Louisiana Budget Project
March 2010

Louisiana's Fiscal Crisis

The Governor's recent release of his proposed Fiscal Year 2011 Executive Budget confirms what many already knew: Louisiana is in the midst of a fiscal crisis. Governor Jindal proposes spending over $5 billion less in FY11 than FY10, due to a $4 billion decrease in federal funds and a $1 billion decline in state revenues.

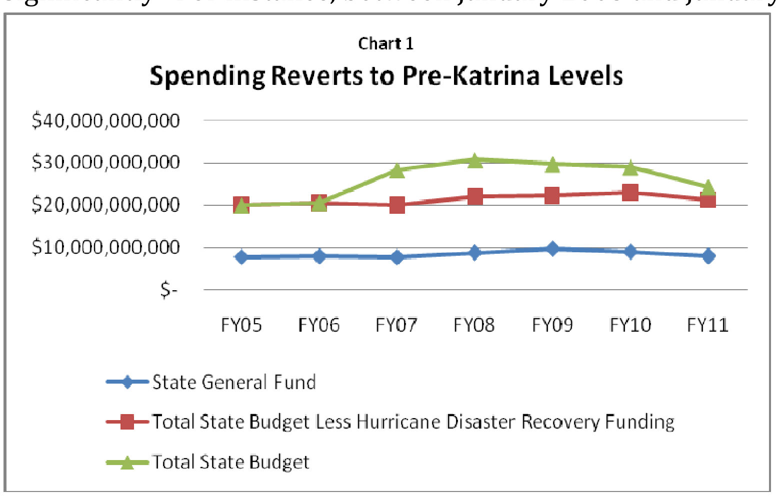
Louisiana is far from being the only state to face a severe funding crisis. Across the nation, state revenues have fallen by record-breaking proportions. In response, most states have adopted a balanced approach that includes raising revenues, recognizing that relying too heavily on cuts in spending will harm families in need and jeopardize the recovery of state economies. But Governor Jindal has announced that he seeks to balance the budget by relying almost exclusively on cuts in spending to vital state programs such as higher education, public schools, and human welfare.

His approach might be warranted if Louisiana's problems were the result of overspending in the past. But, in fact, Louisiana's budget problems are not due to out-of-control spending. The reality is that Louisiana has insufficient state revenues to meet growing needs.

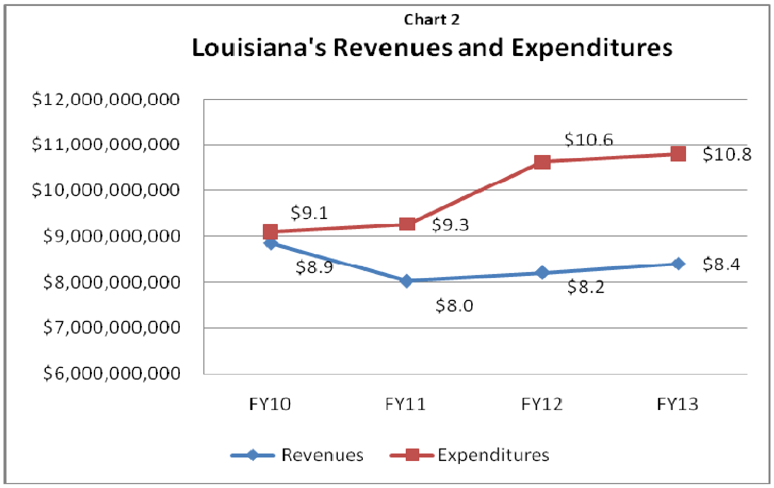
Despite rising needs, Governor proposes cutting spending to pre-Katrina levels

The Governor says he wants to "realign the size and cost of government to more sustainable, pre-Katrina levels." But pre-Katrina-level funding is not enough to support post-Katrina service needs.

Since FY05, the most recent pre-Katrina state fiscal year, demand for state-provided services has increased significantly. For instance, between January 2005 and January 2010, families using food stamps increased 20 percent. Medicaid enrollments increased 13 percent from pre-Katrina levels. The number of enrolled students at four-year institutions increased 3 percent between 2004 and 2009, from 214,144 to 220,381. At community colleges, enrollment increased 37 percent during the same time period, from 50,920 to 69,940. The state's unemployment rate increased from 5.4 percent in December of 2004 to 7.3 percent in December of 2009.



