



COMMENTARY

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**CONTACT: Jim Brandt
President
(225) 926-8414**

CASE FOR CIGARETTE TAX NOT YET MADE, PAR SAYS

When it was initially introduced, the state budget for next year left a large healthcare funding gap in spite of considerable belt-tightening. However, there was not the sense of crisis and urgency that has often accompanied the budget presentation. The reason soon became apparent as the state's fiscal prospects brightened considerably. With improved revenue estimates and the emergence of other potential revenues, the initial fiscal restraint has weakened as the Legislature has become more heavily involved in the spending game.

The improvements in the state's fiscal situation, both potential and realized, include the following:

- The Revenue Estimating Conference met on May 16 and found an additional \$169 million in general fund revenues available for next year. This was good news for a budget that was reported to be shy \$200 million in state support for health programs. Yet, not all of the newfound money went to fund health services. Legislators dipped into the pot to restore \$8 million in urban and rural slush fund cuts and add \$16 million in pet projects to the budget bill.
- The \$87 million hospital provider fee was reported favorably out of the House Ways and Means Committee by a unanimous vote this week. This will attract a \$203 million federal match for a total of \$290 million. Of this amount, \$169 million will go to hospitals to help pay for un-reimbursed care, leaving another \$121 million available for the state to spend on the Medicaid Program.
- In a major deviation from the administration's reform plans, the Legislature has restored \$47 million in payments to nursing homes that the administration had initially proposed cutting. Making a transition away from institutional care had been one of the central tenets of the administration's healthcare reform efforts.
- A proposal by the senate president to lower the cap on the Rainy Day Fund would redirect an additional \$200 million, or so, in mineral funds into the general fund next year. The bill has passed out of committee but is temporarily being kept on hold while the administration seeks the advice of the state's financial advisor

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PAR SAYS, Add One

and the bond rating agencies. It could, however, spring back into life at any time.

- The administration proposal to increase the cigarette tax by \$1.00 a pack would raise an additional \$182 million next year and \$292 million the following year. The tax would fund most of a \$3,300 pay raise for teachers over the two years and give a 5% raise to college faculty and a \$500 raise to school support workers. School districts would still have to fund \$500 of the teacher raise from their MFP money. While most of the new tax money would go to the education-related pay raises next year, the tax would provide approximately \$40 million more than is needed for the raises in the following year.

In only a few weeks, the state has moved from a position of fairly severe fiscal stringency to the possibility of being able to fund significant pay raises for teachers, faculty and support workers. At the same time, Legislators are adding their pet local projects to the operating and capital outlay budgets.

Considering the additional revenues available - or potentially available - to the state, it is incumbent upon the administration to provide a stronger fiscal justification for its proposed increase in the cigarette tax than has been made thus far. In addition, the administration should be prepared to scale back its proposal or indicate how it would use the additional revenue that might be generated the following year.

The administration also should firmly reject lowering the cap on the Rainy Day Fund, either by persuasion or by veto, if necessary. Not only is the proposed lower cap inappropriate fiscal policy, its adoption would render further discussion of a cigarette tax increase entirely irrelevant.