

The background of the entire page is a photograph of the Louisiana State Capitol building in Baton Rouge, Louisiana. The building is a tall, classical-style structure with a prominent central tower topped by a dome. It is set against a twilight sky with soft, warm colors. The building is reflected in a body of water in the foreground, creating a clear mirror image. Two horizontal blue bars are positioned above and below the main title text.

Citizen's Guide to the FY24 Louisiana Budget

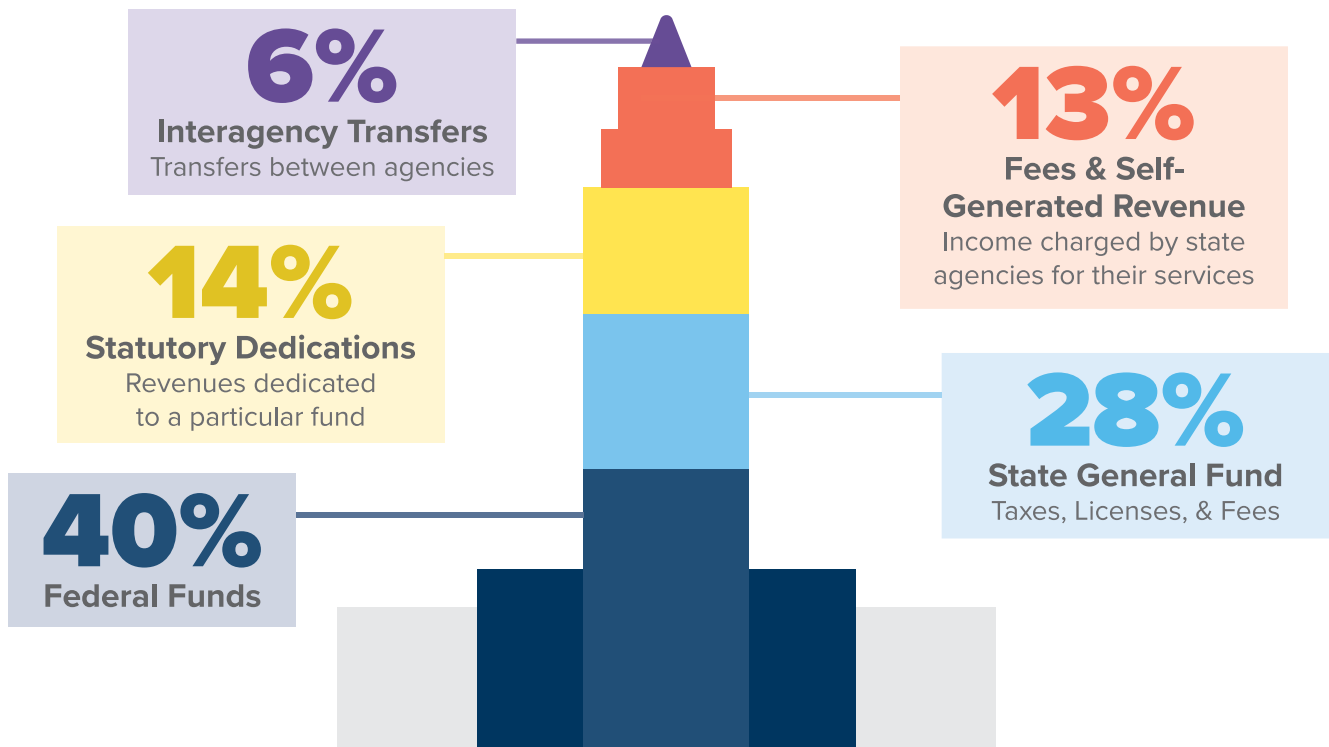


Introduction

Louisiana’s budget at the beginning of fiscal year 2024 was \$51 billion, which is an increase of 88% over the last decade.¹ With a state population of 4.6 million, and shrinking, this is a spending burden of more than \$11,000 per person. While nearly half of the money in the state budget comes from the federal government, Louisiana’s taxpayers are still on the hook for the total. This growth in state spending is unsustainable given the lack of growth in the state’s economy and a history of net outmigration. This report offers an overview and brief history of Louisiana’s operating and capital budgets and outlines how the state can begin to create a more responsible, sustainable budget over time that remains adaptable to the needs of citizens.

Louisiana’s Sources of Funding and How They’re Budgeted

The state budget has five sources of funding that historically make up the same portion of the total budget.²



Louisiana uses a method of budgeting called **incremental budgeting**, in which budget staff in the governor’s office takes the current budget and makes incremental changes based on departmental needs. This method of budgeting does not factor in the performance of a program, or any other factor. It simply factors in the estimated cost of doing the same thing a department is doing today in tomorrow’s dollars and includes growth of existing programs and the addition of new programs, rarely ending an entire program. This is part of the reason for increases in the budget each year, leaving ineffective or inefficient programming in place and building upon it annually.

Louisiana law currently requires the executive branch to submit a continuation budget utilizing incremental budgeting. It must include the growth from inflation and estimated increases in workload requirements resulting from demographic or other changes.³ This budget is used merely as a guide in making projections. However, in the last several years, inclusion of this continuation budget in official documents has allowed some to magnify the size and scope of the gap between revenues and projected expenditures by hundreds of millions of dollars.⁴