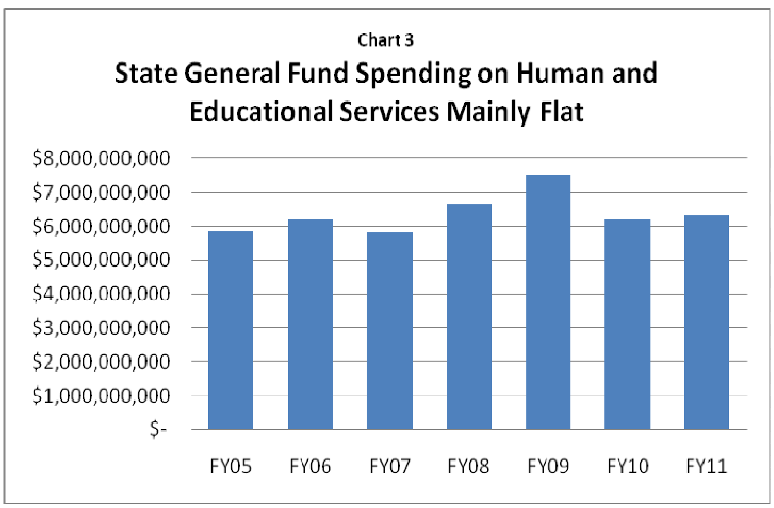
Source: Louisiana State Operating Budgets and FY11 Executive Budget; 2009 dollars



Source: Louisiana State Operating Budgets and FY11 Executive Budget; 2009 dollars

Chart 1 (page 1) shows that state general fund and total state budget spending, under the Governor's proposed budget, when adjusted for inflation, are essentially unchanged since FY05.[1] What growth in spending that occurred during this period was due almost entirely to the temporary influx of federal hurricane recovery funds. As service demands continue to rise, revenues are not meeting those needs.

This situation will get worse. Over the next two years, the Governor projects revenues will be $2.4 billion *less* than what is needed to maintain state services at existing levels (Chart 2). Thus, while demand for state services and the cost of providing them continue to rise, state funding for those services is not keeping pace. Without additional sources of revenue, closing the funding gap will require increasingly harsh cuts to vital state services, a process that has begun with the Governor's FY11 Executive Budget.



Source: Louisiana State Operating Budget; 2009 dollars

The story is the same for state general fund spending on human and education services, the two largest areas of the state budget. When adjusted for inflation, spending on these vital services has been relatively unchanged since FY05, again despite rising needs (Chart 3). [2]

Until now, federal aid has saved many state services

Assistance provided in various forms by the federal government makes up over half of Louisiana's current FY10 budget and 45% of the Governor's proposed FY11 Executive Budget. Without this money, Louisiana would have faced more cuts in human welfare and education programs this year.

[1] The state general fund is comprised of revenue collected through state sales tax, personal income tax, corporate tax, mineral revenues, and gaming. The total state budget includes state general fund revenues plus statutory dedications, self-generated revenues, and federal funds.

[2] According to the Executive Budget, the increases in FY08 and FY09 spending were due to a dramatic but temporary increase in oil prices and the influx in hurricane recovery money that created a short-term increase in economic activity during those fiscal years.

In FY10, state general fund spending on human and education services was drastically reduced by $1.1 billion from the previous year – a 14.8 percent cut. Within human and education services in FY10, the Department of Health and Hospitals (DHH) had the largest state general fund reduction: $608.2 million, or 29.6 percent. The Department of Social Services (DSS) sustained a $31.7 million (14.7 percent) reduction in state general funds, and higher education lost $159.1 million (11.16 percent) compared to FY09.

To alleviate these extreme budget cuts to key services in FY10, reductions in state general funds were partially replaced with money from the American Recovery and Reinvestment Act passed by Congress in February 2009 to help rejuvenate the nation's economy. For example, DHH's state general fund reduction of $608.2 million was offset by $588.3 million in federal Recovery Act funding. Likewise, both DSS and higher education had state general fund reductions that were partially offset by federal Recovery Act funding.

