Reforming THE BUDGET PROCESS *in Louisiana*

A Jobs and Opportunity Agenda
for Louisiana

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Over the past several years, Louisiana has lurched from budget crisis to budget crisis, with lawmakers gathering for costly special sessions to address mid-year fiscal deficits. But despite the conventional wisdom among some in the Capitol, these so-called "crises" represent not failures of budgeting, but failures of management. The Legislature in Baton Rouge has enough revenue to manage state government functions—more than enough revenue, in fact, even prior to this year's tax increase.[1]

However, because the state manages its revenues and cash flow poorly, the state has lurched from short-term deficit to short-term deficit—largely because the current budget structure and process lends itself to annual budget deficits, absent unexpected new revenue. Unfortunately, policy-makers have for too long ignored the fundamental problems, instead relying upon some combination of two "solutions"—either stopgap fixes that do not address larger issues, or tax increases that shift the burden of "fixing" the structural flaws inherent in the current budget process on to hard-working Louisiana taxpayers.

The short-term thinking must cease—Louisiana's families and businesses deserve better. They deserve a budget process that works for them, and does not lurch from crisis to crisis. They also deserve to keep their hard-earned dollars without lawmakers in Baton Rouge perpetually running to them for more money—tax increases that bail out lawmakers for their own unwillingness to solve the state's structural problems.

"Louisiana's families and businesses deserve a budget process that works for them, and does not lurch from crisis to crisis.

Policy-makers must at long last embrace a comprehensive, holistic approach, to prevent the conditions that created the crises in the first place. That holistic approach should change practices created by lawmakers years or decades ago, which see the state craft its budget based largely on revenue estimates, rather than ensuring expenditures match revenues. A comprehensive reform will also include constitutional changes to rationalize the budget process, and give lawmakers more flexibility to manage the entire state budget, rather than just small portions of it.[2] Finally, reforms to the Louisiana budget should bolster the state's long-term savings—and provide that, once the state has achieved its savings goals, taxpayers themselves will receive the financial benefits of a more fiscally responsible government.

Together, these structural improvements will modernize the state's practices, bringing the state into the 21st century with a long-needed dose of fiscal stability that will help Louisiana taxpayers on several levels. First, fiscally responsible budgetary policies will allow the state to maintain, or hopefully improve, its bond ratings, to keep borrowing costs low—a critically important fact, given Moody's February 2016 downgrade of the state's bond rating.[3] Second, more rational, predictable, and stable fiscal policy in Baton Rouge will help Louisiana attract new businesses to the state. Perhaps most importantly, both these effects will mean more jobs—and lower taxes—for hard-working families.

Reforming and rationalizing the state budget will bring tremendous benefits to Louisiana—if policy-makers can embrace an expansive vision of reform to realize those benefits. This paper outlines such a blueprint for action.

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1 Act 1 of the Third Extraordinary Session of 2018.

2 In conjunction with the reforms proposed in this and future forthcoming policy papers, the Pelican Institute has called for a constitutional convention focused on fiscal responsibility, to consider budget-related changes to the state's foundational document. For more information, see https://pelicaninstitute.org/constitutional-reform/.

3 Cited in Pew Charitable Trusts, "Rainy Day Funds and State Credit Ratings," May 2017, https://www.pewtrusts.org/~/media/assets/2017/05/statesfiscalhealth_creditratingsreport.pdf, p. 14.

LOUISIANA'S BUDGET IN CONTEXT

The Louisiana state budget remains defined by two separate yet interlinked factors—a tremendous increase in spending that occurred in the mid-2000s, and a balkanized and irrational, budgeting process. An influx of federal and other recovery dollars induced lawmakers to accelerate spending in the years after Hurricane Katrina, and structural flaws in the state's budgeting process made it hard to claw that money back, and "right-size" the budget, as the rebuilding process concluded.

While state spending has remained relatively flat over the past ten years, that fact ignores the explosion in state spending in the years immediately after Hurricane Katrina. From Fiscal Year 2004 through 2008, state spending grew from $11.4 billion to $16.8 billion—a 47.4% increase.[4] The overall state budget, which includes federal dollars for disaster relief and other purposes, grew even faster. During that same period from Fiscal Years 2004 through 2008, the total state budget went from $18.9 billion to $32.1 billion—a 69.9% increase in just five years, far exceeding the 19% rise in inflation during that period.[5]

Lawmakers did reduce spending in the years after 2008, due to the Great Recession, volatility in oil revenues, and the phasing-down of federal disaster relief. The total state budget fell from $32.1 billion in Fiscal Year 2008 to $26.8 billion in Fiscal Year 2014, while state spending fell from $16.8 billion in Fiscal Year 2008 to $14.5 billion in Fiscal Year 2011.[6] However, neither the overall state budget nor state spending in that budget ever fell to pre-Katrina levels, even after adjusting for inflation.[7]

Overall, state government spending in Louisiana ranked below the national average—but seems likely to rise. For 2015, the most recent year for which full Census Bureau data are available, state government spending per capita in Louisiana ($6,673) ranked slightly behind the national average ($6,832).[8] Among its Southeastern peers, Louisiana's level of government spending ranked slightly behind Arkansas ($7,171 per capita) and Mississippi ($7,062), but well ahead of states like Alabama ($6,052), Texas ($5,055), Georgia ($4,639), and Florida ($4,316).[9]

However, the 2015 state spending numbers precede Louisiana's embrace of Obamacare's Medicaid expansion, which has elevated spending levels. During the current governor's two-plus years in office, the overall budget has grown by more than 10 percent, due in large part to Medicaid expansion.[10] As a result, Louisiana's spending levels relative to its peers will likely rise in future rankings.

At $31.1 billion for the fiscal year just concluded, the state budget sounds like—and is—a massive enterprise. But lawmakers exercise control over precious little of that large sum.

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4 Louisiana House Fiscal Division, "Overview of Fiscal Year 2018-19 Executive Budget," March 13, 2018, http://house.louisiana.gov/housefiscal/DOCS_APP_BDGT_MEETINGS/DOCS_APPBudgetMeetings2018/Overview%20Presentation.pdf, Budget History, p. 2.

5 Ibid.; Bureau of Labor Statistics CPI Inflation Calculator, https://www.bls.gov/data/inflation_calculator.htm.

6 House Fiscal Division, "Overview of Fiscal Year 2018-19 Executive Budget."

7 BLS CPI Inflation Calculator. Calculations based on inflation levels in June 2005, the last month of the fiscal year preceding Hurricane Katrina.

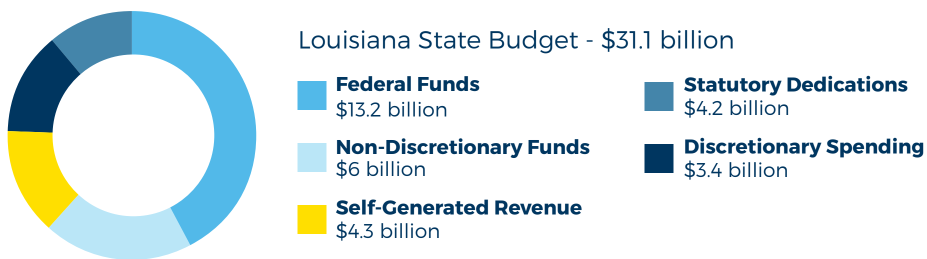
8 Cited in Empire Center, "State Spending Per Capita," Fiscal Year 2014 and 2015, May 15, 2017, https://www.empirecenter.org/publications/state-spending-per-capita/.

