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Budget Clash

House spends heavily to lower pension debt, while removing education increases

Spending plans crafted by Republican leaders in the Louisiana House trade most of the governor's recommended education investments to instead pay down retirement debt, setting up a financial clash with senators who want a different approach.

The budget proposal prioritizes the pension payments to create long-term savings and stays below the state's constitutional spending limit. To do so, it strips new dollars sought by Gov. John Bel Edwards for public school teacher pay raises, early childhood education and public colleges, while also steering millions to lawmakers' pet projects.

The House voted Thursday for the package of spending plans, largely along party lines with Republicans in support and most Democrats opposed.

Parts of the budget proposal for the 2023-24 year that starts July 1 could lessen the impact of the fiscal cliff looming in mid-

2025 when a temporary 0.45% state sales tax expires and other tax changes shrink collections in Louisiana's treasury. That's a good thing, especially when little has been done to deal with this looming issue.

But the full impact of the House proposal remains uncertain. The budget is always a little messy at this stage of negotiations, but inclusion of the hefty retirement debt payments greatly complicates matters. The impact of those pension payments on agencies and schools isn't entirely clear. In addition, the House's plan calls for millions in reductions from Edwards' recommendations with no details about how they'd fall across agencies and programs.

The Public Affairs Research Council of Louisiana appreciates the continued focus on paying down state debts, particularly a retirement obligation that has lingered for decades. That could set the state on a stronger path to deal with the sales tax expiration. However, PAR isn't sure the adjustments House lawmakers made to the budget are the best way to account for those payments. And PAR disagrees with choices to favor pet project spending over education.

After years of relative fiscal harmony, the spending bills seem to ensure the House and Senate are on a budgetary collision course in the legislative session that must end June 8.

Senate leaders have indicated they want to use all the money available to them by spending above a [constitutionally set cap](#) to limit budget growth – a maneuver that requires support from two-

Research provided by the Public Affairs Research Council of Louisiana. For more information, please call 225-926-8414 or visit www.parlouisiana.org.

Changes House Made to Governor's Proposal

Retirement Debt Payments	Increased
Teacher Pay Raise	Eliminated
Early Childhood Education Increase	Eliminated
Higher Education Increase	Reduced
Medicaid Program Growth	Reduced

Source: Budget Documents

thirds of lawmakers. House leaders so far haven't shown a willingness to consider such a breach vote and deliberately took financial actions to sidestep it.

THE BIG PICTURE

The state operating budget would decrease next year by 2%, falling from \$43.5 billion to \$42.6 billion. That's about \$220 million less than Gov. John Bel Edwards sought to spend, according to an analysis by the Legislative Fiscal Office. With other spending bills for legislative, judicial and ancillary agencies, next year's total state budget would reach \$48 billion.

Plans for \$1.9 billion in [short-term cash available](#) to lawmakers from better-than-expected tax collections and unexpected savings in some programs this year would be split under the House plan among debt payments, one-time projects and savings accounts for the future.

Total State Operating Budget

Last 2021-22 Fiscal Year	\$37.6B
Current 2022-23 Fiscal Year	\$43.5B
Governor's Proposal 2023-24 Fiscal Year	\$42.8B
House Budget Proposal 2023-24 Year	\$42.6B

Source: House Fiscal Division

The House focused on eliminating a portion of the massive multibillion-dollar debt facing state pension systems – a financial move that doesn't count toward the spending cap because the money won't be used for years, when it's needed for future retirement payments.

The budget proposal could pay down as much as about \$950 million in retirement debt over the next year. That could save state agencies, public colleges and local school systems millions of dollars annually they would otherwise have to steer to the pension systems – a recommendation PAR has made for years. Accelerating the payments would produce more than \$200 million in interest savings.

The approach also could diminish the impact of the fiscal cliff by lowering the financial obligations owed by agencies and education institutions. But it's not necessarily a dollar-for-dollar replacement, according to financial analysts.

EDUCATION CHANGES

To steer that much to the pension systems, the House removed \$196 million the governor proposed for K-12 public school teacher pay raises. House leaders said school systems could give their own salary hikes with the savings from not having to pay as much for retirement obligations, but they won't be required to provide raises.

