Commentary
The Public Affairs Research Council of Louisiana
1.12.22

Tackling Our Debts

Louisiana Is Using Excess Cash for Storm Protection System Payments, Saving Billions

Louisiana lawmakers are using the state's budget boom to pay off much of a $1.1 billion multiyear debt owed to the federal government for flood protection system improvements constructed across the New Orleans region after Hurricane Katrina.

The Public Affairs Research Council of Louisiana supports the approach lawmakers have chosen, steering better-than-expected tax collections to the hefty obligation and saving the state billions of dollars in interest charges that would otherwise be owed to the federal government.

Legislators and Gov. John Bel Edwards deserve credit for lessening a sizable debt on the state's books.

PAR has repeatedly complained about short-sighted financial decisions made when the state finds itself with a budget largesse. This time, legislators and Gov. John Bel Edwards deserve credit for lessening a sizable debt on the state's books with a smart use of unbudgeted cash that isn't certain to reappear year after year.

Across last year and this year, Edwards and lawmakers are poised to send $800 million in state tax dollars to pay down the debt for the levee and pump system across five parishes, formally called the Hurricane and Storm Damage Risk Reduction System.

The first $400 million payment was made last year, and legislators are on track to make another deposit of the same size this year after the state's income forecasting panel, the Revenue Estimating Conference, adopted rosier financial projections.

Those payments will keep Louisiana in line to meet a 2023 deadline set by Congress to eliminate the debt without being charged excess interest that would have boosted the repayment price tag to $3 billion or more.

The liability for the levee system upgrades across Orleans, Jefferson, St. Bernard, St. Charles and Plaquemines parishes has lingered for more than a decade, under a deal struck by former Gov. Bobby Jindal with help from Louisiana's congressional delegation in the years after Katrina devastated the New Orleans region in 2005.

The agreement reached in 2009 called for the federal government to pay the full cost of rebuilding the U.S. Army Corps of Engineers' flood-control system that failed during Katrina, along with other protection structures authorized in 1965 that weren't complete.

But Louisiana was required to pay a 35% share of the cost for upgrading the levee system and adding new projects such as floodgates, pump stations and surge barriers that were aimed at helping the five-parish area withstand stronger storms in the future.

The deal didn't require the state to begin making payments for a decade, but the interest began accumulating immediately, even though the Corps' work wasn't finished.

Rather than force Louisiana to pay billions in interest to the federal government, the state's congressional delegation persuaded Congress in 2020 to allow forgiveness of the exorbitant interest payments if the state repays the entire $1.1 billion construction cost by Sept. 30, 2023. The first $400 million payment had to be made by Sept. 30, 2021. If the state doesn't meet those terms, a 30-year repayment plan with interest would kick in, at the $3 billion price tag.

Louisiana appears on track to avoid the worst-case scenario.

Louisiana appears on track to avoid that worst-case scenario and meet the 2023 deadline set by Congress for the cheaper option.

Edwards and lawmakers made the first $400 million payment in last year's regular legislative session, using extra cash available because the state brought in more money to its coffers than previously projected for the 2020-21 budget year that ended June 30.

Legislators also added a provision into a little-noticed budget bill that required a portion of any better-than-projected tax collections in the current 2021-22 budget year also to help chip away at the levee debt.

That provision kicked in when the Revenue Estimating Conference on Tuesday increased the state's tax and fee projections for this financial year by nearly $1.6 billion. Some of those dollars will flow into dedicated funds, but another $400 million also will be carved out of that excess cash and sent to a fund where it will be used to make the second payment toward the flood protection system obligation.

Meanwhile, the Edwards administration is hoping to lessen the final $300 million-plus portion of the levee debt by getting credit and offsets for the continuing flood protection work being done through the Coastal Protection and Restoration Authority, according to Commissioner of Administration Jay Dardenne, the governor's top financial adviser.

Using available excess cash and offsets to pay off the important flood protection system upgrades is a better approach than a multi-decade repayment plan.

It's also an improvement over Edwards' initial proposal to borrow the $1.1 billion through bond sales to investors to make the 2023 congressional deadline. That proposal would have then required the state to make those bond debt repayments over two decades and lessened the ability to borrow money for other construction work.

Lawmakers will have to formally budget the second $400 million payment in the regular legislative session that begins in March. Legislative leaders said they intend to do that, and PAR will be watching closely to ensure they don't derail those plans.

Public Affairs Research Council of Louisiana | For more information please contact:
Dr. Steven Procopio, President, 225-926-8414 ext. 221 steven@parlouisiana.org