The 2015 Louisiana Legislature

Modest Progress, Missed Opportunities

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The 2015 Legislature

A down payment on reform

The Louisiana Legislature finished its 2015 regular session by doing something that was seemingly unthinkable a few years ago: It agreed to raise new revenue to help solve the state's chronic structural budget deficit. Faced with potentially devastating cuts to colleges and universities, which already had seen per-student reductions in state support of almost $5,000 since 2008, legislators raised taxes on tobacco products and fees on vehicle purchases while reducing an array of subsidies paid to big corporations, film producers, solar energy companies, theater productions and others.

The revenue measures added an estimated $741 million to the 2015-16 operating budget. This revenue means colleges and health-care providers should have enough money to operate without major disruptions. The Legislature began a long-overdue debate about tax credits, rebates and exemptions that has potential to bear significant fruit in the years ahead. At a minimum, future lawmakers are likely to be more cautious before awarding tax breaks to interest groups that request them – which is good news for the citizens who depend on quality state services. The amount of "one-time" money being used for ongoing expenses was cut roughly in half – from $1.2 billion in the current year to around $600 million in next year's budget.

"... (T)he next governor and Legislature will soon have to revisit the policy battles that characterized the session."

The bad news is this: Many of the tax changes are temporary in nature, set to expire in one or three years, which means the next governor and Legislature will soon have to revisit the policy battles that characterized the session. Some of the tax measures were woefully incomplete. For example, the effort to cap the state's film subsidy program is almost certain to result in costly litigation and could expose the state to massive liabilities once the cap expires.

But most importantly, the Legislature once again missed several opportunities to pass policies that address Louisiana's biggest problems – the widespread poverty, poor health access and low educational attainment that keep so many hard-working Louisianans from reaching their full potential.

Legislators had a chance to help the working poor by enhancing the Earned Income Tax Credit (EITC) and establishing a state minimum wage for tipped employees, but failed to do so; nor could they find the money that's needed to implement the 2012 overhaul of early childhood education and restore funding for child-care assistance programs. For the third year in a row, efforts to extend Medicaid coverage to 300,000 uninsured adults failed to win passage (though legis-

About LBP

The Louisiana Budget Project (LBP) monitors and reports on public policy and how it affects Louisiana's low- to moderate-income families.

LBP was formed in 2006 by the Louisiana Association of Nonprofit Organizations (LANO) and is among more than 40 state-level policy organizations that participate in the State Priorities Partnership, coordinated by the Center on Budget and Policy Priorities.

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lators passed a resolution that will make it easier for the next governor to expand Medicaid should he choose).

Legislators raised the cost of buying a car and getting copies of your driving record, but failed to put more money toward need-based college scholarships. They also agreed to long-needed reforms to the TOPS scholarship program, but the changes were vetoed by the governor.

And even where there is good news, it comes with caution. In New Orleans, legislators found $8 million necessary to maintain services at the network of neighborhood health clinics that provide primary care to more than 50,000 residents. But that money was allocated from federal Community Development Block Grant funding that requires federal approval to spend, and Gov. Bobby Jindal's administration has said the money may not be available.

2015 session by the numbers

$1.6 billion	Initial shortfall facing legislators at the beginning of the session
25 percent	Share that was due to the drop in oil prices
75 percent	Share due to Louisiana's "structural deficit" between revenues and expenses
$741 million	Revenue that will be generated next year by 12 major bills passed this session
$365 million	Amount from bills that are permanent
$110 million	Amount that will have to be replaced next year
$266 million	Amount from bills that will expire after three years
$600 million	Approximate amount of "one-time" money in the 2016 budget that will have to be replaced
$1.2 billion	Amount of "one-time" money in the 2015 budget that had to be replaced this year
$80 million	Amount needed to fund the Act 3 early childhood education law
$0	Amount appropriated for Act 3 in the 2016 budget
$4,941	Cut in state support for higher education per student since 2008, the worst in the nation
515,000	Number of families who would have benefited from a stronger Earned Income Tax Credit
10 percent	Share of their income those families pay in state and local taxes
300,000	Number of uninsured Louisianans who could gain health coverage with Medicaid expansion
3	Number of years the governor and Legislature have rejected this opportunity
50 cents	Tax increase per pack of cigarettes approved this session, bringing tax to 86 cents from 36 cents
35th	Rank of Louisiana's new cigarette tax among the 50 states and DC, up from 48th

