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Commentary

The Public Affairs Research Council of Louisiana

Budget Bonanza Continues

Money pours into Louisiana’s treasury, but problems loom next term

Louisiana’s governor and lawmakers will get another year to play Santa Claus well beyond Christmas.

Federal pandemic aid is disappearing, but state tax collections continue to surge, giving Gov. John Bel Edwards and the Louisiana Legislature \$1.6 billion in unspent cash from the last and current budget years and further boosting the money available for next year’s spending plan.

But while they’ll wrap up this term with the budget boom, a new fiscal cliff awaits Louisiana’s next governor and lawmakers in the term that begins in 2024.

The Public Affairs Research Council of Louisiana believes policymakers should spend this latest influx of cash with the impending revenue drop at the forefront of discussions, to avoid worsening the shortfalls on the horizon and hopefully shrink their impact. For example, debt payments aren’t flashy, but they can lessen the obligations facing officials next term.

The Money Available

Louisiana continues to collect more than expected from personal income, corporate, sales and other tax types because of the overheated economy, supply chain problems, storm recovery and inflation driving up prices.

SHORT-TERM MONEY AVAILABLE	
Last year surplus	\$727 million
Current year excess general fund	\$925 million
LONG-TERM CLIFF	
Shortfall when sales tax expires	-\$450 million

Even after hefty sums from corporate tax collections have been siphoned off to meet constitutionally [required deposits into the Revenue Stabilization Trust Fund](#), the state has a \$727 million surplus left from the budget year that ended June 30.

The Louisiana Constitution restricts how surplus dollars can be used. Lawmakers must deposit a quarter of the money into the state’s “rainy day” fund and steer another 10% to pay down retirement debt. That leaves them with nearly \$473 million to spend on construction projects, road and bridge work, coastal restoration and other one-time items allowed.

In the current 2022-23 financial year, the state is projected to collect nearly \$1.4 billion more than lawmakers budgeted. Once dedications get carved off the top, \$925 million in general tax dollars, known as state general fund money, is available for spending without restrictions.

Meanwhile, Louisiana’s income forecasting panel – the Revenue Estimating Conference – recently bumped up next year’s projections by \$608 million. The estimate is smaller than the taxes and fees

Louisiana is expected to collect this year, but well above the state money that lawmakers used for continuing programs and services in this year's budget.

Not available to the governor and lawmakers, however, are the billions of dollars in flexible federal COVID-19 relief aid they steered to infrastructure projects and other assistance programs since the pandemic began. Most of that money has been spent or allocated to specific items.

The Next Cliff

Though the state treasury currently is flush, serious financial headwinds arrive next term.

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 for the state general fund by an estimated \$418 million a year, according to the Legislative Fiscal Office.

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, starting with \$161 million in the 2023-24 financial year and \$325 million a year later.

With those combined self-created hits, state general fund revenue is forecast to fall to around \$11 billion in the 2025-26 budget year. That's a \$450 million drop from the general fund money available in the upcoming budget year.

It's critical that lawmakers start planning now for next term's budget gap. Waiting until the fiscal cliff hits isn't a plan.

Those general fund dollars pay for higher education, health services and public safety programs, among other government initiatives without dedicated income from taxes or fees.

Spending Smartly

It's critical that lawmakers start planning now for next term's budget gap. If they don't intend to renew the expiring tax, they need to stop growing government spending on new, ongoing programs and start finding a way to account for the tax dollars that will be lost.

Waiting until the fiscal cliff hits isn't a plan.

Policymakers also shouldn't try to stockpile the short-term cash they have to plug shortfalls in future years because that won't solve their problems. Using gimmicks to patch together budgets for one year with money that disappears a year later creates constant cycles of unnecessary financial crises, a lesson officials should have learned during former Gov. Bobby Jindal's tenure.

Such an irresponsible approach leaves a governor and legislators struggling to pay for basic services on which people rely, fostering widespread worries about cuts to necessary programs. It creates fear and stops the state from having broader conversations about the types of smart spending that would address critical needs, protect vital government services and put Louisiana on a better path for the future.

With the temporary influx of state and federal money this term, lawmakers and Edwards have made wise investments in water and sewer upgrades, education improvements, road and bridge work and debt payments that won't balloon recurring annual costs to the budget. They've socked away dollars into savings accounts. But they've also squandered millions on pet projects chosen behind closed doors.

Though they have wide flexibility with the \$925 million in excess cash available this year, Edwards and legislative leaders have said they intend to spend much of that money on one-time items such as infrastructure projects.

That's a good idea. Louisiana has no shortage of needs, with billions of dollars in backlogs in college building maintenance, water system repairs, road overlays, bridge replacements, hurricane recovery and coastal protection projects.

A strong investment could be made in the development and education of Louisiana's youngest children by directing some of the short-term largesse to the Early Childhood Education Fund, which provides a dollar-for-dollar match for local spending on early learning programs. The fund provides an incentive for locals to finance some of this integral education need.

Spending Recommendations

Coastal Protection	Early Childhood Education Fund
College Building Maintenance	Hurricane Recovery
Construction Inflation	Road and Bridge Work
Debt Payments	Water System Improvements

Dollars could be set aside for a construction inflation fund. While lawmakers might prefer the showiness of financing a new project, they owe it to their constituents to ensure road and bridge work already in the pipeline

can reach completion despite the rising costs of materials.

And while Congress extended the deadline to 2032 to pay off the remaining debt owed to the federal government for flood protection system improvements constructed across the New Orleans region after Hurricane Katrina, the governor and lawmakers should consider making that final payment early while they have extra money on hand. They've commendably sent \$800 million in the last two years to pay down the debt, but about \$360 million is still owed.

Edwards is scheduled to release his budget proposal Feb. 17 to the joint House and Senate budget committee. Legislators will craft their final version of the spending plans in the regular session that starts April 10.

PAR hopes the governor and lawmakers will develop the budget with an eye toward the sizable shortfalls in Louisiana's future and continue investing short-term dollars in projects that offer long-term gains and don't worsen the gaps awaiting their successors next term.

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