



1.24.22

# Commentary

The Public Affairs Research Council of Louisiana

## The Budget Bonanza

Louisiana is awash in state and federal cash, but will the state spend it smartly or blow it?

Rather than see state finances hobbled by the coronavirus outbreak and disasters, Louisiana is inundated with money for Gov. John Bel Edwards and lawmakers to spend.

Billions of dollars in federal pandemic aid and hundreds of millions more from better-than-expected state tax collections are giving the Democratic governor and majority-Republican Legislature the luxury of divvying up a largesse instead of grappling with the cuts of years past.

That situation would have seemed unthinkable across the prior two legislative terms, when the state struggled to balance its budget and had to repeatedly slash spending or raise taxes.

But Louisiana has an unfortunate history of squandering its money or making poor decisions when unexpected dollars arrive. The Public Affairs Research Council of Louisiana would like to see this recent budget bonanza spent wisely on investments that can improve key areas of need, with enough transparency for the public to see what their tax dollars bought.

Spending plans will be hammered out in the regular legislative session that begins March 14.

### A Glut of Cash

Louisiana's tax collections have repeatedly topped the forecast, driven by better-than-expected personal income, corporate and sales tax payments as people and businesses continue to recover from the coronavirus pandemic and spend the federal aid they've received.

#### *The Budget Boom*

The state has a \$699 million surplus from the budget year that ended June 30. A quarter of that must be deposited into the Budget Stabilization Fund, better known as the "rainy day" fund. Another 10% must pay down state retirement debt.

Last year surplus	\$699 million
Current year additional money	\$847 million
Next year general fund increase	\$869 million
Federal pandemic aid left for lawmakers	\$1.4 billion
Shortfall when temporary tax expires	-\$371 million

That leaves about \$450 million for Edwards and lawmakers to divvy up. Surplus dollars have constitutional restrictions and can only be used for one-time items, such as construction work, coastal protection projects and debt payments.

In the current budget year, Louisiana collected \$1.6 billion more in taxes and fees than projected. Certain dedications get carved off the top, and lawmakers smartly ensured that another \$400 million [will be steered to pay down a hefty debt](#) for the storm protection system upgrades made in the New Orleans

region after Hurricane Katrina. That still leaves \$847 million in unspent cash, with few limitations on how those dollars can be used.

And the Legislature has more to spend in next year's budget as well.

This year's spending plan allocated nearly \$10.1 billion in general state tax dollars – known as state general fund money. The latest forecast adopted by the Revenue Estimating Conference projects \$10.9 billion in general fund money available for spending in the 2022-23 financial year that begins July 1.

Meanwhile, Edwards and lawmakers still have \$1.4 billion in unspent federal American Rescue Plan pandemic aid, with some restrictions attached. That doesn't count the influx of federal cash pouring into the state from the bipartisan infrastructure bill recently passed by Congress, or billions of dollars in federal aid that have flowed directly to K-12 schools and colleges.

## A Looming Tax Drop

The last time lawmakers faced such a sizable influx of cash came after Hurricane Katrina, when recovery spending artificially inflated state tax collections. Gov. Bobby Jindal and lawmakers used the temporary surge in the treasury to justify slashing taxes – a move that caused years of budget gaps and financial problems for the state.

While the next few years of budget projections are rosy, two financial triggers will cause declines in the general fund dollars available to the governor and lawmakers elected in 2023.

Louisiana's temporary 0.45% state sales tax enacted in 2018 to balance the budget will fall off the books in mid-2025, lessening tax collections by hundreds of millions of dollars each year. Ahead of that, a portion of taxes charged on sales of new cars and trucks will start flowing away from the general fund to a transportation fund for spending on road and bridge work. The latest forecast shows \$161 million expected to be steered toward the transportation dedication in the 2023-24 financial year and \$325 million a year later.

Still, tax and fee collections are expected to grow enough to keep state general fund income projections largely flat for the next few years. But when the temporary sales tax disappears in the 2025-26 budget year, general fund revenue is forecast to fall to below \$10.6 billion, a \$371 million drop from the upcoming budget year.

That's not nearly the size of the massive budget holes that governors and lawmakers faced over the prior two terms. But those general fund dollars pay for higher education, health care services and public safety programs, among other general government initiatives that don't have dedicated sources of income from taxes or fees. If lawmakers don't start planning now for that loss of revenue, they'll leave the next governor and Legislature with a budget gap.

## Spend Smartly and Transparently

Edwards and lawmakers have wisely spent much of the better-than-expected tax collections this term and much of the federal American Rescue Plan aid on one-time projects and assistance programs, rather than growing government programs or creating long-term initiatives that will have to find new sources of cash when the federal assistance ends.

***PAR would like more planning with an eye toward long-term state improvement and targeted goals.***

The governor and legislative leaders said they intend to continue that approach, and PAR believes that is the right plan for such

short-term money. Paying down long-term debts, for instance, can free up more state general fund money for spending later and lessen a per-capita debt burden that is higher than many other states in the South.

But PAR would like to see more planning in appropriations for the short-term cash and the increased general fund money available in next year's budget, with an eye toward long-term state improvement and targeted goals for what the spending should achieve. Edwards and lawmakers should connect a wanted policy outcome to the money, rather than splitting it up so every favored project simply gets a little piece of the largesse.

If the spending on road and bridge work is aimed at growing Louisiana's economy, what benchmark would the public use to judge if that effort was successful? Does increased higher education spending conform to the goals of the master plan for colleges and universities, which has measures for success built into it? Are pay raises at K-12 schools targeted to address the state's teacher retention problem?

As they increase spending on long-term and ongoing programs, lawmakers and the governor also should target areas known to move the needle in other states, [such as early childhood education](#), which research has shown to improve health, life and employment outcomes.

Unfortunately, the House and Senate have used some of Louisiana's financial boom to load up budget bills with tens of millions of dollars in pet projects selected by legislative leaders for their districts and favored outside groups. Two budget bills in the last regular legislative session were packed with at least \$76 million in such earmarks, decided behind closed doors with little public discussion – or explanation for why those projects were worthy of state cash.

PAR believes that approach should be eliminated. It skirts transparency and appears largely aimed at boosting lawmakers' election goals rather than moving the state forward.

***The public should be able to visit an easy-to-navigate website that details the state's use of federal pandemic aid in one location.***

The public also should be able to easily track the billions of federal tax dollars pouring into the state for the coronavirus outbreak, with a website that shows what dollars Louisiana has received, where lawmakers steered the cash and who received the assistance.

State agencies have posted some of that information on scattered websites, and monthly reports on portions of the spending are presented to the Joint Legislative Committee on the Budget and posted online. But those documents aren't easy for the general public to locate.

PAR believes the public should be able to visit an easy-to-navigate website that details the state's use of federal pandemic aid in one location. The governor's Division of Administration seems the most likely agency to create and run such a website, since much of the money is tracked by the department and it runs many of the programs created to spend the federal aid.

Citizens have become skeptical about government's ability to smartly invest its windfalls. Edwards and legislators have a perfect opportunity to change their minds.

Public Affairs Research Council of Louisiana | For more information please contact:  
Dr. Steven Procopio, President, 225-926-8414 ext. 221 [steven@parlouisiana.org](mailto:steven@parlouisiana.org)