How the budget was balanced

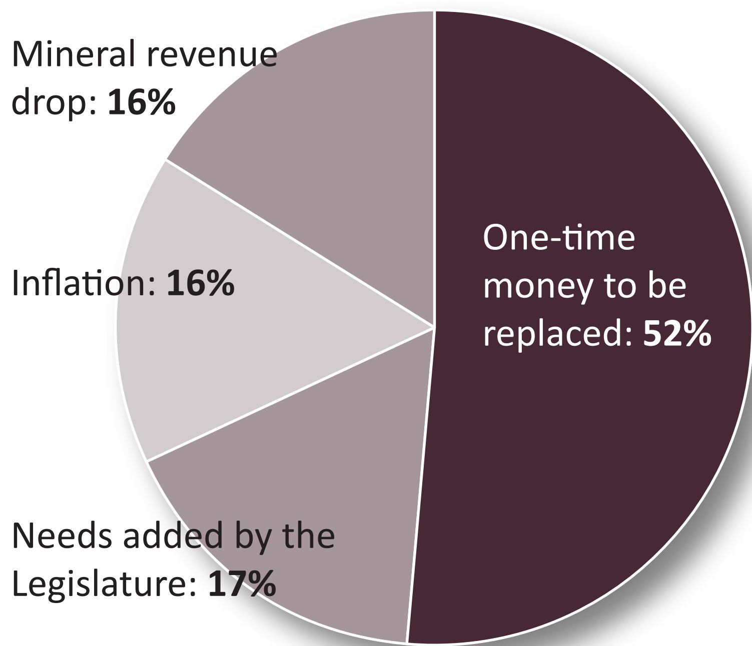
The 2015 session began with Louisiana facing a $1.6 billion gap between revenues and projected expenses. Falling oil prices – and the resulting drop in mineral revenues – accounted for about 25 percent of the initial gap. But the main cause of the deficit was slower-than-expected growth in the state economy and the policy decision to deplete various state savings accounts and employ short-term financing gimmicks instead of raising the revenue needed to fund basic services. This reliance on "one-time money" only served to mask Louisiana's structural deficit. The reality is that expenses have outstripped ongoing revenue, year after year. The gap only grew after legislators identified another $327 million in unfunded budget needs.

To plug the gap, legislators began by requiring state agencies to absorb $161 million of inflationary costs in their budget – a routine action in years when the state faces a shortfall. Actual cuts and savings due to management efficiencies saved another $300 million. Next, they passed a series of revenue bills projected to bring in $659 million next fiscal year, plus $82 million in new fees on drivers. Finally, next year's budget includes roughly $600 million in one-time money (including $103 million from the revenue bills referenced above) from various sources that will have to be replaced next year.

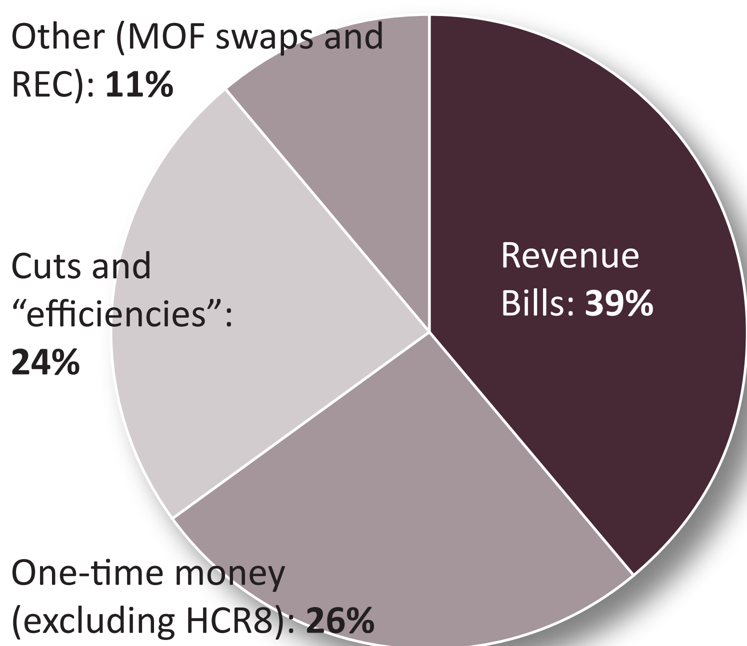
While the budget deal represents a down payment on the structural changes that are needed, it is far from a long-term solution to Louisiana's fiscal imbalance. The next governor will almost certainly face a budget gap to start his term.