1 Division of Administration, Office of Planning and Budget, Executive Budget Documents

2 Louisiana House of Representatives, House Fiscal Division, Common Budget Terms

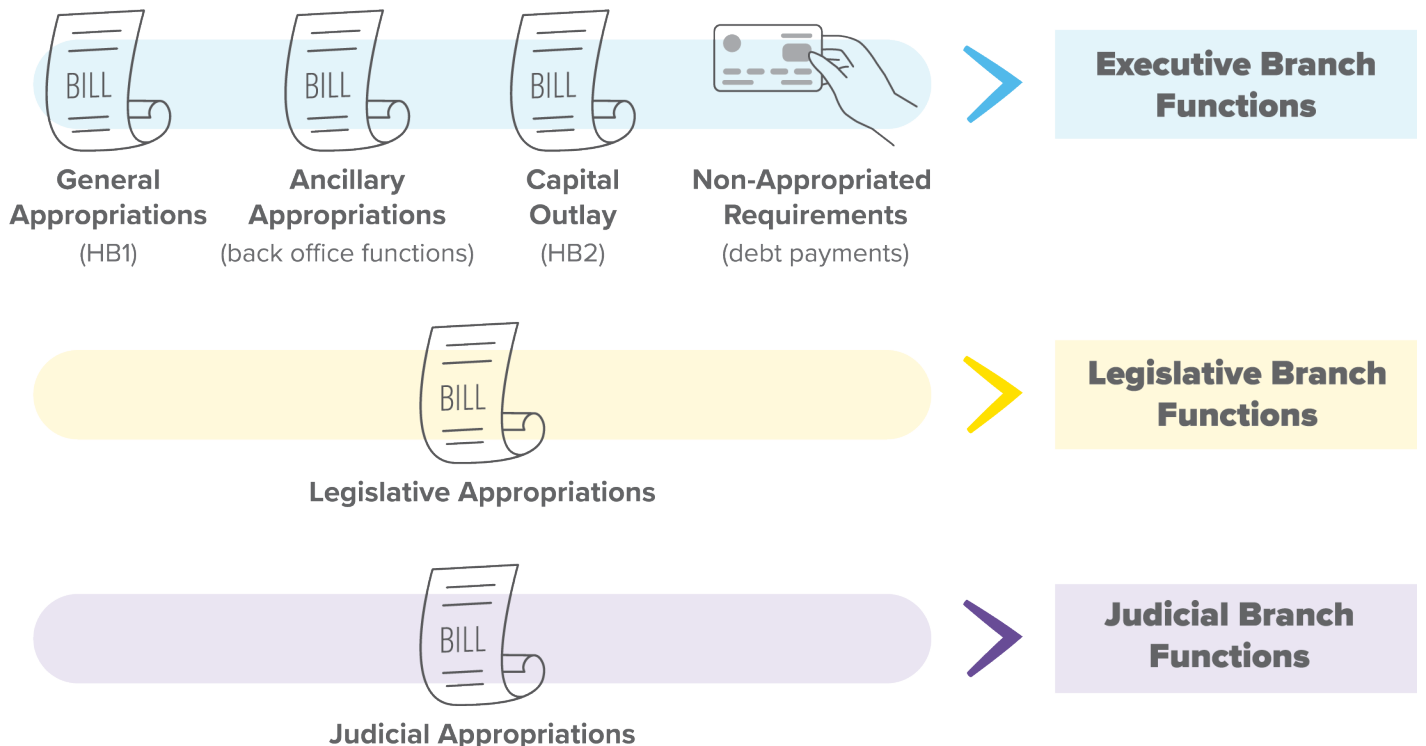
3 Title 39, Sections 2(11) and 29(D) of the Louisiana Revised Statutes

4 Office of Planning and Budget, Five-year Base-Line Projection of the State General Fund at Continuation

The annual budgeting process begins with the governor’s presentation of an executive budget recommendation for the following year to the Joint Legislative Committee on the Budget, which shall not exceed the official forecast of the Revenue Estimating Conference.⁵

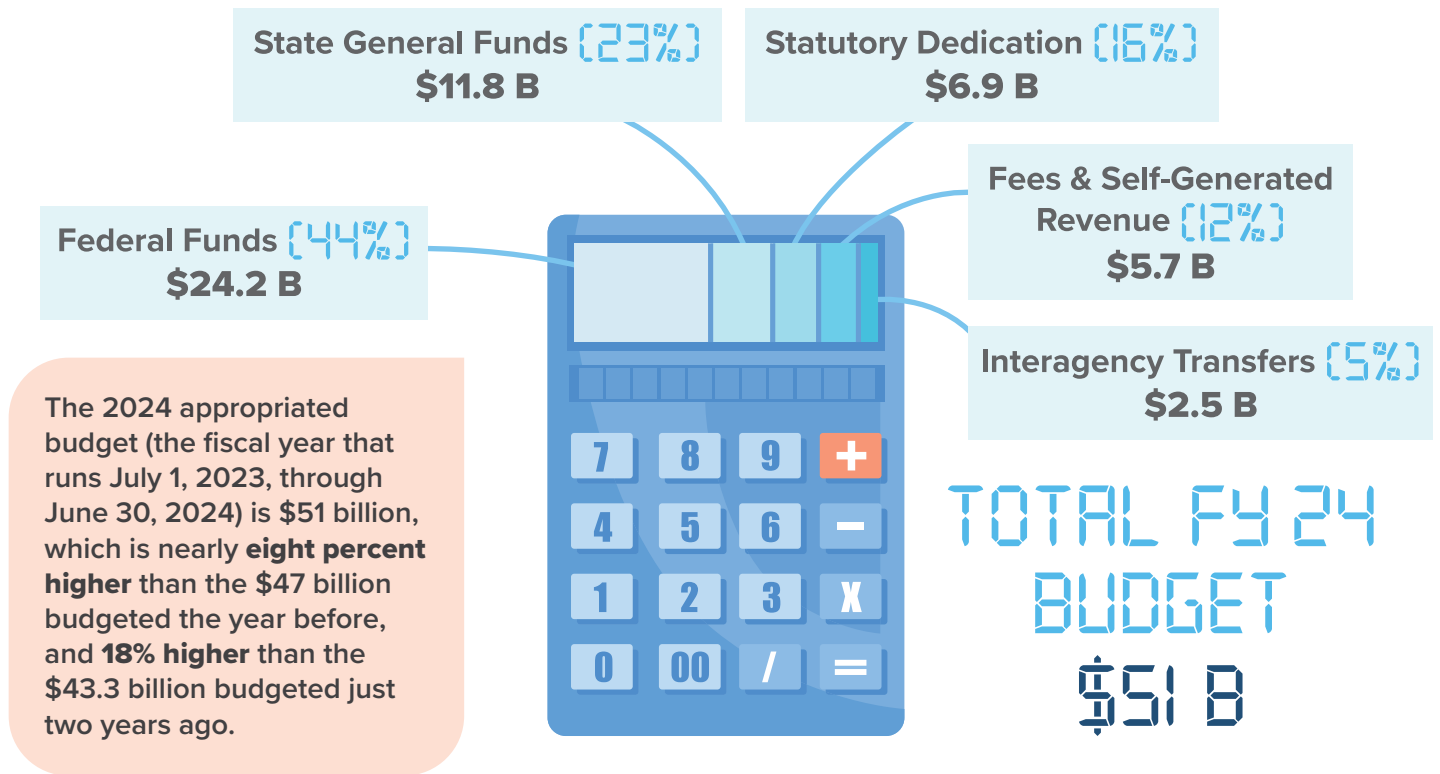


The state’s entire budget can be found in several different bills.