9 Ibid.

10 House Fiscal Division, "Overview of Fiscal Year 2018-19 Executive Budget."

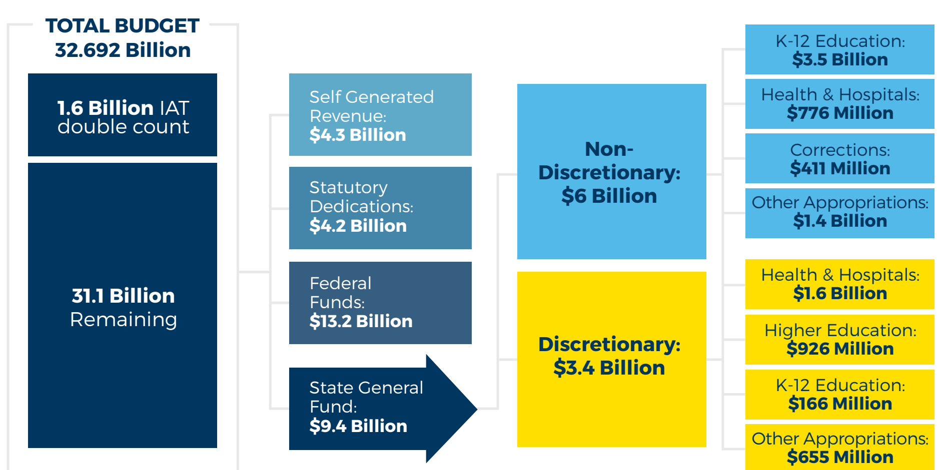
Of the $31.1 billion total:

- **$13.2 billion** represents federal funds;
- **$6 billion** represents non-discretionary funds—funds counted as part of the state General Fund, but over which lawmakers have limited control;
- **$4.3 billion** represents self-generated revenue earmarked to the agency that raised it;
- **$4.2 billion** represents statutory dedications earmarked to specific projects, offices, or expenditures; and
- **Only $3.4 billion** represents discretionary spending—the amount lawmakers fully control.[11]



Overall, then, the state General Fund—which includes $6 billion in non-discretionary spending, along with $3.4 billion in discretionary spending—comprises just over 30% of the state budget. Lawmakers themselves exercise full control of only about 11% of the $31.1 billion budget. Moreover, of the $3.4 billion in discretionary spending that lawmakers fully control, nearly three-quarters (74.3%) comes from health care ($1.6 billion) or higher education ($926 million), explaining why these two sectors have often landed in the fiscal firing line during budget crises.[12]

Discretionary/Non-Discretionary Funding (based on the FY18 State Budget at Appropriation)



Source: Office of Planning and Budget

11 Louisiana House Fiscal Division, "Discretionary/Non-Discretionary Funding," data based on Fiscal Year 2018 State Budget at Appropriation, http://house.louisiana.gov/housefiscal/DOCS_OPERBDGT/FY18%20Budget%20-%20Appropriated.pdf.

12 Ibid.

The broken budget process also hinders the state's ability to manage its accounts and cash flow. According to the National Association of State Budget Officers (NASBO), at the end of Fiscal Year 2017, Louisiana had only $409 million in cash on hand.[13] The cash balance number totals only 4.5% of General Fund expenditures—less than half the average state balance of 9.6% of expenditures.[14] The state's lack of free cash flow could present significant fiscal and operating obstacles in the event of a natural disaster or other crisis.

The NASBO survey notwithstanding, Louisiana does not lack for cash to manage its operations—but because of the "siloed" way the state allocates its dollars, it lacks for accessible cash flow. The myriad funds full of earmarked revenues hold literally billions of dollars among them—over $5.89 billion as of July 2017, in fact.[15] But because these billions of dollars lie under the proverbial "couch cushions," where lawmakers cannot readily access them, the state faces a greater risk of a cash crunch.

Ironically, however, while many other designated funds remain flush with cash, the fiscal crises of the past several years have depleted Louisiana's "rainy day" fund balance, both in absolute terms and when compared to other states. According to NASBO, the state's "rainy day" balance at the end of Fiscal Year 2017 stood at 3.0% of General Fund expenditures, less than the national average of 5.3% of expenditures.[16] However, given that Louisiana's General Fund represents a comparatively small portion of its overall budget, the NASBO data arguably overstate the robustness of Louisiana's "rainy day" fund balance. For instance, the "rainy day" fund balance at the end of Fiscal Year 2017 totaled only 0.92% of the next year's (i.e., Fiscal Year 2018) overall state budget.[17]

While Louisiana has a small "rainy day" fund compared to other states, its highly volatile tax base means the state should retain a larger-than-average amount of reserves. According to Census Bureau data analyzed by the Pew Charitable Trusts, Louisiana has the 12th most volatile tax base in the nation, making it more susceptible to swings in revenue than the average state.[18] Between 1996 and 2016, Louisiana's revenue fluctuated by an average of 7% per year, higher than the national average of 5%.[19] And from 1994-2014, only Louisiana and California saw more than five credit actions from each of the major bond rating agency—Standard and Poor's, Moody's, and Fitch Ratings—speaking to the volatile nature of the state's fiscal policies.[20]

Although Louisiana's abundant natural resources have brought jobs and opportunity to communities throughout the state, volatility in oil prices have historically impacted the state budget. While oil-related revenues comprise a far smaller share of the state budget than they did several decades ago, even recent fluctuations in oil prices had a significant impact. Severance taxes on extracted oil dropped along with oil prices—

13 National Association of State Budget Officers, The Fiscal Survey of States, Spring 2018, June 14, 2018, https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Fiscal%20Survey/NASBO_Spring_2018_Fiscal_Survey_of_States-S.pdf, Table 30, Total Balances and Total Balances as a Percentage of Expenditures, Fiscal 2017 to Fiscal 2019, p. 68.

14 Ibid.

15 Louisiana Legislative Fiscal Office, "Revenue Estimating Conference Official Forecast," April 12, 2018, http://lfo.louisiana.gov/files/revenue/REC%2004-12-18%20APPROVED%20Act419.pdf, Schedules E1 and E2, pp. 1-5. Figure reflects total fund balances in statutorily dedicated funds as of July 1, 2017.

16 National Association of State Budget Officers, Fiscal Survey of States, Table 31, Rainy Day Fund Balances and Rainy Day Fund Balances as a Percentage of Expenditures, Fiscal 2017 to Fiscal 2019, p. 69.

17 Ibid; House Fiscal Division, "Discretionary/Non-Discretionary Funding."

18 Pew Charitable Trusts, "Fiscal 50: State Trends and Analysis," Tax Revenue Volatility, http://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind6.