Below is an overview of the key revenue bills LBP followed this session:

What caused the budget shortfall?



How the shortfall was "solved"



Source: LBP Analysis

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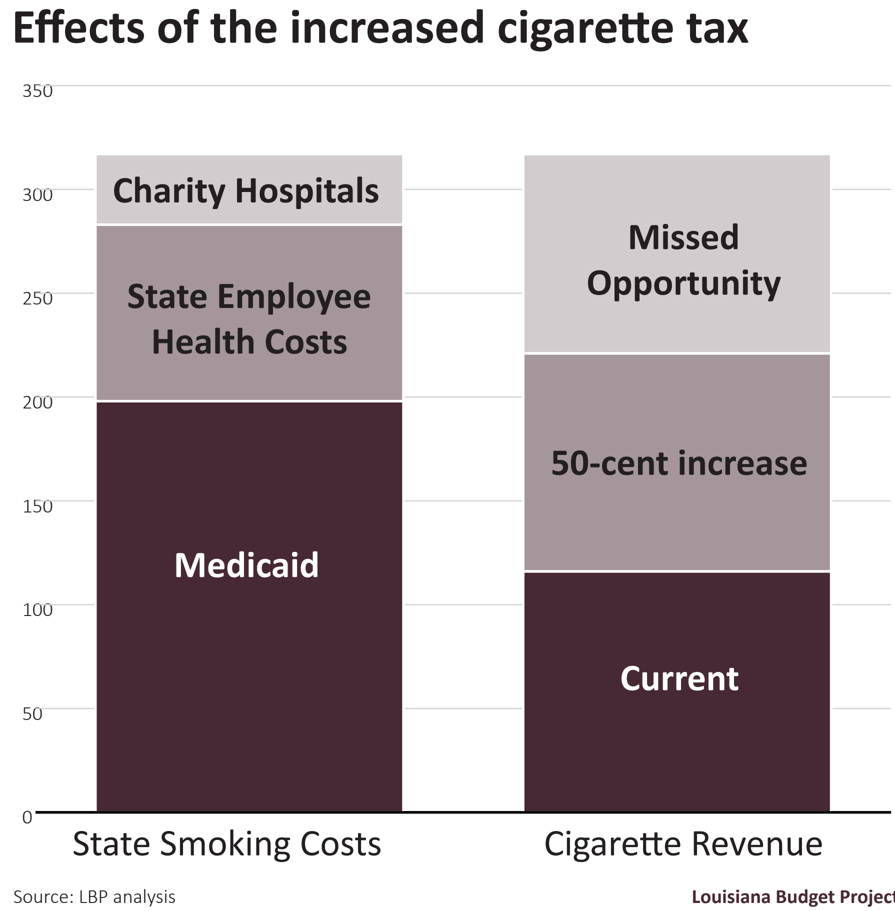
Cigarette tax

Cigarette smokers in Louisiana paid the third-lowest taxes in the country when the session began, just 36 cents a pack. House Bill 119 by Rep. Harold Ritchie proposed raising the tax to the national average of $1.54 per pack, which would have generated more than $220 million to help balance the budget and also would have encouraged more people to quit the deadly habit.

Tobacco use in Louisiana costs the taxpayers as much as $800 million per year – or $400 for every household in the state. The money generated by the 36-cent tax doesn't come close to covering that cost

Under pressure from convenience store operators and the tobacco industry, legislators decided to raise the cigarette tax by a much smaller amount – which will generate much-needed dollars for the Medicaid budget but will not produce the same public health gains as a $1.18 per pack increase. Under a compromise that was approved on the last day of the session, the cigarette tax will go up by 50 cents per pack. Louisiana's cigarette tax will be the 35th highest in the country, up from 48th under the old tax.



Combined with a new tax on e-cigarettes and vapor products, the bill will bring in around $106 million a year.

While any new tax on cigarettes counts as a step forward, this was a missed opportunity for legislators to sharply reduce the number of teens who take up the habit, and to make sure that smokers pay for the costs they add to the health-care system.

