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Commentary

The Public Affairs Research Council of Louisiana

Budget Bonanza Grows

Lawmakers get hundreds of millions more to spend as income forecast brightens again

Louisiana’s booming budget forecast grew even larger, at least for the next 14 months, after the state’s income forecasting panel revised its projections to account for the taxes pouring into state coffers.

The four-member Revenue Estimating Conference, which determines how much money the state will collect from taxes and fees based on analysis from economists, boosted the forecasts for the current and next budget years by a combined \$802 million.

Certain dedications required by law are carved off the top, leaving another \$350 million in unearmarked cash - known as state general fund money - available in the current budget year that ends June 30 and \$104 million more for the upcoming 2022-23 budget year.

The latest adopted forecasts project the state will have more than \$11 billion in state general fund money this year and next year, up from \$10.5 billion in the 2020-21 budget year.

Louisiana is bringing in more money than expected from sales, corporate and personal income taxes as the state recovers from the pandemic economic slump and as inflation drives up the costs of purchases. That gives lawmakers even more cash to plug into the budget bills.

Budget Boom

Last year surplus	\$699 million
Current year additional money	\$1.6 billion
Next year general fund decrease	\$45 million
Remaining federal pandemic aid	\$1.4 billion

With the latest revisions by the Revenue Estimating Conference, the House and Senate have \$1.6 billion in unspent money from this budget year, on top of a \$699 million surplus from last year and \$1.4 billion in available federal coronavirus relief aid.

Since the House already has passed the package of spending bills, senators will insert the new money recognized by the forecasting panel into the budget measures as the House and Senate negotiate over a final set of financial plans before the legislative session must end June 6.

The Public Affairs Research Council believes most of the latest money recognized by the Revenue Estimating Conference should be treated like the short-term largesse it is, with dollars prioritized to pay down debts and address longstanding infrastructure needs, rather than growing government in an unsustainable fashion.

Steering money toward retirement debt, for example, lessens the cash required for the pension systems in the future, when forecasts aren’t as rosy. Putting money into coastal restoration and protection work can help keep the state from washing away amid climate change.

Addressing the multibillion-dollar backlog of road and bridge work also is a wise use of the cash, particularly setting aside a sizable sum to build a new Mississippi River bridge in the Baton Rouge region, where daily traffic snarls are among the worst in the nation.

House and Senate leaders have been reticent to embrace financing for the project because an exact route for the bridge hasn't been chosen, but that's a harder argument to make when so much money is available after the latest revisions to income projections.

Gov. John Bel Edwards wants to use \$50 million in next year's budget to further boost proposed pay raises for employees at K-12 public schools, which are struggling with retaining and attracting staff. He wants to increase the planned salary hike for teachers from \$1,500 to \$2,000 and for support workers such as bus drivers and cafeteria aides from \$750 to \$1,000.

Meanwhile, corporate tax collections have grown large enough to add another \$297 million into the Revenue Stabilization Trust Fund, a savings account created in 2016 to lessen Louisiana's reliance on the boom-and-bust cycles of oil revenue and corporate tax collections.

The state made its first deposit into the fund last year. With the latest addition, the account will grow to more than \$500 million. Another deposit could be coming next year. Once the trust fund reaches \$5 billion, up to 10% can be spent on construction projects and roadwork. The law setting up the mechanics of the trust fund also allows lawmakers, by a two-thirds vote, to use the money in an undefined emergency.

Even as lawmakers plot their course for spending the latest influx of state general fund cash, economists for the Legislature and the Edwards administration who advise the estimating conference cautioned against assuming the hefty income boom will continue.

They suggested the 6% growth in this year's tax and fee collections likely was an anomaly that won't be repeated in upcoming years. In fact, even after the latest revisions, the forecast estimates a slight dip in revenue collections next year. Plus, two financial triggers on the horizon will further shrink the general fund dollars available to the governor and lawmakers elected in 2023.

State General Fund

Louisiana's temporary 0.45% state sales tax enacted in 2018 to balance the budget will expire in mid-2025. Ahead of that, a portion of taxes charged on sales of new cars and trucks will shift from the general fund to a transportation fund for spending solely on road and bridge work. After both of those changes hit, the general fund is forecast to drop to under \$10.7 billion in the 2025-26 budget year - \$423 million less than this year.

2020-21 (last year actual)	\$10.46 billion
2021-22 (this year projected)	\$11.08 billion
2022-23 (projected)	\$11.04 billion
2023-24 (projected)	\$10.83 billion
2024-25 (projected)	\$10.87 billion
2025-26 (projected)	\$10.66 billion

Those general fund dollars pay for education, health care services, public safety programs and other government operations.

Smart spending plans are needed to prepare for that cliff and to make critical investments that can improve Louisiana's future and put the state on sounder financial footing.

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