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# Commentary

The Public Affairs Research Council of Louisiana

## Budget Negotiations: What About the Cliff?

*Governor’s spending plan has strong priorities, but not enough concern for future headwinds*

Louisiana’s newest round of budget negotiations began with a \$45.7 billion proposal from Gov. John Bel Edwards that sidesteps worries about the impending financial gaps awaiting officials next term and would raise spending on education from preschool through college.

If the state didn’t face a sizable drop in general tax dollars within two years, the governor’s spending ideas for the 2023-24 budget year that begins July 1 would win easy praise from the Public Affairs Research Council of Louisiana for its focus on needed investments.

But while many of the recommendations for new spending are worthy ones, lawmakers must consider them in the context of budget shortfalls on the horizon. If lawmakers don’t intend to back renewal of the 0.45% sales tax ending in 2025, they’ll need to determine how much new ongoing spending the state can afford when that sales tax ends.

That’s not to suggest the budget proposal Edwards offered last week to the Joint Legislative Committee on the Budget is rife with wasteful and bloated spending. It’s not. Increased and targeted education spending, particularly on early childhood education, can help improve Louisiana’s long-term trajectory.

In addition, the governor smartly suggests using short-term cash for debt payments, infrastructure improvements and other important projects that won’t grow government spending long-term. Lawmakers might want to consider more of those investments with the recurring money available, to start solving the fiscal cliff problem.

### Flush with Cash... For Now

Louisiana continues to collect more than expected from personal income, corporate, sales and other tax types because of the overheated economy, storm and pandemic recovery and inflation. That’s left the state with a \$727 million surplus from the 2021-22 financial year that ended June 30 and \$925 million more than budgeted in the current year.

### Use of 2021-22 & 2022-23 Money

Transportation Projects	\$497.4M
Rainy Day Fund	\$181.6M
Coastal Protection	\$157.4M
Building Maintenance	\$157.4M
Higher Education Initiatives	\$100M
Storm Recovery Debt to FEMA	\$100M
Equipment For Agencies	\$84M
Retirement Debt	\$72.7M
Early Childhood Education Fund	\$26M

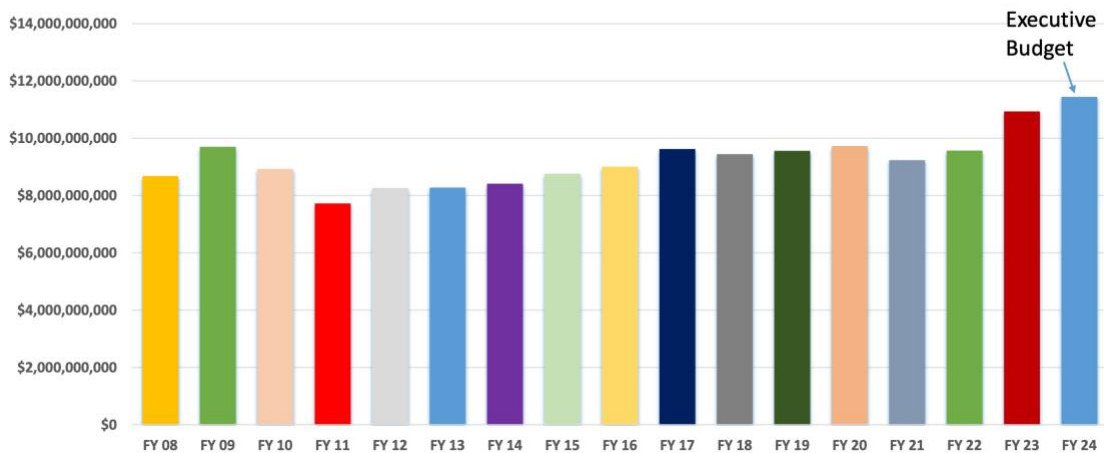
*Source: LA Division of Administration*

Edwards and lawmakers have spent flexible federal pandemic aid dollars across the last three years, and other COVID-19 relief money is drying up, sending Louisiana back to more normal budgeting cycles. While the treasury currently is flush, the temporary sales tax will expire in mid-2025 under a budget-balancing deal crafted in 2018 by lawmakers. Ahead of that, a portion of taxes charged on sales of cars and trucks starts shifting to a transportation fund for spending solely on road and bridge work.

Those changes will reduce the general state tax collections available to pay for higher education, health services and public safety programs – known as state general fund money – by nearly \$750 million in the 2025-26 budget year.

Growth in other tax collections is projected to increase to offset some, though not all, of the cuts to the general fund. But if lawmakers agree to expand spending now for ongoing programs, then the size of the gap will worsen.

## General Fund Budget



Source: LA Division of Administration

### Proposal for Short-Term Cash

PAR has little to quibble about in the Democratic governor’s spending plans for last year’s \$727 million surplus and the extra \$925 million unspent in the current budget year. Those are separate from next year’s \$45.7 billion budget proposal.

The Louisiana Constitution restricts how surplus dollars can be used. A quarter must go to the Budget Stabilization Fund, commonly known as the “rainy day” fund, boosting the balance to \$903 million. That’s the highest amount that savings account has ever seen. Another 10% of the surplus must pay down retirement debt.