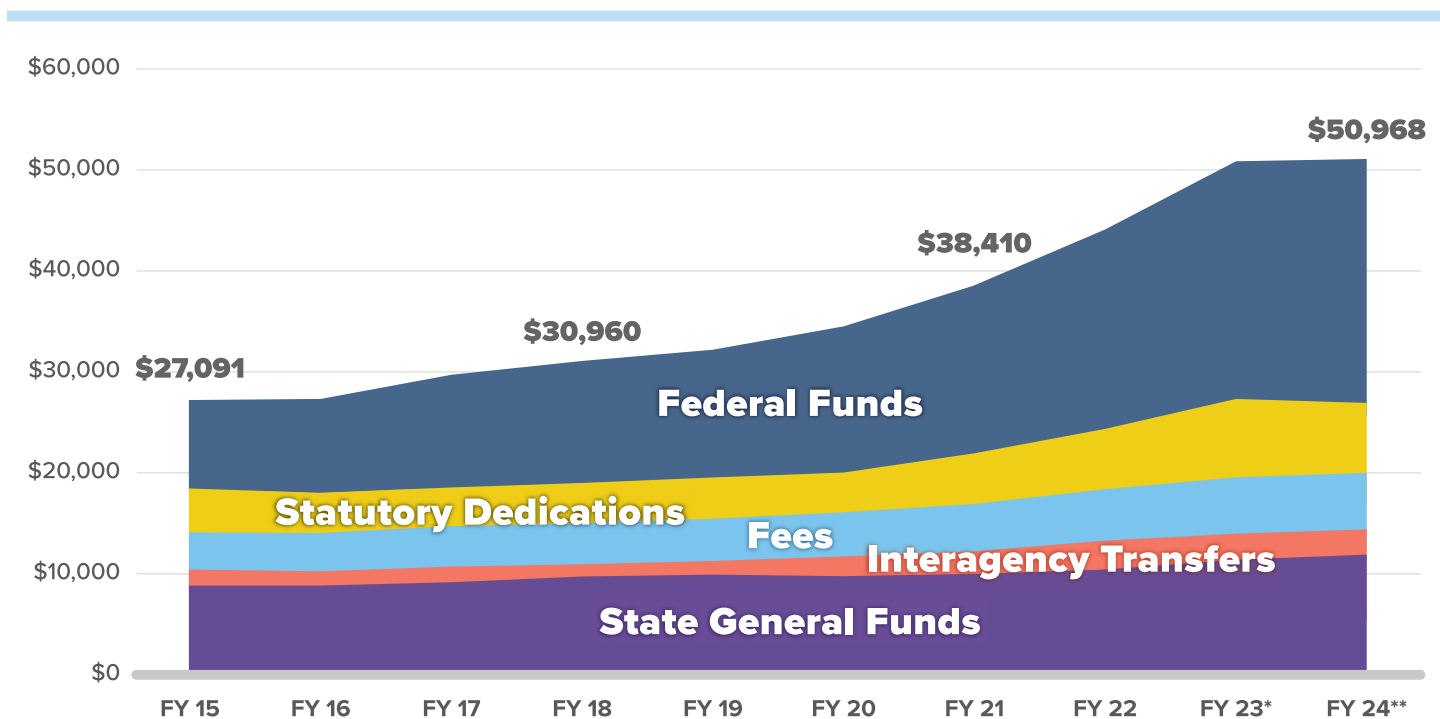


⁵ Title 39, Section 34 of the Louisiana Revised Statutes

Louisiana's Budget in Recent Years⁶



The total budget increased by **88 percent**, state funds increased by **45 percent**, and general funds increased by **35 percent** over the last ten years. The primary reason for larger total budget growth has been the increased use of federal funds. However, there has also been an increase in state general funds due to a sales tax increase in 2016.

