have regained some of their spring losses, could play a role.

The Legislature should expect to return to the Capitol this year to re-evaluate the pandemic, the economy and their budgetary actions. Any necessary adjustments in the current year budget will be easier to make the sooner they are addressed. So far, the administration and the Legislature have demonstrated they can cooperate and handle a crisis with prudent decisions, by and large.

Proposed 2020 Constitutional Amendments

Voters statewide will decide whether to adopt these seven proposed amendments to the Louisiana Constitution on the November 3 ballot. The first five on this list were passed by the Legislature during the 2020 regular session. The Secretary of State will determine the order of the items on the ballot.

Act 366 would change the state's expenditures limit growth formula.

Act 367 would allow use of up to one-third of the Budget Stabilization Fund (Rainy Day Fund) to cover state costs associated with a federally declared disaster.

Act 368 would allow the presence and production of oil or gas to be included when assessing the fair market value of an oil or gas well for ad valorem property tax purposes.

Act 369 would increase the income limit from \$50,000 to \$100,000 for those who qualify for the special assessment level for residential property receiving the homestead exemption.

Act 370 would establish an ad valorem tax exemption for property subject to a cooperative endeavor agreement requiring the property owner to make payments in lieu of taxes.

Act 447 of the 2019 regular session stipulates that no provision of the Constitution protects a right to abortion or requires the funding of abortion.

SB 12 of the 2020 1st special session would dedicate unclaimed property funds and create the Louisiana Unclaimed Property Permanent Trust Fund.

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