19 Ibid.

20 Pew Charitable Trusts, "Rainy Day Funds and State Credit Ratings."

from $721 million in oil receipts in Fiscal Year 2014 to just over one-third that amount ($257 million) in Fiscal Year 2017.[21] These types of revenue swings have in recent years led to projected budget deficits exceeding $1 billion.[22] But with discretionary spending comprising such a small portion of the overall state budget, these fiscal shocks currently prove difficult for lawmakers to tackle.

"As of Fiscal Year 2015, federal revenues represented 42.2% of Louisiana's budget—the largest percentage in the country.

Louisiana's significant dependence on federal dollars to fund its budget also represents another source of fiscal volatility. As of Fiscal Year 2015, federal revenues represented 42.2% of Louisiana's budget—the largest percentage in the country.[23] Moreover, this high reliance on federal revenue occurred before Louisiana expanded Medicaid to the able-bodied under Obamacare, making the state even more dependent on federal dollars. With the national debt at over $21 trillion and rising, federal cutbacks seem more a question of when they will occur than whether they will occur. Particularly given the high percentage of the budget coming from federal dollars, the state must reduce spending and increase saving to prepare for any fiscal contingency.

However, because constitutional and statutory "silos"—nearly 400 separate government funds—currently lock away the vast majority of Louisiana's state budget, lawmakers face a tough, but critically important, task in right-sizing spending. Reforms should focus on improving and rationalizing the state budget process to gain control of government spending, while encouraging the growth of the "rainy day" fund—so that Louisiana can finally escape from the "boom-and-bust" fiscal cycle that has defined the past 15 years.

FISCALLY RESPONSIBLE REFORMS

Lawmakers can rationalize the Louisiana budget if they embrace comprehensive structural reforms to the state's current fiscal practices. Earlier this year, however, the Legislature chose to pass a tax increase punishing Louisiana businesses and families rather than making tough budget choices.[24]

In past budget debates, the Legislature has enacted limited reforms, choosing to transfer money left in some of the hundreds of separate budget accounts the state manages.[25] Likewise, the current Governor has endorsed similar measures, conceding the flawed nature of the state's existing budgetary structures.[26]

However, policy-makers should go beyond these incremental, ad hoc reforms and embrace a more comprehensive approach—one that takes on the special interests that, by obtaining their own separate government accounts, have manipulated and controlled the state budget. Hopefully, weariness over the repeated cycles of

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21 Louisiana Department of Revenue, "State of Louisiana: Annual Tax Collection Report 2016-2017," June 15, 2018, http://revenue.louisiana.gov/Publications/AR(16-17).pdf, Severance Tax, p. 45.

22 Mike Hasten, "Louisiana Faces Possible $1.2 Billion Deficit in 2016," Gannett News Service August 14, 2014, https://www.thenewsstar.com/story/news/politics/2014/08/14/louisiana-faces-billion-deficit/14064955/.

23 Phillip Oliff, Justin Theal, and Brakeyshia Samms, "Federal Share of State Revenue Rises as Medicaid Grants Expand," Pew Charitable Trusts, July 25, 2017, https://www.pewtrusts.org/en/research-and-analysis/articles/2017/07/25/federal-share-of-state-revenue-rises-as-medicaid-grants-expand.

24 Act 1 of the Third Extraordinary Session of 2018.

25 See for instance Sections 7 through 16 of Act 121 of the Regular Session of 2015. Historical totals of many of these fund "sweeps" are located at Louisiana Division of Administration, Presentation to Joint Legislative Committee on the Budget Regarding Fiscal Year 2016-2017 Executive Budget, February 13, 2016, http://house.louisiana.gov/housefiscal/DOCS_APP_BDGT_MEETINGS/DOCS_APPBudgetMeetings2016/FY%2016-17%20JLCB%20Exec%20Budget%20Presentation%202-13-16.pdf.

26 Ibid.; Julia O'Donoghue, "Louisiana's Budget Is a Hot Mess: How We Got Here," New Orleans Times-Picayune February 12, 2016, https://www.nola.com/politics/index.ssf/2016/02/louisiana_is_in_a_budget_mess.html.

fiscal drama will prompt a larger re-examination, one that finally gives Louisiana the efficient budget structures it deserves.

Eliminate Budgetary Dedications:

As noted above, lawmakers themselves exercise direct control over only 11% of the entire state budget. A byzantine system of dedicated revenues and funds comprises the majority of state spending. Fixing the budget process necessarily involves fixing—and in most cases, repealing—these myriad funds.

The Louisiana Constitution alone includes 35 separate dedicated funds. These funds control monies from the multi-state tobacco settlement, fishing and wildlife licensing revenue, oil and natural gas severance and royalty payments, fines and penalties related to oil cleanup judgments, revenues from the licensing of trademarks that promote Louisiana seafood and agricultural products, and many others.

In total, the sections of the Constitution associated with dedicated funds run to over 15 pages of the Constitution and more than 13,000 words.[27] By comparison, the entire United States Constitution, including its amendments, contains 7,591 words.[28] Placing all these regulatory requirements in the state's foundational governing document makes it incredibly difficult to manage Louisiana's budget and cash flows in an efficient and rational manner.

"dedicated funds...receive a majority of state revenues, and the General Fund gets the "leftovers."

Over and above their sheer number, the myriad funds effectively turn the budget process on its head. Because many of these funds receive dedicated revenue sources spelled out in the Constitution and/or specific statutes, lawmakers have a limited ability to target resources among competing policy priorities. Ideally, the state's General Fund should serve as the prime source of funding for most programs, based on decisions made by the Legislature every year. Currently, however, dedicated funds—including those established by the Constitution years or decades ago—receive a majority of state revenues, and the General Fund gets the "leftovers." This dedication of much of the state's revenue makes it virtually impossible for lawmakers to budget in a rational, effective manner.

Moreover, the proliferation of constitutional funds has begotten the creation of even more funds. As lobbyists see other groups winning approval of language protecting those other groups' interests, they push harder to receive a special fund protecting "their" interest—all of which makes Louisiana tougher and tougher to manage. For instance, language in the Constitution permits lawmakers to appropriate up to 5% of funds in dedicated accounts for purposes other than their stated goal if the state projects a drop of at least 1% in recurring revenues for the next fiscal year.[29] However, recent amendments to the Constitution have begun exempting newly created funds from this provision, giving the state even less flexibility should a budget deficit emerge.[30]

Over and above the constitutional dedications, another 264 funds created by statute received appropriations during the last fiscal year. In both overall number (124) and appropriation amount ($605.6 million in the last fiscal year), roughly half of these funds come from special revenue sources, such as licensing revenue, fines and

27 Article VII, Part I of the Louisiana Constitution of 1974, Sections 10-A through 10.16, inclusive.

28 "Fascinating Facts about the U.S. Constitution," https://www.constitutionfacts.com/us-constitution-amendments/fascinating-facts/.