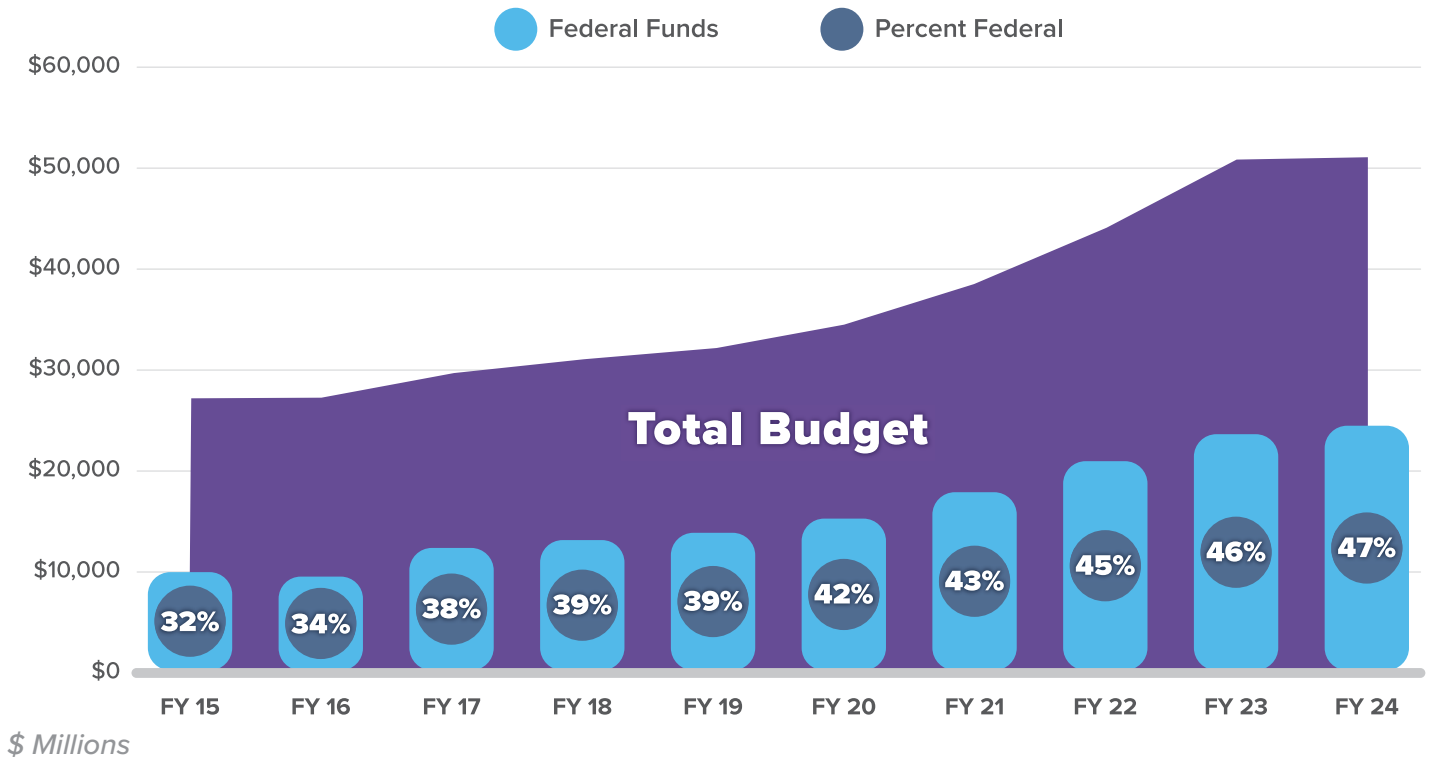


\$ Millions *FY 2023 Existing Operating Budget as of 12/01/2022. **FY 2024 Budget as Appropriated in HB 1 of the 2023 Regular Legislative Session.

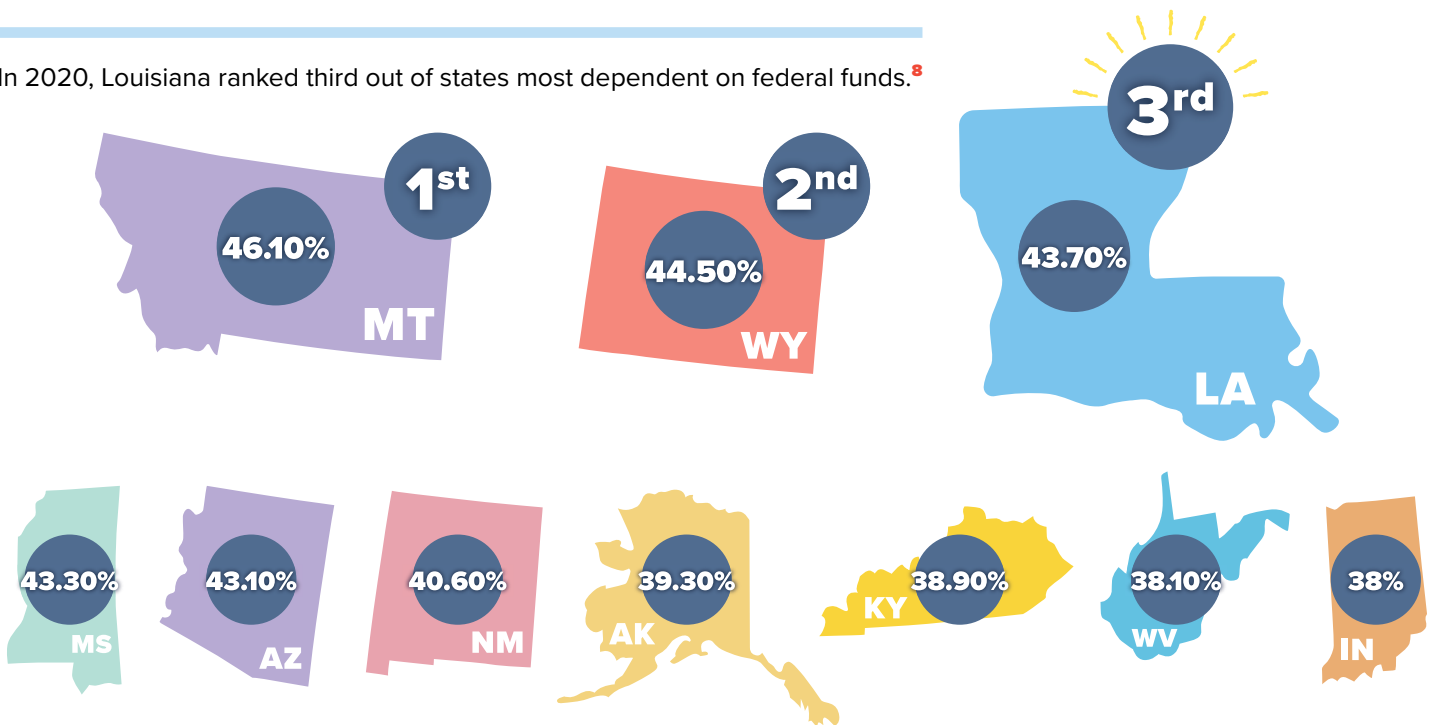
⁶ Division of Administration, Office of Planning & Budget, Executive Budget Documents

The state has an increasing dependence on federal funds. The substantial increase in federal funds from 2016 to 2017 was due to Medicaid expansion provided through the Patient Protection and Affordable Care Act of 2010. Disaster-related recovery has also contributed to the increased use of federal funds.⁷

What percentage of the total budget comes from the federal government?