Film subsidies

Legislators also missed a golden opportunity to make long-term structural reforms to Louisiana's film subsidy program, opting instead for a short-term Band-Aid approach that will almost certainly face a legal challenge.

The film program has cost taxpayers more than $1.5 billion over the past decade, by reimbursing film producers 30 percent of the money they spend in Louisiana. Each subsidy dollar generates 20 cents in new revenue at most, making the program a clear loser for state taxpayers. In its most expensive year, the program paid out $250 million in film subsidies – money that could otherwise have been used to support higher education, health care or other critical services.

Legislators spent much of the session debating how to cap the program, and ultimately decided on a cap of $180 million on what the state pays each year. But at the last minute, House Bill 829 by Rep. Joel Robideaux was amended to remove a cap on how many film projects can be "certified" to receive subsidies at a later date. The last-minute deal also calls for the "claims" cap to expire in 2018.

The good news is that a claims cap should generate some short-term savings for the state – an estimated $70 million next year. But a claims cap is likely to be challenged in court by people who have certified tax credits that cannot be cashed in due to the cap. And by putting a three-year sunset on the cap, the state could end up with large financial liabilities once the cap expires and the backlog of certified credits get cashed in.

The final bill also expands the film program in several ways. It bumps the payroll credit from 5 percent to 10 percent, lowers the spending threshold for certain productions in an attempt to incentive more local films, and creates a 15 percent credit add-on for Louisiana-owned screenplays and music scores. Without a firm spending and certification cap, these changes will end up costing the state even more in the future.

While the Legislature deserves praise for recognizing that film subsidies are a drain on valuable resources that need to be reined in, the solution they crafted is a short-term answer that could compromise Louisiana's long-term fiscal health.

Earned Income Tax Credit

Legislators also missed an opportunity to put more money in workers' paychecks by increasing Louisiana's Earned Income Tax Credit (EITC), which currently is the lowest in the country. House Bill 70 by Speaker Pro Tem Walt Leger III of New Orleans would have doubled the credit from 3.5 percent to 7 percent of the federal credit. This would have helped more than 515,000 working families across the state - almost 1 in 3 households - and put $48 million back into local communities. The credit is designed for people who work, yet aren't paid enough to make ends meet and support a family. Research has shown it to be one of the best tools for lifting hard-working families above the poverty line and giving children a better chance at future economic success.

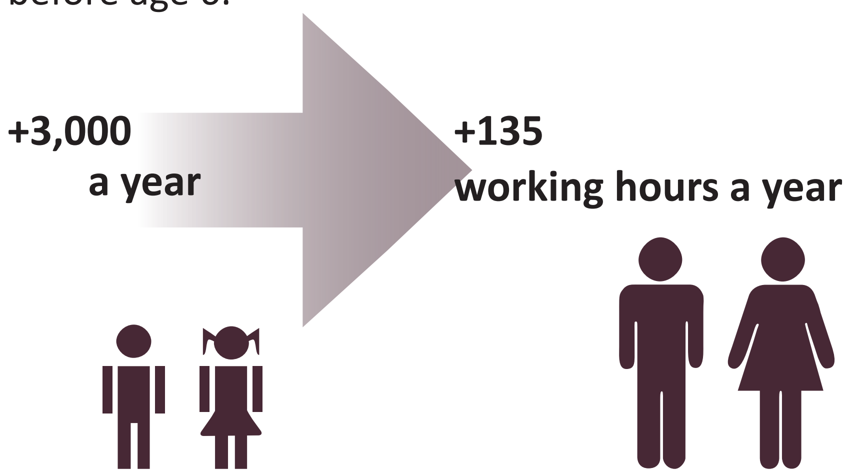
Rep. Leger's bill had a topsy-turvy experience in the Legislature. A House committee approved the bill, which later died on the House floor. It was resurrected in the last week of the session through an amendment to a separate bill, but the Senate refused to go along and instead sent the bill to a House-Senate compromise committee. That committee stripped the EITC language in the final hours of the session, leaving vulnerable workers without a little extra money to pay overdue bills or provide for their families.

Louisiana's tax system is unfair to the poor. Workers in the lowest 40 percent of income earners pay taxes at more than twice the rate of those in the top 1 percent. The EITC is one of the few tools the state has to level that playing field and reward those workers who need a hand up.

