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Tax Collections Surge Higher

Budget bonanza grows, adding more money into legislative spending debate

Louisiana's surging tax collections still haven't tapered off, with the newest forecasts pouring additional dollars into state coffers and further complicating tense legislative negotiations over what to do with all the cash.

The state's income forecasting panel, the Revenue Estimating Conference, again has increased projections of how much Louisiana will receive from taxes and fees for both the current 2022-23 budget year that ends June 30 and the upcoming budget year that starts July 1.

The Public Affairs Research Council of Louisiana is pleased that lawmakers deciding how to spend the largesse are debating proposals to shrink hefty backlogs of infrastructure needs and debts and to steer dollars to critical priorities such as education. Policymakers should be cautious when boosting spending on continuing services, ensuring they focus on targeted investments and acknowledge the impact of a temporary state sales tax expiring in mid-2025.

For now, even though federal pandemic aid has lessened, Louisiana's treasury remains flush from better-than-expected corporate, personal income, sales and severance tax collections. But some of the budget bonanza is expected to be temporary and should be treated as such.

The estimating conference bumped up the forecast for this budget year by more than \$826 million. While many of the dollars are carved out for specific dedications or savings, \$323 million is headed to the general fund, which is unearmarked and available for spending on anything. Next year's general fund also increased by more than \$483 million.

Short-Term Money Available

Last Year Surplus	\$727M
Higher-Than-Expected Collections This Year	\$1.2B
Unspent Cash This Year	\$292M
Total Available from 2021-22 and 2022-23	\$2.2B

With the changes, Louisiana lawmakers have \$2.2 billion in short-term cash they can spend on infrastructure projects, debt payments or other items – or deposit into accounts for use in later years. Meanwhile, dollars available for drafting next year's budget have grown even larger.

Among the dedications, corporate and severance tax collections are so high that portions will flow into a state savings account called [the Revenue Stabilization Trust Fund](#), created in 2016 to lessen the state's reliance on volatile sources of cash. If the latest projections hold, that \$1 billion trust fund will double and exceed \$2 billion by mid-2024 without requiring any legislative action. And that's separate from the state's "rainy day" fund.

This year’s budget debate for the rest of the cash has a complicating wrinkle: There’s so much money available that spending it all would require two-thirds of lawmakers in the House and Senate to agree to exceed a constitutionally set cap limiting annual growth in state spending.

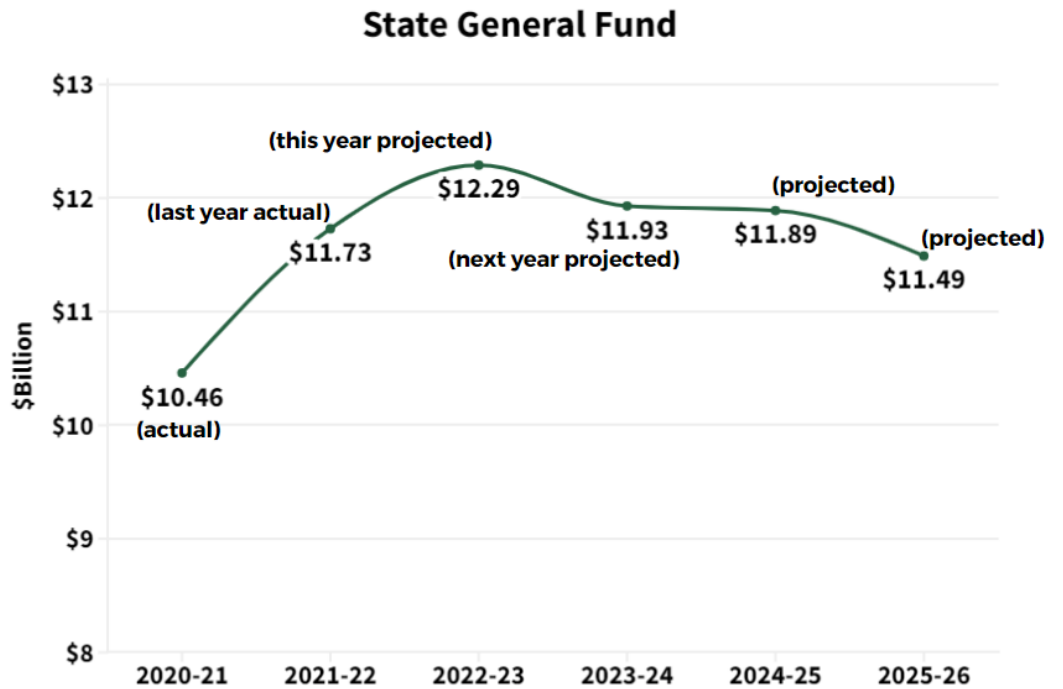
So far, the Republican leaders in the two chambers disagree on approach. House leaders don’t want to breach the spending limit, while Senate leaders do.

House Republicans [passed a budget proposal](#) that steered hundreds of millions of dollars into retirement debt payments. That financial move chips away at a multibillion-dollar state obligation, lessens some long-term interest payments and doesn’t count toward the spending limit because the money won’t be used for years, when it’s needed for employee pensions.

Gov. John Bel Edwards and Senate leaders prefer an approach that prioritizes pay raises for public school teachers, more state spending on public colleges and early childhood education and dollars for roads, bridges, building repairs and other expenses.

It’s unclear whether the boosted forecast will persuade House Republicans to change their position on the spending limit so they can use the new dollars for any of those items on top of the retirement debt payments or rework the plans entirely as senators and the governor want.

Some of the spending cap debate is an artificial, political creation. The constitutional restraints enacted decades ago at PAR’s urging were aimed at devising responsible budgets that could be sustained year after year. The cap wasn’t envisioned to become a hindrance to making smart, short-term investments.



Source: Revenue Estimating Conference



COMMENTARY

The spending limit discussion should focus on increased spending for ongoing programs and services, not one-time projects and initiatives. Changes eventually should be made to the law to reflect that. Then, the debate would focus on the intent of the restrictions.

PAR doesn't object to some strategic growth in state spending. For example, partially offsetting the [loss of \\$192 million in federal pandemic aid](#) used to provide early care and education for more than 16,000 children would be a wise use of state money. Studies show the return on such investments is significant. Increasing state financing for early childhood education doesn't necessarily require a breach of the spending cap, but it's a worthy expense even if it does.

Senate President Page Cortez said senators intend to pass two versions of their budget proposal, one that would exceed the expenditure limit and one that wouldn't, as the two chambers continue to negotiate over the budget bills before the legislative session must end June 8.

If lawmakers can't agree to a deal and are forced into a special session to complete a budget, the task becomes even more difficult. The Louisiana Constitution requires any spending plan outside of the legislative agencies' budget that is crafted after the regular session in the last year of a term [to get support from three-fourths](#) of House and Senate members.

PAR hopes lawmakers complete their budget work in the regular session. Making it harder to get the job done by pushing it into overtime in an election year seems more likely to lead to gamesmanship than an improved outcome.