Pelican Institute for Public Policy

CITIZEN'S GUIDE TO THE LOUISIANA FISCAL CLIFF

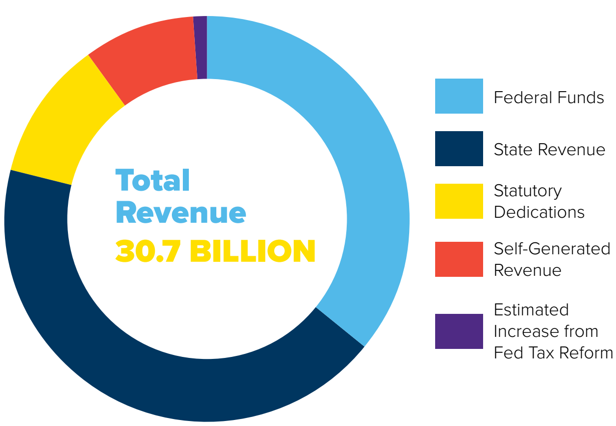
About the “Fiscal Cliff”

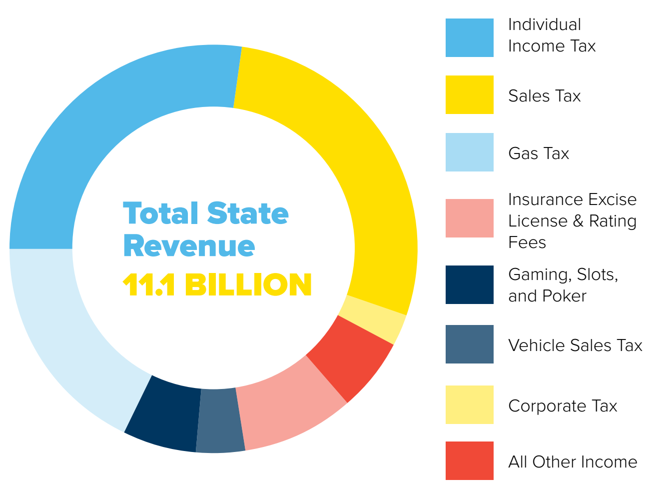
In 2016, the Louisiana legislature passed a temporary one-penny – or 25% – increase in the state’s sales tax. That increase expires in June, creating a “fiscal cliff” that lawmakers must address, as the state Constitution requires the legislature to pass, and the governor to sign, a balanced budget by the start of the new fiscal year on July 1.

While news reports last summer suggested that the “fiscal cliff” totals $1.5 billion or more, the gap has narrowed substantially since then:

- Approximately ***$440 million of the $1.5 billion*** “fiscal cliff” represents automatic ***inflation increases*** in state spending—which lawmakers do not have to endorse.
- In December, state officials ***increased their revenue estimates*** for the coming fiscal year ***by $234 million***, lowering the gap further.
- The federal tax bill signed before Christmas will also increase state revenues. Because individuals can deduct their federal taxes paid on their Louisiana income taxes, and because most people will receive a federal tax cut, ***the state will receive more revenue as people deduct less in federal taxes***. While state officials have not yet released formal numbers, estimates of the increase in state collections thanks to federal tax reform have ranged from $200 million to $300 million.

WHERE THE MONEY COMES FROM



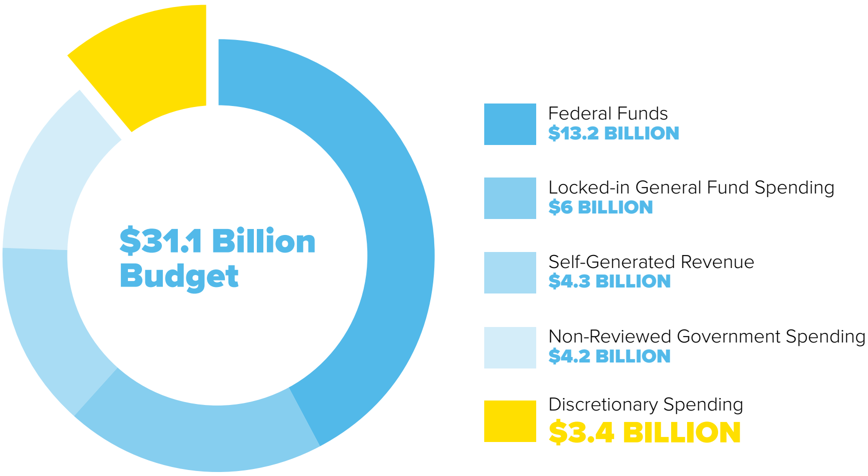


To balance the budget, taxpayers will either be asked to ***give more to the state government***, or the Governor and legislators will have to take a hard look at financial priorities and ***prioritize or reduce spending***. All of this will have to be considered in a special session of the legislature that the Governor must call, because the law prohibits fiscal issues from being considered in the regular session of the legislature this year. This special session is likely to take place either right before or right after the regular session.