In 2020, Louisiana ranked third out of states most dependent on federal funds.⁸

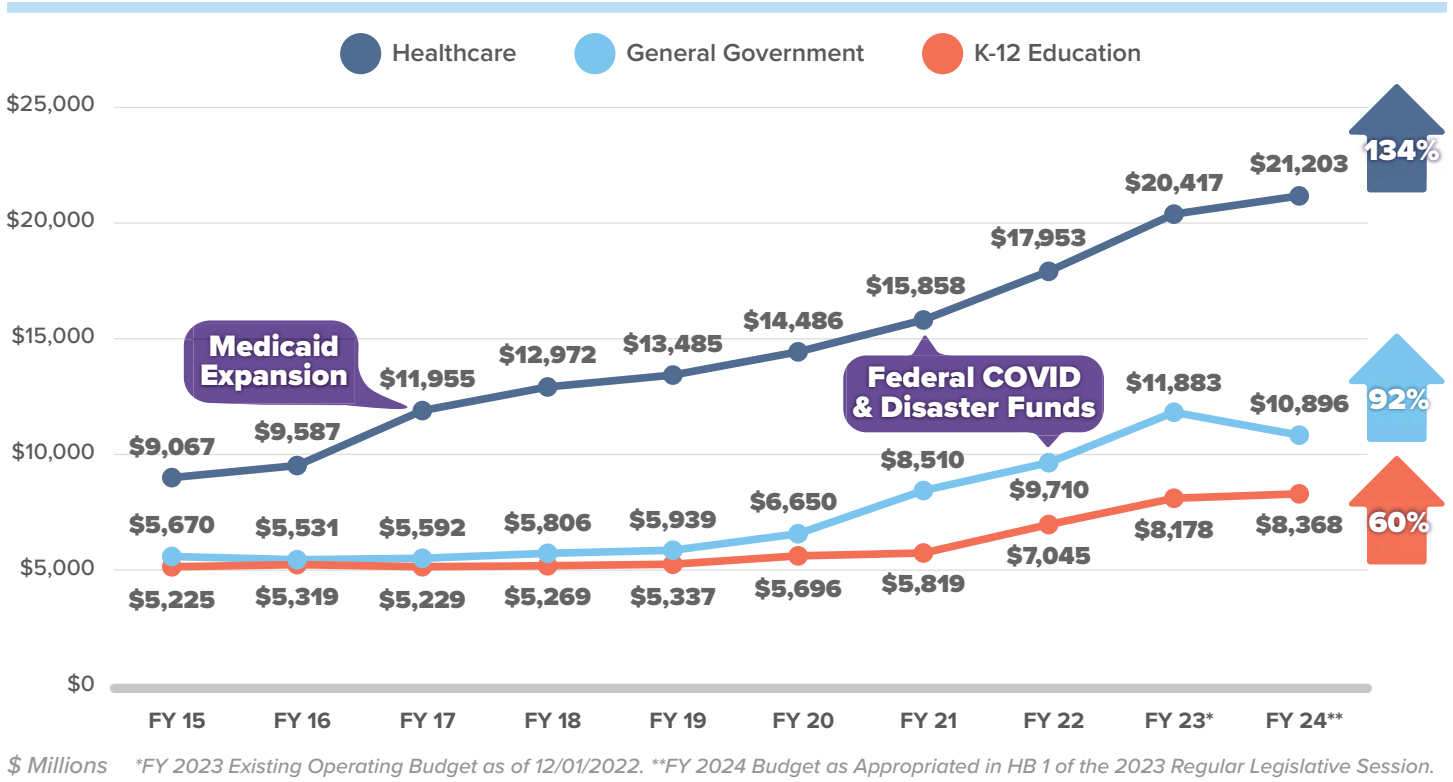


What is causing the increases?

Healthcare increases have been primarily driven by Medicaid expansion, along with federal funding related to the COVID-19 pandemic. K-12 education spending has increased due to additional spending based on the state’s public school funding formula. Additional debt service payments and new or expanded government programs have resulted in general government increases.

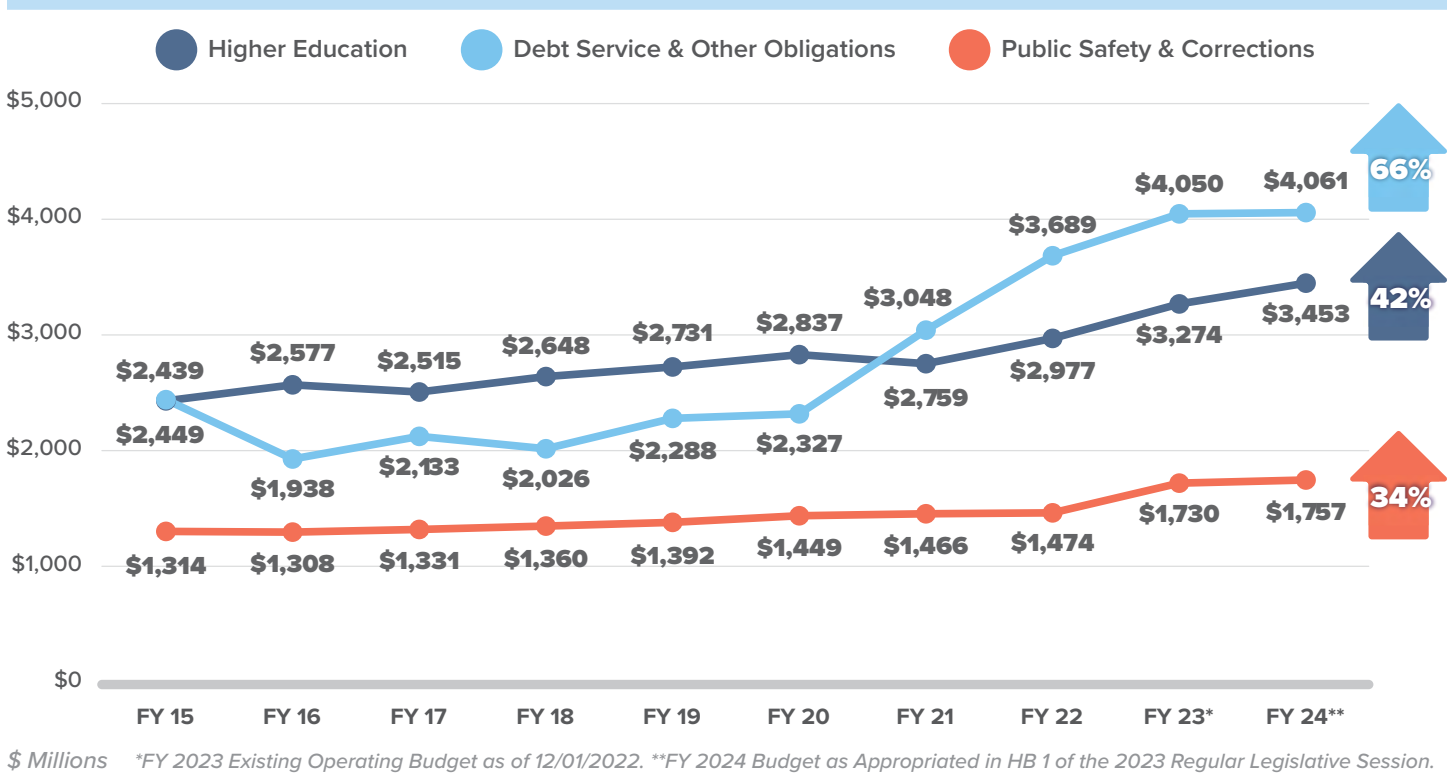
7 Division of Administration, Office of Planning and Budget, Executive Budget Documents

8 Tax Foundation, “Which States Rely the Most on Federal Aid?” by Janelle Fritts, February 12, 2020.



The Debt Service and Other Obligations section of the budget includes payments for debt incurred for the building and maintenance of state and higher education buildings, the state capital outlay program, and program expenditures incurred by the Louisiana Department of Economic Development.

