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Commentary

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State Budget Opportunities

As the state budget process nears completion, the Legislature should keep the good fixes and make a few more

The Louisiana House of Representatives made key improvements to the state budget that should be sustained as the Senate takes its turn reviewing the annual spending bills. Additional steps would further improve the budget. The Legislature should lessen the long-term impact of paying the state's operating costs with non-recurring revenue that will be unavailable to help balance future budgets.

The outlook

The proposed state budget for fiscal year 2015, which begins July 1, is about \$25 billion. Among the sources of money to pay for this level of spending are nearly \$1 billion in various forms of revenue applied to the 2015 budget that are unavailable for the 2016 budget. Legislative fiscal analysts have estimated this hole in the fiscal year 2016 budget will be more than \$900 million.

That figure does not include potential new demands for state money, such as federal requirements for approval of the state hospital privatization plans. It also does not include possible savings from anticipated cost-cutting measures. Whatever the actual shortfall figure turns out to be, it is likely a very large gap.

The budget plan for fiscal year 2015 uses temporary sources of revenue, including a draw down of as much as \$233 million that will empty the Medicaid Trust Fund for the Elderly and \$262 million from the state's tax amnesty program. A new, lighter round of tax amnesty will produce more revenue next year, but not at the same level. A \$210 million payment toward the state's debt will be arranged in a manner that uses one-time money to free up general operating revenue. These three initiatives will help bail out the 2015 budget and will be major contributors to the \$900-plus million that will not be available to the Legislature when it crafts the 2016 budget next spring.

The House fixes

The House removed a couple of ill-advised funding measures that were proposed in the original executive budget. One particularly troubling fund sweep was the \$50 million that was going to be taken from the Ernest N. Morial New Orleans Exhibition Hall Authority and used to pay state operating expenses. The administration had pledged \$75 million eventually back to the convention center from the state construction budget to make up for the loss. Since capital outlay expenses are financed by selling bonds, this move essentially would have resulted in a "double loan" to pay the annual expenses of the state. This would have been a lousy financial deal for state taxpayers and would have compromised the convention center's near-

term flexibility as it prepares to invest capital in long-awaited expansions and new projects. Fortunately, the House killed this idea. The Senate should keep it dead.

Another particularly troubling budget maneuver was the “washing” of \$51 million of non-recurring money through the Coastal Protection and Restoration Fund. Under the state constitution, money in the Coastal Fund can be appropriated only for expenditures related to coastal restoration and protection. In a trick used often in the past, the administration had planned to use a funds transfer bill, rather than an appropriations bill, to remove money from the Coastal Fund and park it in the state’s Overcollections Fund, where it then would be spent on state operating costs. Again, the House did the right thing and removed this maneuver from the budget.

Likewise, the Senate should keep this maneuver out of the budget because it degrades the constitution and artificially creates operating revenue that will not be available for the fiscal year 2016 budget. Also, Louisiana has established a good reputation compared to other Gulf Coast states because it has developed a strong consensus behind a scientifically designed coastal master plan. Through BP oil-spill settlements, increased offshore revenue sharing and other sources, Louisiana is poised to receive and spend billions of dollars for coastal protection and restoration in the next few years. The state’s handling of the Coastal Fund is being watched closely by Congress, federal regulators, stakeholder organizations, national policy think tanks and the media. The time has come to stop using the Coastal Fund as a pass-through for temporary budget fixes.

On the spending side, the budget calls for increases for several programs. This includes \$100 million for K-12 schools through an almost 3% increase in the previous Minimum Foundation Program allocation, \$26 million to expand home and community-based care for the disabled and \$12 million for State Police and Department of Wildlife and Fisheries cadet classes. State workers are slated to get merit raises. These are in addition to planned increases in government’s continuing personnel costs such as state employee pay, healthcare premiums and retirement contributions.

Next steps

The next best step in the current budget process would be to mitigate the pending budget gap facing the state for fiscal year 2016. If the entire \$1 billion problem cannot be fixed, then the Senate should work with the House to reduce the size of that future shortfall. There are several steps to take toward this goal:

- Don’t make the spending increases for the government programs, even though they are worthy causes.

- Stop artificially creating sources of one-time money to plug budget holes. One-time money can occur for many justifiable reasons, such as when the state gets a lawsuit settlement. But when the government manufactures those opportunities by borrowing from the future and for no other purpose except to raise money for the operating budget, their use does long-term damage to the state fiscal outlook. An example is the convention center fund sweep.

- Allow the administration to pursue various efficiencies, consolidations, technology improvements and appropriate tax enforcement measures to help streamline spending and move toward a more balanced budget. These measures could help next year at budget time. In estimating the near-term impact of these measures, the Legislature should be extremely conservative when budgeting based on these contingencies and recommendations from consultants.

-Resist the usual practice of drawing general fund dollars to lard the budget with pet projects at the tail end of the budget process.

State government's structural deficit did not happen overnight and it is not likely to be fixed in a single legislative session. But the longer lawmakers postpone dealing with Louisiana's budget issues in a sustainable manner, the worse the situation will become.

For more information contact: Robert Travis Scott, President, 225-926-8414 ext. 221
robertscott@parlouisiana.org
P. O. Box 14776 Baton Rouge, LA 70898-4776 Phone: (225) 926-8414 Fax: (225) 926-8417
Web Site: www.parlouisiana.org