29 Article VII, Part I, Section 10(F)(2)(b) of the Louisiana Constitution of 1974.

30 Article VII, Part I, Section 10(F)(4) of the Louisiana Constitution of 1974.

fees. [31] By comparison, the other half of these statutory funds—140 in total, covering $740 million in spending—come from the state General Fund, including 98 funds providing $68.1 million in support to local government.[32]

Both the constitutional and statutory fund dedications comprise a significant share of the state budget. During the last fiscal year, the constitutional ($2.84 billion) and statutory ($1.35 billion) funds totaled $4.19 billion in appropriations.[33] By comparison, the Legislature directly controls only $3.4 billion in discretionary appropriations.[34]

Supporters of the various statutory and constitutional dedications may argue that these funds represent user fees for specific services. In theory, the funds ensure that individuals who contribute to state government—whether through, for instance, gas tax revenue or hunting license fees—receive benefits (e.g., better roads, wildlife restoration, etc.) from those dollars. In some cases, funds rely on self-generated revenue from user fees, the assessment of which was predicated upon the delivery of a particular service.

However well-intentioned at the time of their creation, the proliferation of these arrangements has created numerous practical problems for legislators trying to craft sound fiscal policies. Through provisions enshrined in the state Constitution years, or decades, ago, past legislators and the public have bound to an unrealistic degree the ability of today's Legislature to decide Louisiana's current priorities. The dedicated funds violate the principle that lawmakers today should not tie the hands of a future Legislature, providing both philosophical as well as practical reasons for their elimination.

Thankfully, lawmakers have begun the work of reforming the myriad fund dedications in the budget. Legislation passed earlier this year eliminated 34 statutory dedications, and reclassified several other revenue dedications as state general revenues.[35] The changes saw more than a dozen dormant funds closed, and several million dollars returned to the state's General Fund.[36] The legislation also provides for more frequent review of dedicated funds, which should spur additional calls for reform—including to the many dedicated funds incorporated not merely in law, but the state's Constitution.

To create a more rational and efficient budget process, policymakers should continue these nascent efforts to streamline and eliminate earmarked funds—both the ones in the Constitution and the ones created in statute—as well as the revenue dedications to each fund. When eliminating the dedications, the Legislature should use the balances remaining in those funds either to manage the state's cash flow needs, or to provide a larger contingency account in case revenues do not meet projections. In some cases, lawmakers could decide to repeal or reduce fees associated with certain funds or services, particularly if the fees have consistently generated surpluses.

31 Louisiana House Fiscal Division, "Dedicated Fund Breakdown," based on Fiscal Year 2018 appropriated figures, http://house.louisiana.gov/housefiscal/DOCS_OPERBDGT/DedicatedFundFlowchartFY2018.pdf; House Fiscal Division, "Discretionary/Non-Discretionary Funding."

32 House Fiscal Division, "Dedicated Fund Breakdown."

33 Ibid.

34 House Fiscal Division, "Discretionary/Non-Discretionary Funding."

35 Act 612 of the Regular Session of 2018.

36 Louisiana Legislative Fiscal Office, Fiscal Note on SB 400 as Enrolled, May 18, 2018, http://legis.la.gov/Legis/ViewDocument.aspx?d=1099508.

> “
> *...lawmakers originally intended to finance the rainy day fund via severance and royalty payments made by natural resources companies.*

Most importantly, lawmakers should reduce the hundreds of dedicated funds that dominate the current budget process. While Louisiana needs to strengthen its “rainy day” fund, as described in further detail below, it should not allow other types of balkanized fiscal silos created at the behest of various special interest groups to dominate the budget process.

“Rainy Day” Fund:

The Louisiana Constitution also establishes the state’s “rainy day” fund, officially known as the Budget Stabilization Fund.[37] Lawmakers proposed the amendment adding the fund to the Constitution in 1990, after a precipitous drop in oil-related revenues caused a budget crunch that left the state unable to pay its bills.[38] Ideally, the fund should provide a cushion due to an unexpected drop in tax receipts, or unanticipated events that require new spending—the state’s version of a family’s emergency fund.

But the fund’s current structure makes its management difficult, for several reasons. First, the fund’s prime source of funding has itself declined. While the Constitution requires that one-quarter of any non-recurring revenue go to the fund, lawmakers originally intended to finance the fund via severance and royalty payments made by natural resources companies.[39] That plan had an inherent logic to it, as a sudden drop in oil revenues caused the budget crunch that prompted the fund’s creation in the first place.[40]

However, the royalty and severance revenues originally intended to replenish the state’s budgetary cushion have declined in recent years. As noted above, severance taxes generated specifically by oil producers plummeted from $721 million in Fiscal Year 2014 to $257 million in Fiscal Year 2017.[41] Overall severance tax collections remain low, with only $427.3 million projected for the current fiscal year.[42] Because the Constitution provides that only severance taxes exceeding a certain threshold will go into the Stabilization Fund, and because that threshold currently stands at $950 million—more than twice estimated revenue for the current fiscal year—it seems unlikely that the fund will receive any dollars from its prime funding stream in the near future.[43]

Severance Taxes generated by oil producers

Second, the Constitution limits the amount lawmakers can deposit into the fund. “No appropriation or deposit into the fund shall be made if such appropriation would

37 Article VII, Part I, Section 10.3 of the Louisiana Constitution of 1974, as created by Act 1096 of the Regular Session of 1990.

38 Julia O’Donoghue, “What Is Louisiana’s ‘Rainy Day Fund,’ and Why Are Governor, Legislators Eyeing It?” New Orleans Times-Picayune February 10, 2017, https://www.nola.com/politics/index.ssf/2017/02/louisiana_rainy_day_fund.html.

39 Article VII, Part I, Section 10.3(A)(3) of the Louisiana Constitution of 1974.

40 O’Donoghue, “What Is Louisiana’s ‘Rainy Day Fund?’”

41 Department of Revenue, “Annual Tax Collection Report,” Severance Tax, p. 45.

42 Louisiana Legislative Fiscal Office, “Revenue Estimating Conference Fiscal Year 2019 Forecast,” June 26, 2018, http://lfo.louisiana.gov/files/revenue/REC%2006-26-18%20AMENDED%20APPROVED%20DOCUMENTS.pdf, p. 1.

43 Article VII, Part I, Section 10.3(A)(2) of the Louisiana Constitution of 1974; O’Donoghue, “What Is Louisiana’s ‘Rainy Day Fund?’”

cause the balance in the fund to exceed four percent of total state revenue receipts for the previous fiscal year."[44] Moody's specifically cited this low, and arbitrary, cap on the state's emergency savings when downgrading Louisiana's bond rating in February 2016.[45]

Although the cap on the stabilization fund sounds large in dollar terms, recent history has demonstrated its comparatively small impact under sustained economic stress. Because "total state revenue," the official term used in the Constitution, has no common definition, by custom, "the Treasury has included virtually all means-of-finance" when calculating contributions to the fund.[46] At four percent of the entire state budget, the cap on the state's budget stabilization fund would this fiscal year total approximately $1.36 billion.[47] However, lawmakers in recent years have faced one-year projected deficits approaching that sum.[48] Therefore, it makes little sense for the Constitution to prohibit lawmakers from transferring money into a contingency fund once the fund's balance exceeds only four percent of the budget.