The Governor's 2011 budget cuts services, avoids the underlying problem

Significantly less federal aid is likely to be available for FY11. Governor Jindal proposes that Louisiana respond by cutting state services and using some sources of one-time money to pay for recurring expenses. These one-time monies are from the FY09 surplus and the Louisiana Tax Amnesty Act of 2009.[3] This response, while limiting to some extent the damage to Louisiana's families and economy in the near-term, fails to address the underlying inadequacy of Louisiana's revenue system.

In the Governor's FY11 Executive Budget, proposed spending is down by over $5 billion from the current fiscal year (Table 1). Of that, $4 billion is due to the rapidly decreasing federal hurricane recovery and stimulus funds, and $1 billion is from the decline in state general fund revenues.

Table 1
FY11 Executive Budget

	FY10 (as of 12/1/09)	FY11 (Exec. Budget)
State General Fund	$9 billion	$8 billion
Self Generated Revenue	$1.5 billion	$1.6 billion
Statutory Dedications	$4 billion	$3.6 billion
Federal Funds	$15.2 billion	$11 billion
Total State Budget	**$29.7 billion**	**$24.2 billion**

The decrease in federal funding is the result of:

- loss of federal Medicaid matching funds due to the expiration in December 2010 of the federal Recovery Act provisions;
- loss of federal hurricane recovery money from supplemental Social Services Block Grant;[4] and
- loss of federal revenue due to more restrictive rules regarding federal payments to hospitals for care of indigent patients.

These reductions in federal aid will hit state services hard. For example, state health care services will lose $808 million in federal aid in FY11, offset only in part by a $226 million increase in state general funds. Governor Jindal proposes cuts to health care services totaling $475 million (6 percent) including:

- reducing payments to Medicaid service providers by $372 million;
- reducing funding for citizens with developmental disabilities by $34 million; and

[3] The amnesty program, which ran from September through October of 2009, allowed taxpayers to settle any account balances, overdue audit assessments, and certain tax disputes without penalties and only half of the interest on what they owe.

[4] Social Services Block Grants are federal funds to enable states to furnish social services to their citizens. In the aftermath of Hurricane Katrina, Louisiana was awarded additional monies under this program to assist recovery efforts.

- reducing funding for the Office of Mental Health by $31 million.

The Governor proposes eliminating 2,976 state government positions; 1,825 (61 percent) will come from the state's health care services.

The Governor also proposes significant cuts in social services. In response to the loss of $206 million in federal aid for social services (partially offset by a proposed increase of $795,764 in state general funds), the Governor proposes cutting these services by $273 million (22 percent). Cuts include:

- eliminating child care assistance program for people searching for work, a loss of $6 million; and
- reducing the Child Care Development Program by $3 million.

In addition, the Governor proposes cutting higher education $105 million (3 percent of its total budget), his solution to the shortfall that the Revenue Estimating Conference identified in its mid-year review. Enacting these proposed cuts will result in the loss of approximately 200 academic programs, which could mean the loss of courses, departments, institutions, academic centers, and other academic services. For example, LSU has announced that the innovative Securities Markets Analysis Research and Trading Lab at the Business School is at risk of being closed and that it will decrease services such as coastal modeling used to predict storm surges during hurricanes. Termination notices have already been sent to 244 LSU non-tenure-track faculty.

The Governor also proposes cutting funding for K-12 schools by $216 million (4 percent) in FY11, which includes a loss of $160 million in federal funds. Although this is offset in part by a $61-million proposed increase in state general funds, significant K-12 education cuts are proposed by the Governor. These include:

- $7.2 million cut to a current literacy and numeracy program that seeks to have students reading, writing, and doing mathematics at or above their grade level by the fourth grade; and
- $5.2 million cut to eliminate state funding for the $5,000 stipend for teachers who receive their National Board Certification. State law requires school districts pay this stipend. By eliminating state funding for it, the Governor would turn this into an unfunded state mandate that districts must cover out of their budgets which, in many cases, are already stretched.