Need for Smart Budgeting

Discretionary spending (in other words, spending items which elected officials have the ability to review and prioritize) ***comprises only about 11%*** of Louisiana's budget this past year.

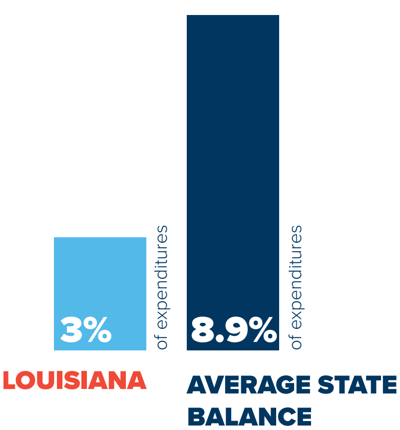
For example, of the $31.1 billion budget:



The "fiscal cliff" represents a ***small portion of the overall state budget, but a large portion of discretionary spending***. Eventually, lawmakers need to address the nearly 90% of spending locked in "silos" and not available for discretionary use.

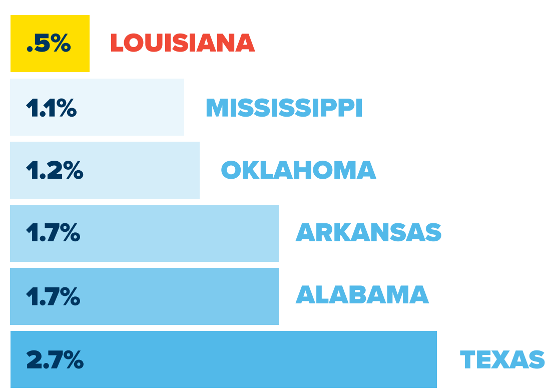
According to the National Association of State Budget Officers, at the end of the last fiscal year, ***Louisiana had only $287 million*** in cash on hand.

CASH BALANCE



This lack of free cash flow—prompted in part by Louisiana's "siloed" approach to state budgeting—could present significant fiscal and operating obstacles in the event of a crisis, like a natural disaster or unexpected event.

Meanwhile, while Louisiana job growth has picked up slightly in the past twelve months, it stands at less than half of each of our neighbors'. The 12-month increase in non-farm payrolls ending in November 2017:

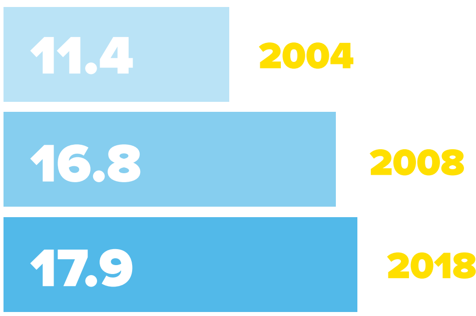


https://www.bls.gov/eag/eag.la.htm

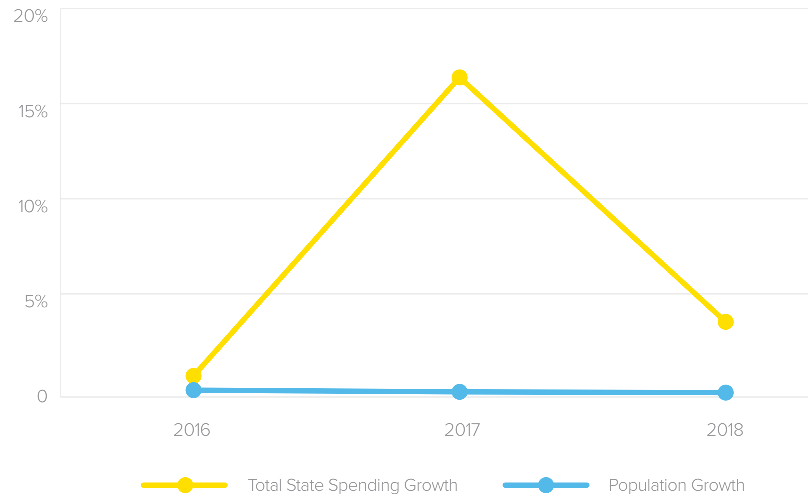
More taxes would only make our state less competitive with our neighbors, at a time when we already lag in job creation.

Need for Smart Budgeting

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, and the significant increase in total state budget in the last several years. All this despite essentially flat population and inflation growth.