Many experts across the political spectrum have debunked the myth that states need only accumulate five percent of their budgets in emergency "rainy day" fund savings. Financial ratings firms like Standard and Poor's and Moody's give their highest marks to states with savings exceeding 8 percent and 10 percent, respectively, of their revenue budgets.[49] And liberal groups like the Center for Budget and Policy Priorities have stated that capping stabilization funds at even 10 percent of the budget—two and a half times Louisiana's cap—does not represent "an adequate level for even a medium-sized recession."[50] The group recommends that states "could either remove the cap or raise it to a more adequate level, such as 15 percent of the budget."[51]

Stabilization Fund Balances (percentage of expenditures)

In addition, other states that, like Louisiana, have volatile budgets due to their reliance on natural resources revenues have far larger stabilization funds. Five years ago, prior to the latest downturn in oil prices, Alaska, Wyoming, and North Dakota had stabilization fund balances of 263 percent, 53 percent, and 19 percent of expenditures, respectively.[52] By comparison, Louisiana, with a stabilization fund balance

44 Article VII, Part I, Section 10.3(C)(4) of the Louisiana Constitution of 1974.

45 Cited in Pew Charitable Trusts, "Rainy Day Funds and State Credit Ratings," p. 14.

46 Louisiana Legislative Fiscal Office, Fiscal Note on Senate Bill 228 of the Regular Session of 2005, May 25, 2005.

47 Louisiana House Fiscal Division, "Final Budget Comparisons by Department," 2018-2019 Fiscal Year, June 28, 2018, http://house.louisiana.gov/housefiscal/DOCS_APP_BDGT_MEETINGS/DOCS_APPBudgetMeetings2018/FY%2018-19%20Final%20Budget%20Comparisons%20By%20Department.pdf, p. 5.

48 Hasten, "Louisiana Faces Possible $1.2 Billion Deficit."

49 Cited in Pew Charitable Trusts, "Building State Rainy Day Funds," July 2014, http://www.pewtrusts.org/~/media/assets/2014/07/sfh_rainy-day-fund-deposit-rules-report_artready_v9.pdf, p. 5.

50 Elizabeth McNichol, "When and How States Should Strengthen Their Rainy Day Funds," Center for Budget and Policy Priorities, April 17, 2014, https://www.cbpp.org/research/state-budget-and-tax/when-and-how-states-should-strengthen-their-rainy-day-funds.

51 Ibid.

52 National Association of State Budget Officers, The Fiscal Survey of States, Spring 2013, https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Fiscal%20Survey/Spring%202013%20Fiscal%20Survey%20of%20States.pdf, Table 25, Total Balances and Total Balances as a Percentage of Expenditures, Fiscal 2012 to Fiscal 2014, p. 51.

of only 5.4 percent of expenditures as of 2013, had a much smaller financial cushion than other "oil patch" states to respond to the drop in oil prices—a fact Moody's noted when downgrading the state's bond rating in February 2016.[53]

Third, the requirement that a two-thirds majority of lawmakers approve any withdrawals from the fund may make lawmakers hesitant to deposit dollars in the fund in the first place.[54] As with the rules regarding individuals' withdrawals from tax-preferred retirement accounts, policymakers face a dilemma: If they make it too easy to access "emergency" funds, people will withdraw from them for everyday expenses—but if they make it too difficult, people may never deposit funds into them at all.

As part of the rationalization of the budget process in Louisiana, the Legislature should revise the Constitution in ways that bolster the Budget Stabilization Fund. They should seek to create a more regular source of contributions into the fund, particularly ones—like unspent revenue from contingency budgeting—designed to counteract revenue volatility. They should either substantially increase the current 4 percent cap on the fund's total balance, to at least 15-20 percent of the entire state budget, or consider repealing the cap entirely. And they should consider whether to ease access to fund balances during lean times, if doing so would encourage contributions to the fund in times of plenty. Together, these changes will increase Louisiana's emergency reserves, which will help to avoid dramatic budgetary changes when the revenue outlook darkens.

Item-Reduction Veto:

While Louisiana stands among the 44 states that give its Governor a line-item veto over unnecessary spending projects, it does not give the Governor item-reduction veto authority.[55] At least 12 state Governors can exercise an item-reduction veto, which allows the executive to reduce—but not to increase—line items in spending bills.[56] For instance, instead of entirely accepting, or rejecting outright, a $10 million appropriation, the Governor could instead reduce the appropriation to a smaller number like $5 million—but could not increase the $10 million figure.

"...an item-reduction veto should 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 create a more favorable environment to reduce expenditure levels. Evidence tends to confirm this theory. One study suggests that states with an item-reduction veto have lower expenditures by $471 per capita—one of the largest effects of any budget reform examined.[57]

When examining ways to reform the state budget, policymakers should contemplate reforms that make lower spending levels the norm rather than the exception. The

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53 Ibid.; Pew Charitable Trusts, "Rainy Day Funds and State Credit Ratings," p. 14. Though its table does not specify the denominator used to calculate the percentage of expenditures, it appears that NASBO utilized the state's General Fund. Louisiana's Fiscal Year 2013 balance of $443 million represents roughly 5.4% of the state's total General Fund spending of $8.35 billion that year. Thus, notwithstanding the 5.4% figure cited above—which relates to fund balances as a percentage of the General Fund—the state did not exceed its constitutionally set "rainy day" fund cap, which as noted above is traditionally calculated based on a percentage of the entire state budget ($1.11 billion in Fiscal Year 2013, based on overall spending of $27.7 billion.) See also House Fiscal Division, "Overview of Fiscal Year 2018-2019 Executive Budget," Budget History, p. 2.

54 Article VII, Part I, Section 10.3(C) of the Louisiana Constitution of 1974.

55 National Conference of State Legislatures, "Separation of Powers—Executive Veto Powers," http://www.ncsl.org/research/about-state-legislatures/separation-of-powers-executive-veto-powers.aspx, and "Gubernatorial Veto Authority with Respect to Major Budget Bill(s)," November 2008, http://www.ncsl.org/research/fiscal-policy/gubernatorial-veto-authority-with-respect-to-major.aspx.

56 John Haughey, "State-by-State Guide to Gubernatorial Veto Types," Congressional Quarterly November 14, 2016, https://info.cq.com/resources/state-by-state-guide-to-gubernatorial-veto-types/.

57 Cited in Matthew Mitchell and Nick Tuszynski, "Institutions and State Spending: An Overview," The Independent Review 17:1 (Summer 2012), pp. 35-49.

item-reduction veto stands as one such reform, which warrants action to add it to the Louisiana Constitution.

Tougher Spending Caps:

In total, more than half of states (28) impose some type of limitation on either spending, taxes, or both, including the states that undertake contingency budgeting, as outlined above.[58] While Louisiana currently operates under such spending caps, they have proven ineffective at actually constraining expenditures.

The Louisiana Constitution imposes theoretical limitations on spending, but because of historical anomalies, the state rarely comes close to hitting them. Specifically, the Constitution links the state's expenditure limit to the actual appropriations for the 1991-1992 Fiscal Year, adjusted for growth in state income.[59] However, the formula in the Constitution never "re-sets" the spending limit, instead relying on numbers established nearly three decades ago and updated annually.