The House also stripped \$57 million from the \$114 million in increases Edwards sought for higher education, with lawmakers suggesting the reduced retirement debt obligation would help offset that cost. They maintained other new dollars for faculty pay raises and other initiatives across campuses.

Lawmakers cut \$52 million the governor proposed in new state funding for early learning programs for children from birth to age 4. PAR believes this is a problematic reduction. Louisiana used \$192 million [in federal pandemic aid](#) to provide early care and education for more than 16,000 children. Edwards' proposal was only going to replace part of that lost federal aid, still leaving thousands of children without access. The House plan makes the problem worse.

While scrapping those education dollars, lawmakers poured about \$44 million into pork barrel spending on favored projects back home that received no public vetting or explanation. The earmarks may bolster political talking points in an election, but they undermine state priorities.

The House maintained Edwards' plan to spend \$340 million in short-term money on road and bridge work, to respond to inflationary increases in construction costs and provide matching dollars for federal cash available through the bipartisan infrastructure bill passed by Congress.

EXPENDITURE LIMIT

While some of the House's budget decisions try to address the looming fiscal cliff next term, other choices seek to keep the package of budget bills under Louisiana's expenditure limit.

The constitutional restraints enacted decades ago at PAR's urging were aimed at promoting sustainable budgets by limiting the growth in state government each year. Resetting the cap to spend more requires a two-thirds vote of the House and Senate.

The expenditure limit is set annually, based on changes in average yearly personal income in Louisiana. It applies to the spending of state general fund and dedicated fund money deposited in Louisiana's treasury. It doesn't apply to the use of federal cash; tuition and other self-generated money in higher education; transfers between agencies, boards and commissions; and state oil and gas dollars required to flow to the parishes.

The cap applies whether the dollars are spent on one-time projects or ongoing programs. That can turn a mechanism created to promote financial responsibility into a stumbling block for prudent short-term investments, which wasn't the intent when PAR sought the constraint.

The Legislature should consider clarifying that state surplus money, as defined by the Louisiana Constitution, should not count against the expenditure limit.

OUTSTANDING QUESTIONS

The House didn't spell out how it wanted to divvy up \$95 million in reductions from the governor's recommendations, beyond saying they can't hit education programs. The budget proposal would leave the Edwards administration to determine where to lessen spending. House Republicans say those reductions would be balanced by savings the agencies will receive because the lawmakers are proposing to pay down their pension obligations.

The budget proposal backed by the lower chamber also assumes the Louisiana Department of Health can spend less by speeding up efforts to disenroll Medicaid patients who are no longer eligible for the taxpayer-financed health insurance since federal pandemic protections ended. If that doesn't work out, the agency could have to trim spending elsewhere.

In addition, the House passed conflicting tax bills that affect the budget.

One bill sent to the Senate would drop the temporary sales tax rate to 0.25% next year, decreasing the state's general fund by an estimated \$195 million. That clashes with a second House-backed measure that would keep the temporary tax at 0.45% and steer the final two years of collections (about \$440 million a year) largely to debt payments in the pension system for public school teachers and higher education employees. The House spending plan assumes the sales tax dollars will be shifted to retirement debt, rather than reduced.

Meanwhile, the House hasn't yet taken up the state's construction budget. Lawmakers will need to adjust that to keep the budget balanced as part of the larger package of spending plans.

The House should receive credit for its focus on both reducing state pension debt and addressing the coming fiscal cliff. These complex issues are easy to ignore and leave to future lawmakers. However, while the goals are commendable, the execution could be stronger. Retirement changes are complicated, and details still need to be determined.

Short-Term Money Available

Better-Than-Expected Tax Collections	\$880M
Unspent Cash This Year	\$292M
Surplus	\$727M
Total Available to Lawmakers	\$1.9B

Source: House Fiscal Division

It is also a shame the House lost its focus on long-term investments when deciding legislative pet projects were more important than early childhood education.

As the Senate begins its work on the budget, the House's emphasis on reducing Louisiana's long-term debt will clash with the Senate's goal of spending temporary money on one-time projects. Both approaches thankfully move the state away from financial gimmicks and toward a more sustainable budget.

It's easy to envision a potential compromise where the Senate agrees to pay down significant debt, but less than the House proposes. That would still be a meaningful achievement.