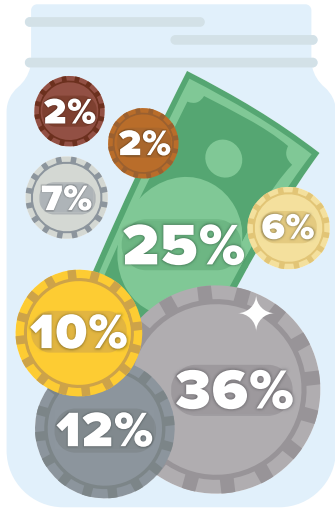
The Public Safety and Corrections budget increased expenditures for reentry services, state police, and correctional officer pay increases. Higher Education has increased in the last few years due to formula funding increases, faculty pay raises, and increases in TOPS and other state scholarship programs.



The size and scope of the major budget areas change dramatically based on the type of funding they receive. When looking at spending in terms of only state general fund, education is the largest area of spending. However, when looking at the total state budget, including federal funds, healthcare comprises 41% of the budget.

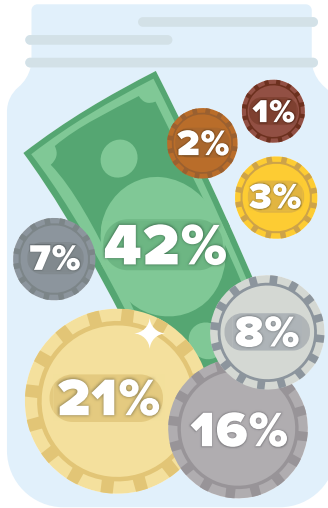
\$11.8 Billion

2024 State General Fund
Appropriated



\$51 Billion

2024 All Funds
Appropriated



- Healthcare
- K-12 Education
- Higher Education
- Public Safety and Corrections
- Debt Service & Other Obligations
- General Government
- Legislative & Judicial
- Children & Family Services

Budgeting Constraints

Dedicated Funds. The legislature has created numerous “special purpose funds” commonly called statutory dedications. The Louisiana Constitution includes 35 dedicated funds and sub-funds, and state laws include more than 440 additional funds (and growing each year).

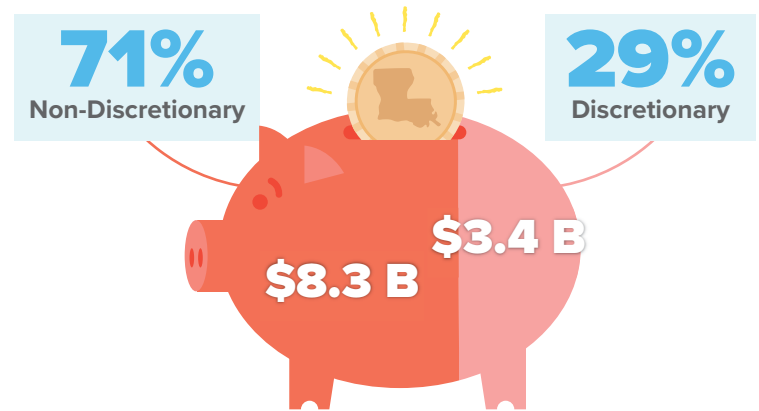


Some are tied to specific sources of funding, and others dedicate portions of the state general fund. Each dedication segregates and “locks up” another portion of the taxpayer pie, making it difficult for lawmakers to pass a balanced budget every year. The government services and activities made possible through these funds therefore receive very little scrutiny from legislators in the budget development and approval process, as they are generally more concerned with the things over which they have more control and can easily shift. When factoring in federal funding as well, two-thirds of executive branch departments have more than half of their budgets dependent on funds that aren’t state general fund.

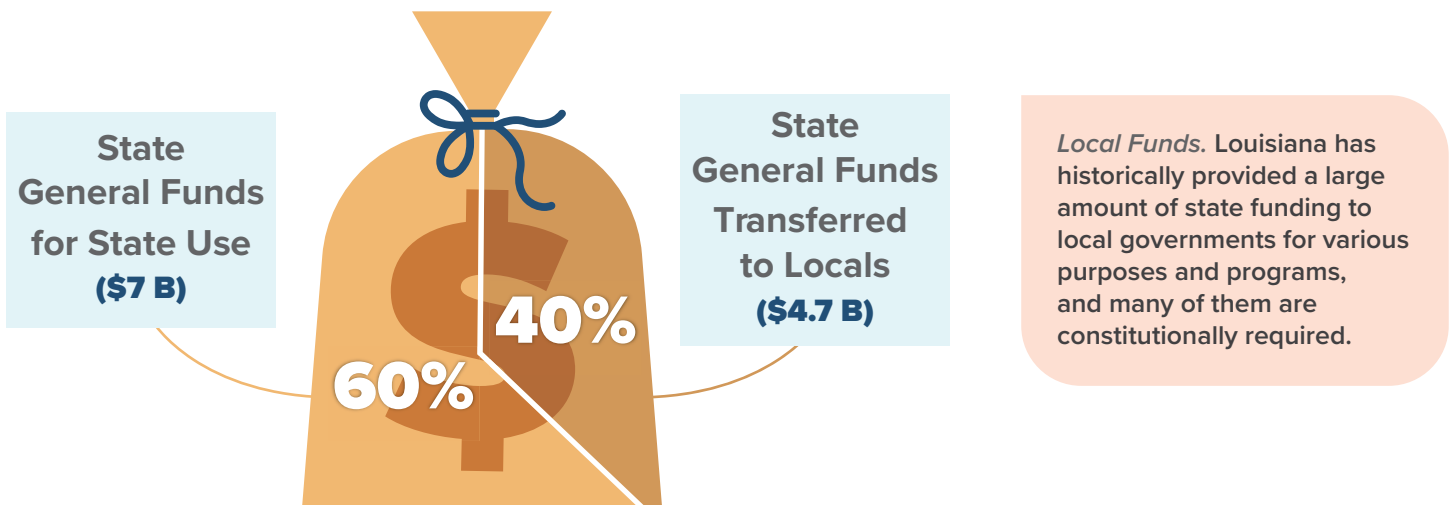
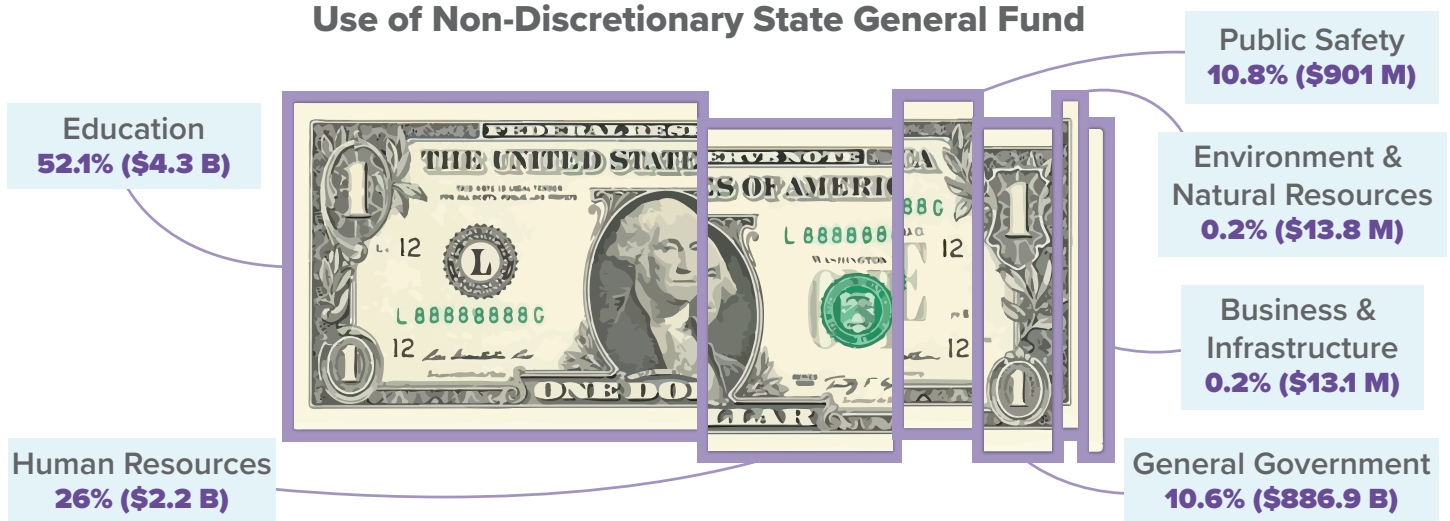
Discretionary vs. Non-Discretionary State General Fund