The constitutionally defined spending formula meant that Hurricane Katrina created a "bust-then-boom" cycle for the state's expenditure limit. In 2005, the hurricane lowered state income, but in 2006, insurance payments and hurricane relief dollars led incomes to a dramatic rebound. By Fiscal Year 2007-08, the rapid increase in income led to a one-year increase in the state expenditure limit of $1.28 billion—more than three times the average prior increase.[60] However, the recession and oil crises in the years immediately following meant lawmakers had to reduce state spending to offset falling revenues. These actions, combined with the lingering Katrina effects, have made the current expenditure limit effectively irrelevant. In the fiscal year just concluded, the state expenditure limit stood at $14.6 billion—more than $1.4 billion above the actually appropriated level of the 2017-2018 budget.[61]

Budgeted expenditure level 2017-2018	**$13.2 BILLION**	Actual state expenditure limit	**$14.6 BILLION**

Because it never resets at a lower level following years of slower spending growth, the current expenditure limit formula effectively encourages the Legislature to engage in "catch-up" spending binges. Under this system, if the Legislature held spending flat for several years—as they had to do during the recession and oil crises earlier this decade—they could increase spending by double digits in one year and still not meet the constitutionally-defined expenditure limit.

A Constitutional amendment proposed earlier this year—which passed by the House of Representatives with a bipartisan supermajority, even though the Senate did not consider it—would automatically re-set the state's spending caps.[62] Essentially,

58 National Association of State Budget Officers, Budget Processes in the States, Spring 2015, https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Budget%20Processess/2015_Budget_Processes_-_S.pdf, Table 11: Tax and Expenditure Limitations, pp. 61-62.

59 Article VII, Part I, Section 10(C) of the Louisiana Constitution of 1974.

60 Louisiana Legislative Fiscal Office, Letter to Rep. Jim Tucker regarding Fiscal Year 2007-08 Expenditure Limit, January 30, 2007.

61 Louisiana Division of Administration, State Budget for Fiscal Year 2017-2018, https://www.doa.la.gov/opb/pub/FY18/StateBudgetFY18.pdf, Expenditure Limit, pp. 45-48.

62 House Vote 35 of the First Extraordinary Session of 2018, March 4, 2018, http://www.legis.la.gov/legis/ViewDocument.aspx?d=1073530.

spending in any given year could not exceed the prior year's appropriation levels by more than 6% without the consent of two-thirds of the Legislature.[63] Enacting this or a similar provision would mean that state government in Louisiana could not grow without limit, because state lawmakers forced to cut spending in lean economic times would have greater difficulty in "catching up" on spending increases in future years.

While establishing more realistic spending caps, lawmakers should also go further, and provide for rebates to taxpayers in the event that revenue exceeds state spending. The current anemic levels in the state's Budget Stabilization Fund mean that Louisiana must focus first on building up its "rainy day" reserves to an adequate level of perhaps 15-20 percent of expenditures. But once it has done so—and the policies outlined in this paper should help in that process—a revenue windfall should mean that taxpayers receive some of their hard-earned money back, rather than the Legislature receiving a windfall to spend on more government largesse.

A MORE EFFICIENT—AND TRANSPARENT—BUDGET PROCESS

In addition to the structural reforms outlined above, which will reduce the biases towards greater spending and increase biases towards saving, other important changes to the budget process will allow for more open, effective, and efficient consideration of the state's fiscal blueprint by the Legislature. Together, these changes will prevent the constant lurching from one short-term fiscal crisis to another that has defined much of recent state history.

"All these separate funds have created a process whereby the state budgets not according to its expenditures, but solely based on revenues.

As discussed above, eliminating the constitutional and statutory dedications represents both a structural and a process reform, for Louisiana's perpetual fiscal crises have stemmed in large part from these myriad dedications. All told, the state Treasurer's office manages approximately 390 special funds—a number that includes the 284 constitutional and statutory funds that received appropriations during the last fiscal year, along with more than 100 dormant funds.[64] All these separate funds have created a process whereby the state budgets not according to its expenditures—seeing whether outgoing expenses meet incoming cash flow—but solely based on revenues.

Funds with dedicated sources of revenue receive that revenue irrespective of the program's needs. For instance, a program that by law receives a percentage of revenue, whether from licensing fees or some other dedicated source, amounting to $100 million in a given year may only have $90 million in estimated costs during that year. In that case, the $10 million balance in its account will remain there—where other agencies and programs cannot access it. Moreover, the Legislature traditionally allows entities receiving statutory dedications to exceed the specific sums lawmakers appropriated, provided administrative bodies agree—further putting those funds beyond use of other programs.[65]

63 House Bill 15 of the First Extraordinary Session of 2018, as re-re-engrossed.

64 Louisiana State Treasurer, "Annual Summary on the Financial Condition of the State of Louisiana, Fiscal Year 2016-2017," February 12, 2018, https://www.treasury.state.la.us/wp-content/uploads/Annual-Summary-on-the-Financial-Condition-of-the-State-of-Louisiana-Fiscal-Year-2016-2017-002.pdf, p. 4.

65 See for instance Section 2 of Act 2 of the Second Extraordinary Session of 2018, providing appropriations for Fiscal Year 2018-2019: "Any increase in such revenues shall be available for allotment and expenditure by an agency on approval of an increase in the appropriation by the commissioner of administration and the Joint Legislative Committee on the Budget. Any increase in such revenues for an agency without an appropriation from the respective revenue source shall be incorporated into the agency's appropriation on approval of the commissioner of administration and the Joint Legislative Committee on the Budget."

The Constitution allows for some transfers among these accounts, but only under limited circumstances. For instance, during a mid-year budget deficit, the Governor can transfer funds out of constitutionally-protected accounts—but only an amount equal to 5% of their balances.[66] Moreover, as noted above, some recently created funds in the Constitution have exempted themselves from even this provision, keeping those funds "locked away."[67]

In effect, Louisiana has not one budget, but nearly 400 separate budgets—one for each of its dedicated accounts, most of which have no rational connection to the larger budget as a whole. Many of the separate budgets have surpluses, but those surpluses often cannot help the General Fund budget balance—a situation which greatly increases the odds that the General Fund will run a deficit. And when those surpluses do get used to help balance the General Fund budget, lawmakers get criticized for "raiding" the accounts.[68]

Ending the myriad dedicated accounts will help bring an end to the perpetual budget crises. No rational family—or business, for that matter—would have almost 400 separate accounts to manage its budget and operations. Diverting revenue into so many different sub-accounts, many of which carry positive balances—but which lawmakers cannot readily access, if they can access them at all—virtually guarantees a mid-year budget crunch, absent a major revenue windfall. Louisiana needs to rationalize its budget process, and eliminating the dedicated accounts will go a long way towards doing so.

"...the continuation budget assumes that both government funding and staffing levels should increase, year after year.

Eliminate Continuation Budgeting:
Louisiana law currently requires the executive to submit a budget with at least four columns:

1. The current year operating budget;
2. The "nondiscretionary adjusted standstill budget," which includes "the cost to provide the mandatory expenditures in the ensuing fiscal year, and the growth in the mandatory statewide adjustments;"
3. A "continuation budget," which a separate section of statute defines as funding to "carry on all existing programs...including any adjustments necessary to account for the increased cost of services or materials due to inflation and estimated increases in workload requirements resulting from demographic or other changes;" and
4. A column delineating the differences between the standstill budget and the continuation budget.[69]

Particularly in the past few years, inclusion of the continuation budget in official documents has allowed some to magnify the size of the fiscal gap Louisiana faced by hundreds of millions of dollars.[70]

Few families plan their budgets assuming large pay raises every year—but the continuation budget assumes that both government funding and staffing levels should

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66 Article VII, Part I, Section 10(F)(2)(b) of the Louisiana Constitution of 1974.