For the remaining \$472 million of the surplus, Edwards wants to split the money evenly, sending \$157 million each to transportation projects, coastal protection work and deferred maintenance on college campuses and state buildings.

With this year’s extra \$925 million, lawmakers allocated \$45 million in a special session earlier this year to a grant program aimed at drawing more property insurers to the state.

Of the remaining dollars, Edwards proposes using the money for a settlement to end ongoing disputes with federal officials over the Road Home housing program created after Hurricane Katrina; paying off debts owed to the federal government for Louisiana’s share of recovery costs from multiple storms; short-term investments in higher education; a new voting system; and car purchases and other one-time acquisitions across state agencies.

He wants to steer \$26 million of the cash 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 the critical need in the development and education of Louisiana’s youngest children. PAR believes lawmakers should boost that figure far higher than the governor’s proposal, to help stockpile dollars in the fund for when the state’s budget boom ends.

The biggest slice of this year’s extra cash, \$340 million, would go to road and bridge work, under Edwards’ budget proposal. The money would be used to respond to inflationary increases in construction costs and to provide state matching dollars for available federal cash through the bipartisan infrastructure bill passed by Congress. This wisely would ensure that Louisiana can complete its planned projects despite the rising costs of materials and take advantage of the federal financing opportunities available.

Not funded in the governor’s proposal is the Louisiana Fortify Homes Program, which lawmakers created to provide grants to retrofit roofs on people’s homes to harden them against storms, a program the insurance industry has said could help lower property insurance rates or at least lessen rate hikes.

## Next Year’s Budget

Many of the largest spending increases sought in the governor’s \$45.7 billion operating budget proposal for the financial year that begins July 1 are in education.

Edwards is proposing a \$2,000 pay raise for K-12 public school teachers and a \$1,000 salary hike for school support workers, such as bus drivers and cafeteria staff. Those raises would cost \$197 million annually. Trying to get pay to the Southern average, the governor also is urging lawmakers to bump up the teacher raise to \$3,000 – carrying an even larger price tag – if Louisiana’s income forecasting panel increases tax and fee collection projections as expected in May.

The spending plan would boost spending on public colleges by \$114 million, to give faculty a raise, increase need-based aid for students, pay for growing health care and retirement costs and assist research institutions. The TOPS college tuition program would cover all eligible students without needing any increased funding above the current year.

Early childhood education would get a \$52 million increase in state financing. That would be more state funding for early learning programs than Louisiana has ever spent. But it won’t account for the loss of about \$192 million in federal pandemic aid Louisiana has been using to send thousands of additional children not yet in kindergarten to publicly financed education and care programs, according to data from the Department of Education.

### State Spending Increases for 2023-24

Medicaid Program	\$205M
K-12 Teacher, Support Staff Raises	\$196.5M
Higher Education Increases	\$113.5M
Cybersecurity Initiatives	\$53.2M
Early Childhood Education	\$51.7M
Local Law Enforcement	\$23.4M

*Source: LA Division of Administration*

Other areas of identified need in the Office of Juvenile Justice and the Department of Children and Family Services, where concerns about safety and child welfare have been repeatedly raised, aren't in line for such significant increases. But Edwards wants to give local law enforcement and firefighters a \$23 million yearly increase in the salary supplement the state provides, even though that should be a local expense.

The budget proposal would increase state general fund spending on the Medicaid program as extra federal pandemic assistance winds down. The Louisiana Department of Health will soon start removing people from the Medicaid rolls who are no longer eligible, as federal COVID-19 protections are ending. But little information has been released so far about why the disenrollment process is estimated to cost nearly \$111 million or about how many hundreds of thousands of people could lose their taxpayer-financed health insurance.

To defend the broader growth in ongoing spending, the Edwards administration suggests if the economic rebound continues and state tax collections keep increasing at their current rate, the state may not truly face a fiscal cliff next term. PAR cautions against making assumptions when current revenue forecasts don't reflect such a future and inflation keeps causing costs to rise. Economists who advise state leaders have warned they don't expect the booming growth to continue and the numbers can shift quickly.

PAR isn't opposed to all new increased spending. Lawmakers should just carefully think through the implications of any growth in government programs and services. Replacing part of the lost pandemic aid for children in early learning programs, for example, is a worthy place to invest more recurring money because of the hefty positive long-term consequences for families, businesses in need of workers and the state's general welfare.

## Next Steps

Lawmakers will soon start detailed hearings to comb through spending proposals for individual agencies, with several Republican legislators already raising questions about the impact of adding new long-term expenses to the budget. The package of budget bills likely won't receive passage until the final days of the legislative session, which starts April 10 and must end June 8.

PAR hopes lawmakers continue to use short-term financing for one-time key investments, without the wasteful add-ons for favored pet projects that don't address broader state needs. As for long-term growth in government spending, lawmakers should tread carefully, with an eye toward the next term's finances and a focus on critical areas that improve state outcomes.

## More Information

Governor's budget proposal: <https://www.doa.la.gov/doa/opb/budget-documents/executive-budgets/fy24/>

House Fiscal Division budget tracker: <https://house.louisiana.gov/housefiscal/current-budget-info#>

Senate Fiscal Services budget presentations: [https://senate.la.gov/Sen\\_Staff/FiscalServicesPresentations](https://senate.la.gov/Sen_Staff/FiscalServicesPresentations)

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