The Governor proposes using $310 million, derived from the FY09 surplus and the tax amnesty program, to pay for state health care expenses in FY11. This action avoids additional cuts in vital programs and allows the state to access federal matching funds for a total benefit of over $1 billion, but it does not solve the long-term shortfall in recurring revenues and simply pushes the problem into the next fiscal year. Louisiana faces a massive $1.7 billion shortfall in FY12, about 17 percent of anticipated expenditures. If the budget shortfall is not addressed in FY12, the projected funding gap in FY13 and FY14 is similarly large.

A better way: Louisiana needs a balanced approach that includes revenue

The state faces massive shortfalls in funding for years to come. State departments providing critical health care, human welfare services, higher education, and public schools have already absorbed large-scale budget cuts that are causing reductions or elimination of key services. Yet there continues to be a large gap between the public's growing needs and the projected resources available to the state to meet them.

Clearly, something needs to change. The Governor's proposed budget is merely the first step in addressing the state's fiscal crisis. Now the Legislature must act. Louisiana needs a more balanced approach to resolving this crisis, one that includes increases in revenues along with prudent reductions in spending. This need not be the "either-or" dichotomy that Governor Jindal described in his budget address when he said Louisiana's only options are to cut spending or raise taxes. In fact, there are numerous options. In particular, policymakers should consider:

Use all available resources

The Governor passed up the opportunity in FY10 mid-year budget cuts to tap the state's "rainy day fund" and to use restricted funds to close gaps in revenue.[5] Tapping the rainy day fund requires that the revenue projection by the Revenue Estimating Conference be *less* than the previous estimate; using restricted funds requires a reduction of at least seven tenths of one percent in state general funds for that fiscal year. The legislature last used the rainy day fund during the 2009 legislative session to help fund higher education in the FY10 budget. If the opportunity arises again to use these funds, it should be seized. Louisiana is in the worst fiscal crisis since creation of the rainy day fund. If the state doesn't use this resource now, then when? Likewise, using restricted funds would lessen the impact of revenue shortfalls on higher education and human services and allow the pain of budget cuts to be spread more evenly across all departments.

Scrutinize all spending

Louisiana loses billions of dollars every year in the form of revenue foregone from various tax breaks, also known as tax expenditures. In FY11, these expenditures are projected to climb to $7.1 billion, a 28 percent increase since FY06. While many of these tax breaks serve good public purposes, like exempting groceries and medicines from sales tax, others aim to promote economic development but have not been proven to do so. This is especially true with breaks given to individual businesses. Given the magnitude of these tax expenditures, which equal approximately 89 percent of total projected FY11 state revenues, they need to be carefully scrutinized to ensure that they are meeting the goals for which they were enacted. Those that are not should be eliminated.

Improved collections

The Governor proposes using the $234 million collected in the tax amnesty program to plug holes in the budget. The amount of money collected in this manner suggests that the administration needs to be more vigilant in its collection procedures to avoid allowing unpaid taxes to build up. Fairness demands that everyone, corporations and individuals alike, pay what they owe. Those that don't should be held to account in order to regain lost state revenue and demonstrate fairness to those of us who do pay.

Revenue increases

The Legislature and the Governor need to examine both sides of the budget ledger: revenue as well as expenses. A recent report by the Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax System in All 50 States*, showed that Louisiana's taxing structure for individuals is out of balance, with the lowest income group, earning an average of $ 9,800 per year, paying 10.4 percent of their income in state and local taxes compared to the top 1 percent, with average incomes of over $1 million, paying only 5.2 percent. In addition, corporate tax policies should be evaluated to ensure that business pays its appropriate share. Some corporate tax policies deserve a closer look. For example, loopholes allow companies to shift income earned in Louisiana to states with lower or no corporate income taxes. And subsidy programs, designed to be incentives for particular industries, should be given only if needed and only if the subsidies will achieve the desired results.

---

[5] The rainy day fund was created in the 1990s to aid budget shortfalls, provide fiscal stability, and improve the state's bond rating by saving money when the state's economy is flourishing and using that money when there is an economic downturn. Restricted funds are revenues that can only be used as defined by the state constitution or statute.

The Bottom Line

By relying only on cuts in spending, Louisiana faces a fiscal catastrophe that will hurt the most vulnerable residents, undermine the progress the state has made in higher education and public schools, and threaten the state's ability to recover from the recent recession.