67 Article VII, Part I, Section 10(F)(4) of the Louisiana Constitution of 1974.

68 John Snell, "Watchdog Group Blasts Jindal 'Raid' on Coastal Fund," Fox 8 Live, November 20, 2015, http://www.fox8live.com/story/30567451/watchdog-group-blasts-jindal-raid-on-coastal-fund/.

69 Title 39, Section 29(D) and Title 39, Section 2(11) of the Louisiana Revised Statutes.

70 Hasten, "Louisiana Faces Possible $1.2 Billion Deficit in 2016."

increase, year after year after year. Inclusion of the inflated continuation budget only works to aid and abet those who want to exaggerate the sense of a looming fiscal "crisis," and to use doomsday scenarios to demand ever-larger revenues from overtaxed families. Lawmakers should eliminate the continuation budget requirement, refuting the notion that government must, or even should, grow larger and larger every year.

Revenue Estimating Conference:

In Louisiana, as in 30 other states, a forecasting group creates formal estimates of revenues for upcoming fiscal years.[71] The budget process outlined in Article VII of the Constitution establishes the Revenue Estimating Conference (REC) to manage fiscal estimates.[72]

While a more politically balanced—and accountable—forecasting source than estimates unilaterally prepared by an executive agency, REC's current structure contains several shortcomings. First, as detailed above, the nature of the budget process influences REC's work. Because the state has so many dedicated funds, most of which have their own specific source of revenue, REC must make detailed estimates about those specific revenue sources, to determine how the funds get allocated, and how many dollars the General Fund will actually receive. This balkanized process places added pressure on revenue forecasters, requiring accuracy not just in overall revenue projections, but projections for the specific revenue sources—licensing fees, gasoline tax revenues, severance tax revenues, and so on—that determine fund allocations. Ideally, eliminating the myriad fiscal dedications would eradicate this budgetary quirk that helps give REC its outsized influence.

Additionally, the REC's membership contains in-built conflicts, on several levels:

- While the three elected REC members—the Governor, President of the Senate, Speaker of the House—by definition serve limited terms, the fourth—"a faculty member of a university or college in Louisiana who has expertise in forecasting revenues"—does not.[73] With no specified term and no provision for removing the individual, that faculty member could effectively hold an REC appointment for life.
- All four REC members have the ability to influence the forecasts they themselves review and examine. The elected lawmakers can influence staff who work for them—either in the executive branch's Division of Administration, or the Legislative Fiscal Office, as the case may be—to adjust their revenue forecasts. Moreover, the faculty member has the ability both to produce a revenue forecast and then evaluate its accuracy, violating James Madison's maxim that "No man is allowed to be a judge in his own cause, because his interest would certainly bias his judgment, and not improbably, corrupt his integrity."[74]
- While the statute does not explicitly provide for the removal of the faculty member, it does state that should said principal become "incapacitated… the president of the college or university of which the economist principal is a faculty member shall" designate the REC's economist principal.[75] This

71 National Association of State Budget Officers, Budget Processes in the States, Table 6: Economic Advisors and Revenue Estimates, pp. 31-32.

72 Article VII, Part I, Section 10(A) of the Louisiana Constitution of 1974.

73 Ibid.

74 The Federalist, No. 10.

75 Title 39, Section 25(B) of the Louisiana Revised Statutes.

provision allows one person—at present the Louisiana State University President—to appoint one of the state's most powerful officials without any oversight. Moreover, because the bulk of Louisiana's higher education funding comes directly from the state's General Fund, this provision provides another potential conflict, as the LSU President (or other university president, as the case may be) could nominate someone who will "look out for" the interests of the higher education sector when arriving at revenue forecasts.

As they work to rationalize the budget process, lawmakers should consider whether to rely on a totally independent third party—one funded at arm's length, and one outside of the employ of any REC members—to produce revenue forecasts. They could also perform an updated analysis evaluating the accuracy of REC's past revenue forecasts, and compare them to forecasts made by other organizations in both the private and public sectors.[76] Whether by these means or others, they should work to bolster REC as a source of both objective and transparent information about Louisiana's budget and economy.

Mid-Year Transparency:

Recent developments surrounding the fiscal year just concluded make a compelling argument for additional budgetary transparency from the executive. The state Treasurer disclosed that, for the fiscal year that ended on June 30, 2018, Louisiana will likely run a budget surplus of at least $300 million.[77] Lawmakers immediately questioned when the executive knew of the improving fiscal forecasts—and why no one disclosed these changes before the Legislature passed a massive tax increase in late June.[78]

"By failing to disclose looming financial trouble early on, the executive could attempt to create a "take-it-or-leave-it" scenario late in the year.

While REC has a statutory requirement to "review, and revise if necessary," current year budgetary forecasts at its four annual meetings, the executive currently has no requirement to present updated forecasts to REC.[79] This loophole effectively allows a Governor to conceal relevant information in a way that could manipulate the budgetary process.

For instance, if incoming data show a potential budget deficit early in a fiscal year, the executive could withhold these facts from the REC and lawmakers. By failing to disclose looming financial trouble early on—at a time when the Legislature could more easily reduce spending for the remainder of the budget cycle—the executive could attempt to create a "take-it-or-leave-it" scenario late in the year, whereby lawmakers have few choices other than raising taxes.

To prevent any type of fiscal manipulation from occurring in the future, the Legislature should require the executive to disclose on a regular basis—preferably monthly, but no less frequently than quarterly:

1. Updated revenue forecasts. The Department of Revenue does post monthly

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76 The Legislative Fiscal Office has performed an analysis of REC's forecasting performance. However, that analysis, conducted in October 2011, only covered performance through that fiscal year, and excluded any comparison between forecasts made by REC and other organizations. See http://lfo.louisiana.gov/files/revenue/REC%20FY%20 11%20Forecast%20Error%20Writeup.pdf.

77 Melinda Deslatte, "Treasurer: Louisiana Has $300M-Plus Surplus from Last Year," Associated Press September 14, 2018, https://www.usnews.com/news/best-states/louisiana/articles/2018-09-14/treasurer-louisiana-has-300m-plus-surplus-from-last-year.

78 John Haughey, "State's $300M Budget Surplus Has Lawmakers Questioning Need for Sales Tax Hike," Watchdog September 14, 2018, https://www.watchdog.org/louisiana/state-s-m-budget-surplus-has-lawmakers-questioning-need-for/article_0dc1e422-b864-11e8-b3c3-239724a89562.html; Act 1 of the Third Extraordinary Session of 2018.

79 Title 39, Section 26(B) of the Louisiana Revised Statutes.

revenue collections online.[80] However, these raw data do not represent a full, official estimate that projects revenue based on year-to-date data, past years' trends, economic forecasts, etc.

