Commentary
The Public Affairs Research Council of Louisiana
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Collision With the Cap

Prudent budget proposals to pay debts, invest in infrastructure tangled in expenditure limit debate

Plans by Gov. John Bel Edwards and lawmakers to spend Louisiana's booming pandemic tax collections are running into complications because of constitutional restraints aimed at limiting the growth in state spending each year.

Louisiana has an annual expenditure limit, enacted to slow government expansion in good financial times and lessen future problems when times turn bad. Resetting the cap to spend more requires a two-thirds vote of the House and Senate.

The state's tax collections have repeatedly exceeded its income forecast, giving the governor and lawmakers a $699 million surplus left from the budget year that ended June 30 and more than $1.2 billion in unspent cash in the ongoing budget year.

Legislative leaders, the Edwards administration, their financial analysts and their lawyers are discussing whether proposals for using that cash would exceed the expenditure limit for the current budget year and require a separate two-thirds vote to authorize the spending – which could make it tougher to pass budget bills.

They are negotiating over what spending can be excluded from the limit, and they are weighing possible workarounds to avoid having to take a vote to raise the cap, such as socking money into funds to spend in later years.

Among the spending tangled up in the debate are Edwards' recommendations for road and bridge work, state and college building repairs, coastal protection projects and payments for Louisiana's share of Federal Emergency Management Agency storm response and recovery costs. It also could affect lawmakers' work to pay down a debt to the federal government for flood protection system improvements across the New Orleans region after Hurricane Katrina.

PAR would support a temporary increase in the expenditure limit, rather than budget gimmicks to avoid a politically tricky legislative debate.

The problem is the cap applies whether the dollars are being spent on one-time projects, as the governor largely proposes with the short-term cash, or ongoing programs. That can twist a mechanism to promote financial responsibility into a hindrance for prudent investments.

If lawmakers determine the spending requires a vote to raise the limit, the Public Affairs Research Council of Louisiana would support a temporary increase – rather than budget gimmicks to avoid a politically tricky legislative debate. The vote, however, should be done to use the money on one-time expenses, such as paying down debts that will help the state achieve more financial stability and needed infrastructure projects, not to grow government.

Commissioner of Administration Jay Dardenne said the Edwards administration believes the $400 million payment for the hurricane protection system upgrades and its proposal to spend more than $450 million on FEMA obligations shouldn't count toward the expenditure limit because those debts aren't specific to this budget year. If those amounts are backed out of the calculation, the state would stay within the constraints of the existing spending cap.

Governor's Proposed Payoff of FEMA Debts:

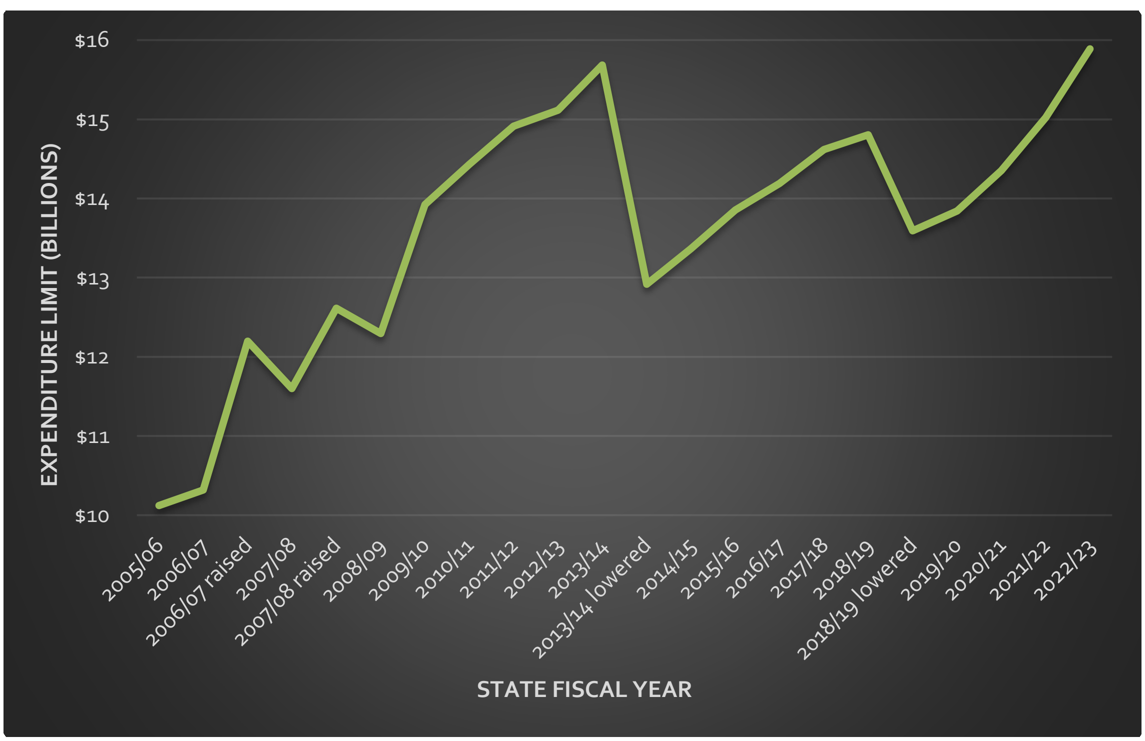
Public Assistance/Emergency Response to Hurricane Ida	$30.7 M
Individual Assistance/Mission Assignments for Multiple Disasters	$197.2 M
Disaster Closeout Costs for Several Storms and Flooding	$71 M
Repayment for Advance to Hazard Mitigation Grant Program (estimate)	$29 M
Repayment of Office of Risk Management Fund Sweep	$135.5 M
Total	$463.4 M

The expenditure limit is set annually, based on changes in average yearly personal income in Louisiana. Its calculation involves multiplying the current year's limit by the average annual percentage rate of personal income change in Louisiana for the three latest calendar years, if that growth factor is positive. The income data must come from the U.S. Department of Commerce.

The expenditure limit for the current budget year is more than $15 billion. The cap for the budget year that begins July 1 is nearly $15.9 billion, a growth of 5.8%.

The limit applies to the spending of state general fund and dedicated fund money deposited in Louisiana's treasury. It doesn't apply to the use of federal cash; tuition and other self-generated money in higher education; transfers between agencies, boards and commissions; and state oil and gas dollars required to flow to the parishes.

Expenditure Limits



Lawmakers have voted to raise the expenditure limit twice, in 2007 and 2008, as the state saw temporary, recovery-related surges in tax collections after Hurricanes Katrina and Rita. Both instances didn't permanently reset the cap's calculations. The 2007 legislation included a specific list of payments allowed with the increased spending authority, but the 2008 resolution did not.

A few years later, lawmakers concerned about the allowed growth in spending lowered the expenditure limit in 2013 and 2018, with unanimous votes each time.

PAR was an early backer of the constitutional provision creating the expenditure limit. Boosting the cap should be done thoughtfully and strategically, not in a manner that worsens looming budget gaps that will hit next term when Louisiana's temporary 0.45% state sales tax expires. The law's flexibility can be used wisely to pay for critical infrastructure improvements and the shrinking of debts to improve the state's long-term financial position.

There are legitimate questions about what spending should be included and excluded from the cap's calculations. But employing sleight-of-hand maneuvers or fund shuffling simply to avoid the expenditure limit debate won't improve public trust in government.

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