BUDGET REFORM

A JOBS AND OPPORTUNITY AGENDA FOR LOUISIANA

Over the past several years, Louisiana has lurched from budget crisis to budget crisis, with lawmakers gathering for costly special sessions to patch together yet another stopgap solution. But after years of short-term thinking, policy-makers must at long last embrace a more comprehensive, holistic approach, to prevent the conditions that created the crises in the first place. Coupled with constitutional reforms that will give lawmakers more flexibility to manage the entire state budget, rather than just small portions of it, improvements to the budget process will modernize the state's practices—bringing the long-term fiscal stability necessary to bring jobs and opportunity back to Louisiana..

THE PROBLEMS

Discretionary spending comprises only about 11% of Louisiana's budget in the fiscal year ending June 30, 2018. Of the $31.1 billion budget:

- **$13.2 billion** represents federal funds
- **$6 billion** represents non-discretionary funds
- **$4.3 billion** represents self-generated revenue
- **$4.2 billion** represents statutory dedications
- **$3.4 billion** represents discretionary spending

Lawmakers need to address the nearly 90% of spending locked in "silos" and not available for discretionary use.

Louisiana State Budget - $31.1 billion

Federal Funds
$13.2 billion

Non-Discretionary Funds
$6 billion

Self-Generated Revenue
$4.3 billion

Statutory Dedications
$4.2 billion

Discretionary Spending
$3.4 billion

Source: http://house.louisiana.gov/housefiscal/DOCS_OPERBDGT/FY18%20Budget%20-%20Appropriated.pdf

The Louisiana Constitution includes 35 dedicated funds and sub-funds—each of which segregate portions of the taxpayer pie, making it difficult for lawmakers to pass a balanced budget every year.

As currently constructed, the state's "rainy day" fund—officially termed the Budget Stabilization Fund—requires lawmakers to contribute a minimum of only $25 million per year—or less than .1% of the overall state budget—to offset revenue swings. The law establishing the fund envisioned it would be funded largely from oil and gas revenue, but revenues from the sector have dropped well below levels that would trigger contributions to the fund.

Source: http://www.nola.com/politics/index.ssf/2017/02/louisiana_rainy_day_fund.html

Yet Louisiana caps its "rainy day" fund at 4 percent of revenue, "despite having highly volatile tax collections:"

Source: http://www.pewtrusts.org/~/media/assets/2014/07/sfh_rainy-day-fund-deposit-rules-report_artready_v9.pdf

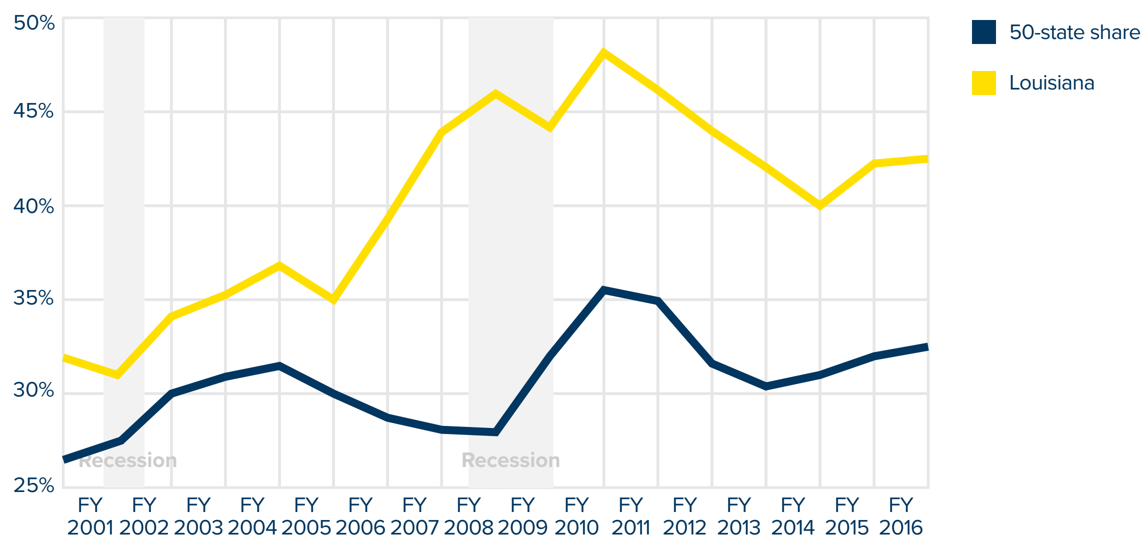
While state spending has remained relatively flat over the past ten years, that fact ignores the nearly 50% growth in state spending in the years after Hurricane Katrina:

- State spending in Fiscal Year 2004: **$11.4 billion**
- State spending in Fiscal Year 2008: **$16.8 billion**
- State spending in Fiscal Year 2018: **$17.9 billion**

Source: http://house.louisiana.gov/housefiscal/DOCS_APPBudgetMeetings2017/March/Executive%20Budget%20Overview%20 Presenation%203-28-17.pdf

The Pew Charitable Trusts also note that, as of 2015, federal revenue comprised 42.2% of the Louisiana budget—highest among all 50 states. Our dependence on federal dollars rose sharply after Hurricane Katrina, and has declined minimally in the years since:

Percentage of State Revenue from Federal Funds, FY 2000-2016



Source: http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/fiscal-50#ind1,

THE SOLUTIONS

End the arbitrary "silos" for government programs—re-examine those in the state Constitution, and end those created through statutory dedications. Lawmakers should have the flexibility to manage the budget as a whole, not mere portions of it.

Improve revenue forecasting in both the short and long-term to prevent the state from becoming subject to short-term revenue swings and encourage more responsible long-term planning.

Enact policies to bolster transfers to the rainy-day fund—both by increasing annual transfers to the fund and the maximum level of revenues the fund can hold. Lawmakers could also re-examine how readily to allow expenditures from the fund—too easy access to the fund could encourage irresponsible budgeting, but making rainy-day fund access too difficult could discourage lawmakers from transferring dollars to the fund in the first place.

Allow the Governor item-reduction veto authority to create a more favorable environment to reduce expenditure levels. By not forcing the Governor into a "take-it-or-leave-it" decision about whether to cut or retain an entire program's spending, an item-reduction veto should lead to greater fiscal stability.

Re-set the state's spending caps to prevent state government in Louisiana from growing without limit.

Eliminate the continuation budget requirement to refute the notion that government must, or even should, grow larger and larger every year.

To learn more about these solutions as well as several additional solutions proposed by the Pelican Institute to fix Louisiana's broken budget system, visit PelicanInstitute.org.

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