2. Updated spending projections, as compiled by the Division of Administration on behalf of the various executive agencies.
3. Updated balances for the myriad funds (including the General Fund) managed by the Treasurer. While REC publishes updated estimates for the revenue generated by many of these funds, no entity publishes current or projected spending by the funds. As a result, the most recent estimate of fund balances dates to the beginning of the last fiscal year on July 1, 2017—nearly 15 months ago. Given the nearly $6 billion held in these myriad funds as of that date, lawmakers—to say nothing of the public as a whole—have the right to more frequent updates as to their cash flow status.[81]

Ideally, these reporting requirements would provide REC, along with lawmakers, more frequent, and more accurate, information about the state of the budget to help them make policy decisions.

However, if the executive cannot, or will not, agree to new legislative requirements, then policy-makers can utilize the state's Public Records Act to make regular requests for the above information. The recent surplus controversy illustrates that Louisiana needs additional transparency surrounding its budget. Thankfully, members of the public already have the tools to bring that transparency to fruition.

Contingency Budgeting:

Given the constant budget crises of the recent past, and the limited means of correcting mid-year deficits, lawmakers should enact a budget that allows for revenue contingencies. Many Louisiana families do not plan to spend every single cent that comes in to their households, choosing instead to hold back some funds in case of an emergency—so should Louisiana's government.

> *"Many Louisiana families choose to hold back some funds in case of an emergency—so should Louisiana's government.*

At least five other states have adopted some form of contingency budgeting mechanism. In Oklahoma, the Constitution prohibits lawmakers from spending more than 95% of projected revenues; in Delaware and in Mississippi—Louisiana's neighbor to the east—the Constitution prescribes a spending limit of 98% of revenues.[82] Rhode Island's Constitution limits spending to 97% of estimated revenues, with the remaining 3 percent dedicated to the state's "rainy day" fund.[83] While not enshrined in that state's Constitution, Iowa law requires the Governor and Legislature to spend no more than 99% of forecasted revenues.[84]

Lawmakers could adopt a contingency approach by budgeting for only 97-98% of the state's projected revenues for the upcoming fiscal year. Rather than planning to spend every penny of tax revenue, the Legislature could leave a margin of error in the event that some tax dollars fail to materialize. If revenues do turn out to meet forecast projections, the Legislature could dedicate the unspent "savings" to the state's Budget Stabilization Fund, which as noted needs a more regular source of revenue to bolster Louisiana's fiscal reserves.

80 The Statements of Net Collections and Distributions are available at http://ldr.louisiana.gov/NewsAndPublications/Publications.

81 Legislative Fiscal Office, "Revenue Estimating Conference Official Forecast."

82 Erica MacKellar, "Revenue Forecasting in the States," March 2016, National Conference of State Legislatures, http://www.ncsl.org/research/fiscal-policy/revenue-estimating-in-the-states.aspx.

83 National Association of State Budget Officers, Budget Processes in the States, Table 11: Tax and Expenditure Limitations, pp. 61-62.

84 Ibid.

Alternatively, or in concert with the above strategy, REC could adopt a "lowest-of" process when setting its estimates for the upcoming budget year. In establishing its revenue baseline, REC could select—either on its own, or via new language added to the Constitution—the lowest of the several estimates with respect to income tax collections, the lowest of the estimates for sales tax collections, and so forth. Both individually and collectively, using the most conservative revenue estimates should help give a margin for error in the almost inevitable event that some revenue sources fail to meet their estimated targets.

Reduce Legislative "Logrolling":

As with earmarks in Congress, Louisiana has a well-established history, albeit not one conducted away from public view, of using projects as legislative "grease" to enable more government spending. Such favor-trading often comes in the Legislature's annual capital outlay bill, which funds transportation and infrastructure projects.

Language in the capital outlay bill specifically states that "contracts shall not be awarded without approval of the Division of Administration."[85] Moreover, Louisiana law provides that the Division of Administration shall "administer all contracts" and shall "schedule the funding of projects in the event that there are more projects ready for funding than there are funds available at that time."[86] The combination of these provisions provide the Division of Administration—under the control of the Governor—the authority to determine which projects get presented to the state Bond Commission for formal approval.

Often, lawmakers who vote against a Governor's key policy priorities can find capital outlay projects for their districts mysteriously removed from the final list presented to the Bond Commission for approval. Holding these projects as "leverage" during a legislative session provides a Governor with powerful incentives. Even without explicit threats or blandishments, members of the Legislature recognize that voting against the Governor's agenda—for instance, backing reductions in spending, or opposing tax increases—could jeopardize important projects in their districts.

"...lawmakers should reform the capital outlay prioritization process.

For multiple reasons—to increase government transparency, restore an appropriate balance of power among the branches, and eliminate incentives that incline government towards higher spending and taxes—lawmakers should reform the capital outlay prioritization process. They could remove the executive's unilateral power to schedule projects, requiring oversight by a group of lawmakers—for instance, the Senate President and Speaker of the House—in addition to the executive. They could also eliminate some of the executive's discretion by paring the list of priorities in the capital outlay bill itself—potentially imposing a hard cap on outlay spending in the bill—that would more accurately reflect estimated revenues. The combination of these or similar reforms will lead to a more open and balanced process, and hopefully eliminate lawmakers' incentives to vote for spending and tax increases while doing so.

A PATH TO A BETTER—AND BRIGHTER—FUTURE

Contrary to popular belief, Louisiana's frequent budget crises have not come due to factors outside the state's control, or because the state generates too little revenue. Rather, a series of decisions made over time have collectively made the state difficult to govern. In establishing nearly 400 separate budgetary funds, and making decisions

85 Section 1, Page 4, Lines 24-25 of Act 29 of the Regular Session of 2018.

86 Title 39, Section 121 of the Louisiana Revised Statutes.

"Louisiana needs to start a virtuous cycle, one defined by greater efficiency, responsibility, and stability. Louisiana's future deserves no less.

that minimized the state's emergency savings, past generations of lawmakers have given today's Legislature little ability to respond to external events.

However, lawmakers have it within their power to correct these accumulated bad habits, thereby granting to the next generation a more rational, and responsible, budget for Louisiana. Eliminating the various siloes that currently define state government will give Louisiana more flexibility to manage its cash flows more efficiently. Creating a budget process focused on expenditures, rather than focusing solely on revenue generated, will better ensure that outgoing expenses match projected revenues. If Louisiana budgets more prudently—not spending every dime of anticipated revenue—and focuses on building savings in times of plenty, the state will have fewer fiscal crises in the future.

Though it may sound like an arcane policy topic, better budgeting will provide more stability for Louisiana. That stability—with greater savings, and a reduced likelihood of sudden mid-year budget cuts—provides benefits on its own. But it will also improve the state's overall fiscal standing —lowering borrowing costs and saving taxpayers money—while providing a stable, pro-growth environment for businesses looking to move to, and grow in, Louisiana.

After several years defined by vicious budgetary cycles, Louisiana needs to start a virtuous cycle, one defined by greater efficiency, responsibility, and stability. Lawmakers should start that process now—Louisiana's future deserves no less.

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