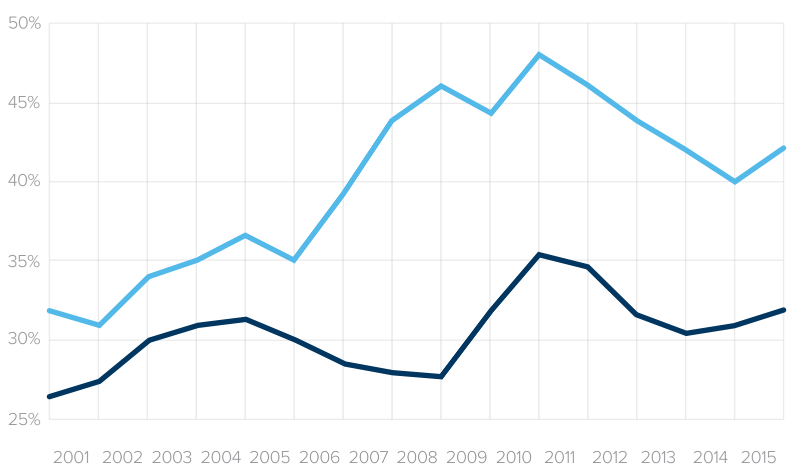


STATE SPENDING IN BILLIONS

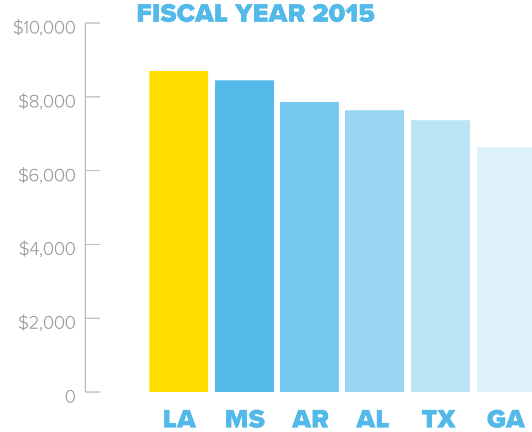


The Pew Charitable Trust notes that, as of 2015, ***federal revenue comprised 42.2% of the Louisiana budget—highest among all 50 states***. Our dependence on federal dollars rose sharply after Hurricane Katrina, and has declined minimally in the years since, and per capita state and local spending continues to outpace our neighboring states.

PERCENTAGE OF STATE REVENUE FROM FEDERAL FUNDS



STATE AND LOCAL GENERAL EXPENDITURES PER CAPITA, FISCAL YEAR 2015



With the federal debt at more than $20 trillion—and rising—***Louisiana's dependence on federal spending could cause serious fiscal problems when (not if) Washington has to tighten its belt***.

Job-Killing Taxes vs. Right-Sizing Spending

A number of options are on the table to address the pending budget gap.

Gov. Edwards' preferred solution—his so-called "balanced" approach—to resolving the fiscal cliff includes:

100%
TAX INCREASES

0%
SPENDING CUTS

In December, Governor Edwards suggested an outline for ***raising taxes to fill the projected budget gap***. While his proposal lacked some important details, the key planks of his proposal would:

COMPRESS INCOME TAX BRACKETS and limit deductions

EXPAND THE STATE SALES TAX to services

ADD A NEW TAX to business and industrial utilities

"CLEAN" THE STATE SALES TAX, by expanding what is subject to the tax

PERMANENTLY REDUCE various tax credits, deductions, and rebates, primarily to businesses

In addition to Governor Edwards' proposals, others have suggested adding another temporary one-penny – or 25% increase – to the state sales tax to raise approximately $1 billion. That's on top of what local jurisdictions charge, making Louisiana's combined state and local sales tax rate the highest in the country.

STATE SALES TAX- 5%

RECOMMENDATIONS: BALANCING THE BUDGET WITHOUT TAX HIKES

Before the Governor and legislators consider coming back to taxpayers to ask for more money, they should do all they can to prioritize spending and ensure all possible spending reductions are on the table. Ultimately, they should consider what actions will grow jobs and the economy and increase opportunity for everyone in Louisiana.

Given that, The Pelican Institute recommends the Governor and legislature consider the following:

- ***Re-prioritize or eliminate spending not essential*** to government operations, like funding to refurbish museum artifacts
- ***Reduce or eliminate statutory dedications*** that "wall off" money for non-essential programs, like sports facilities and equine studies
- ***Reduce departmental spending across-the-board***, and give department heads flexibility to adjust their budgets accordingly
- ***Reduce spending through the tax code*** (by restructuring refundable tax credits)
- ***Unwind Louisiana's massive Medicaid expansion*** under Obamacare, which has exploded beyond Gov. Edwards' original projections
- ***Bring pension and retirement benefits*** for state employees into line with the private sector

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