Constitutional and Statutory Requirements.

Louisiana’s budget also contains constitutional and statutory requirements that reduce how much flexibility legislators have with each taxpayer dollar. In FY 24, nearly 71 percent of the state general fund is considered “non-discretionary,” meaning it has a specified purpose or use, often with built-in mandatory increases. Therefore, while lawmakers ultimately have discretion over every taxpayer dollar collected, there are legal requirements in addition to political implications that make it difficult for lawmakers to weigh all budget needs equally and use all available state revenues to address them. This leaves just 29 percent of the state general fund “discretionary” and available when budget cuts are necessary.



Use of Non-Discretionary State General Fund



Some require a local match, while others are fully funded. Approximately 40% of the state general fund available for appropriation is transferred to local governments for education, roads, infrastructure, and local employee salaries.⁹ The fact that many of these local projects and programs are legally required creates further silos of government revenue that inhibits full flexibility in the budgeting process.

⁹ Louisiana Legislature, House Bill 1 of the 2022 Regular Legislative Session

Budget Crises and Fiscal Cliffs

For more than a decade, Louisiana has had multiple budget crises, often bailed out by large amounts of federal funding related to an emergency, such as a natural disaster, a recession, and most recently, the pandemic. But when that federal funding expires or when state revenue decreases, Louisiana is left with a “fiscal cliff.” The fiscal cliff, as it is called colloquially, is considered a large decline in funds available for when revenues decrease or when one-time federal funds expire and aren’t sufficient to pay for the proposed level of spending. It’s important to note that they’re only cliffs when spending isn’t adjusted in an appropriate, corresponding manner and lawmakers have not responsibly prepared for the temporary funds drying up. That is why spending one-time money on recurring expenses without a sustainability plan is dangerous, and exactly why some lawmakers have called for a more responsible approach in recent years.



When fiscal cliffs occur, lawmakers have historically addressed them in **four** ways:



Cutting budgets, which is politically unpopular, but necessary to balance the budget;



Using the state’s Rainy Day Fund, which is a savings account of sorts, where excess revenue is deposited when plentiful and then used for critical priorities in years of budget deficits;



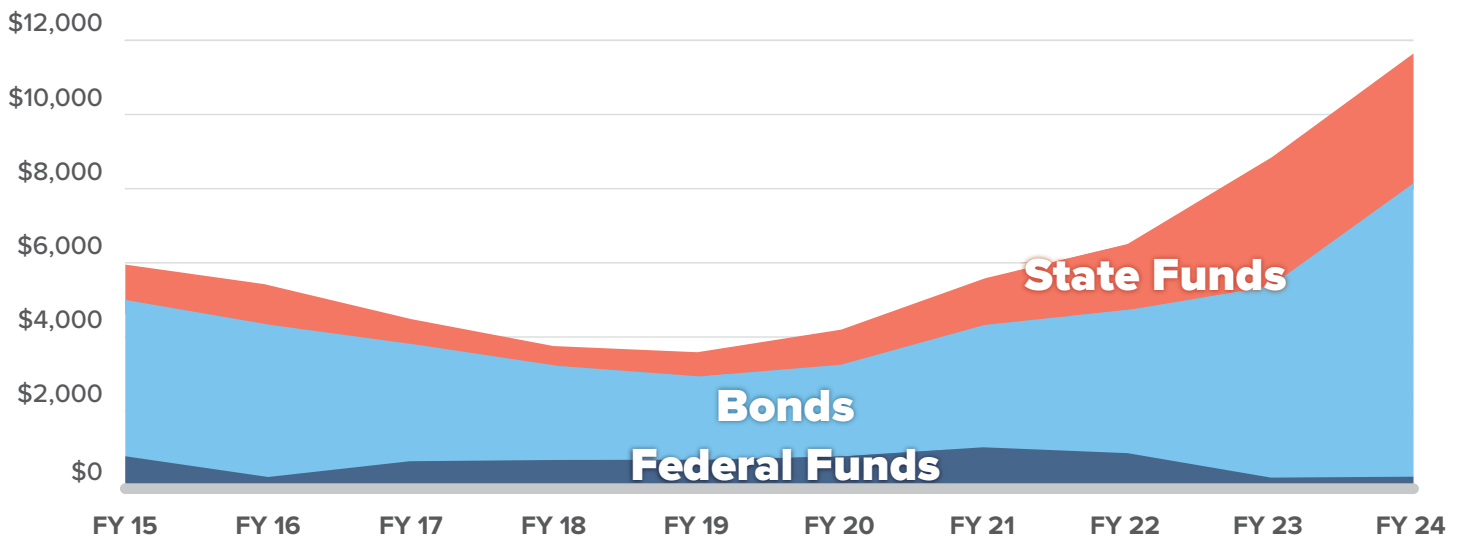
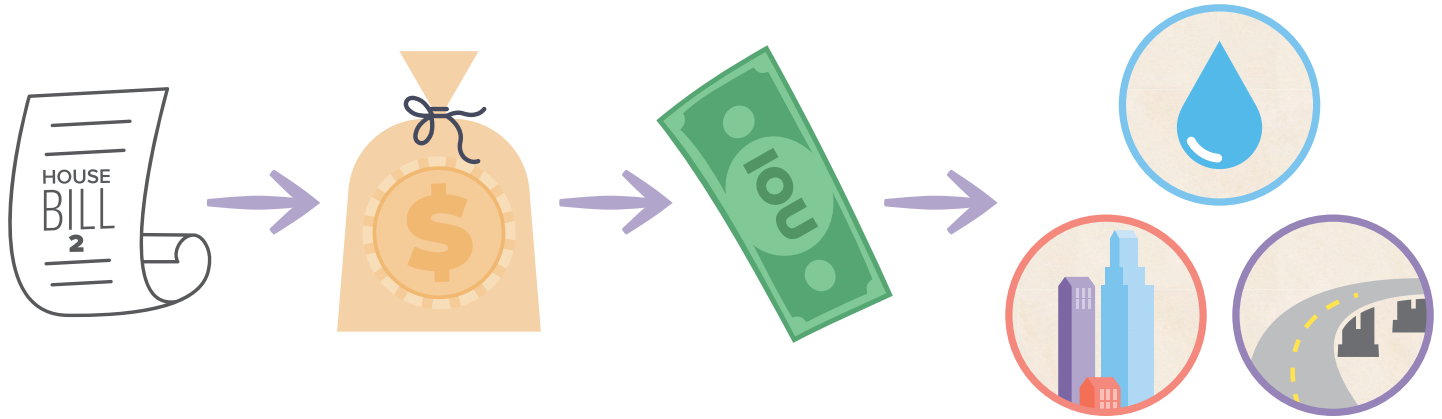
Identifying other sources of one-time funding to fund one-time projects; and



Temporarily or permanently **raising taxes**.

Capital Outlay

In addition to all the spending in the state’s operating budget, there is a separate bill,¹⁰ known as House Bill 2, for capital outlay spending. This bill is designed to fund, through a combination of cash and borrowing, large capital projects such as buildings, roads, water and sewer systems, and other infrastructure projects.



\$ Millions

Ideally, this budget should be for state-level projects, but just as lawmakers fund local projects and programs through House Bill 1, the capital outlay budget also provides cash and borrows money for local government projects, political subdivisions, and even non-governmental organizations (NGOs). If an entity can provide a 25 percent match, the remainder of the cost of the project can receive state general funds, have other sources of cash funding appropriated to pay for it, or receive funding through the issuance of state bonds. For fiscal year 2024, the capital outlay bill contains \$300 million in funding for NGOs, such as the museums, private health facilities, subdivisions, and the Tiger Athletic Foundation, which is a private, non-profit organization separate from Louisiana State University.

¹⁰ Louisiana Legislature, House Bill 2 (Capital Outlay) of the 2022 Regular Legislative Session

2023 Legislative Session and the Expenditure Limit

The FY 23 budget, as it was appropriated at the beginning of the year, was the largest in Louisiana's history. As the 2023 Regular Legislative Session began, and after the revenue forecast was revised for 2023 and the upcoming 2024 year, it was apparent that revenue was much higher than previously expected. This meant that for the first time since the aftermath of Hurricane Katrina, the state's expenditure limit was in danger of being exceeded in both fiscal years if all the revenue was spent.

The newly recognized revenue for FY 23 included \$726 million remaining from FY 22 (called a surplus) and an additional \$1.5 billion in revenue and budget savings in FY 23 (called an excess). The revised forecast for FY 24 added approximately \$1 billion more to spend in that year. To spend all this additional revenue, legislators would have to vote, by a two-thirds majority, to exceed the state's expenditure limit, as provided in the state constitution.

The expenditure limit is calculated by the administration each year with a growth rate that has historically been so high that revenues, and therefore spending, would never come close to exceeding it. However, with the recent growth of the state's revenue from changes to the tax code and temporary influxes of federal money, the state's revenue has exploded. The legislature was faced with two options for use of this excess money:

1. Raise the limit and spend it now, or
2. Save for a rainy day and pay down debt without raising the limit.

With just 19 House members and no Senators dissenting, the legislature voted to raise the expenditure limit in FY 23 by \$250 million and in FY 24 by \$1.4 billion, with an amendment added that would return the expenditure limit calculation back to normal for FY 25. This means that as revenues continue to come in higher than normal in FY 24 and 25, the battle over the expenditure limit will continue in the 2024 Legislative Session. However, revenues are predicted to fall in the ensuing years as federal funds are expended. Over \$500 million went toward retirement debt elimination and the required amount of \$186 million went to the Rainy Day Fund. The remainder of the funding went towards one-time expenditures and recurring items, which will need to continue to be funded, even as revenues are predicted to fall in future years.

Conclusion

Louisiana is on the precipice of yet another "fiscal cliff" in the next few years, and there will be a battle in the legislature between those that want to raise taxes and those that want to reign in the budget to "fix the cliff." The battle will be a familiar one, between those who want to address short-term funding priorities and those who want to achieve longer-term stability. Lawmakers and the governor would be wise to focus on creating a more responsible, sustainable budget by:

- 1. Limiting the growth of spending to a more sustainable level, ideally tied to inflation and population growth;**
- 2. Freeing up some of the 71 percent of state government funding that is locked up in dedications;**
- 3. Not caving to the pressure to raise taxes to fix looming fiscal cliffs;**
- 4. Shifting away from the continuation budget and incremental budgeting processes toward more of a zero-based budgeting approach to identify true spending priorities and avoid false fiscal cliffs; and**
- 5. Evaluating programs that are no longer needed, not meeting stated goals, and are failing to yield positive outcomes.**

By taking these important steps, Louisiana state government leaders can more effectively carry out their duties to meet critical short- and long-term needs and demonstrate good stewardship of taxpayer dollars.



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