Several bills were also filed that proposed to reduce the refundable portion of the state EITC. Fortunately, these bills failed to gain momentum, in part because doing so would have risked federal block grant funding that Louisiana receives by putting up EITC as a state match.

Higher EITC or Other Income for Poor Children Expected to Boost Work Hours and Earnings Later in Life

Change in annual adult work hours associated with $3,000 annual increase in income to poor children before age 6.



For each $3,000 a year in added income that children in a poor family receive before age 6...

...their working hours rise by 135 hours a year between ages 25 and 37 and their annual earnings rise by 17%.

Source: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior and Health," *Child Development,* January/February 2010, pp. 306-325

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Enterprise Zone program

Louisiana's Enterprise Zone program was started with the best of intentions – to give companies an incentive to create jobs in impoverished areas. But over the years, the Legislature changed the program's rules in ways that strayed from its original purpose. Louisiana ended up one of the few states that gave subsidies to restaurants and retail stores—even if they weren't in an Enterprise Zone. Economists agree this isn't an effective way to grow the economy, because new establishments don't create additional demand, they just take away customers and jobs from existing companies—hurting small businesses.

House Bill 635 by Rep. Katrina Jackson solves the problem by excluding these industries from the program. The change is expected to save $15 to $20 million over the next five years. Legislators could have gone further and barred construction firms, real estate and leasing companies, hotels and health care companies that similarly don't create additional economic demand from the program. That could have saved as much as $100 million over five years, without harming the state's economy.

Other revenue bills

Legislators made a number of tax changes that mainly affect corporations. Several of these are temporary, due to expire in either one or three years. For example, businesses will be required to pay a 1 percent sales tax on utilities for a year, and large companies will be able to claim fewer inventory tax credits. Another bill requires an across-the-board 28 percent cut to a host of targeted tax credits for three years, while another accelerates the end of the solar energy tax credit program.

Taken together, those revenue measures are expected to bring in $659 million next year. But much of this revenue is temporary, as the old tax rates and credits will be automatically restored. Only about $283 million is permanent. Higher fees on car purchasers will bring in another $82 million, continuing a growing trend of jacking up fees on families and businesses in lieu of raising taxes. Absent a legal challenge, there is enough—on paper at least—to stave off the deep budget cuts that were discussed earlier this spring.

Major revenue bills

Bill	Sponsor	Purpose	FY16 Impact
House Concurrent Resolution 8	Montoucet	Suspends 1 cent of sales tax exemption on business utilities for 1 year	$103 million
House Bill 119	Ritchie	Increases the cigarette tax by 50 cents and taxes e-cigs/vapor products	$106 million
House Bill 218	Broadwater	Changes the corporate net operating loss deduction	$29 million
House Bill 402	Stokes	Changes the credit for taxes paid to other states for 3 years	$34 million
House Bill 445	Mack	Increases vehicle title fees from $18.50 to $68.50	$60 million
House Bill 448	Pugh	Increases official driving record fees from $6 to $16	$22 million
House Bill 624	Jackson	Reduces corporate deductions and exclusions by 28 percent for 3 years	$122 million
House Bill 629	Jackson	Reduces most individual and corporate tax credits by 28 percent for 3 years	$31 million
House Bill 635	Jackson	Reduces rebate programs by 20 percent for 3 years	$9 million
House Bill 779	Ponti	Modifies and phases out solar tax credit	$19 million
House Bill 805	Adams	Modifies the inventory tax credit and makes R&D credit nonrefundable	$129 million
House Bill 829	Robideaux	Caps film credit payouts at $180 million for 3 years	$77 million
		Total 2016 revenue impact	***$741 million***

Education

After years of deep budget cuts and threats of additional reductions next year, Louisiana's public colleges and universities emerged from the session largely unscathed. That's a minor miracle considering where the debate started.

Louisiana's college and universities faced a "doomsday" budget scenario that would have cut overall state support by 58 percent—from $924 million to $391 million—slashing some institution's budgets by up to 82 percent. But colleges and universities emerged this year with standstill support from the state. Of course, this is not reason to celebrate. Louisiana has still cut state support for higher education by $4,941 per student since 2008, more than any other state. That's a cut of 42 percent, while tuition has gone up 67 percent over the same time frame.

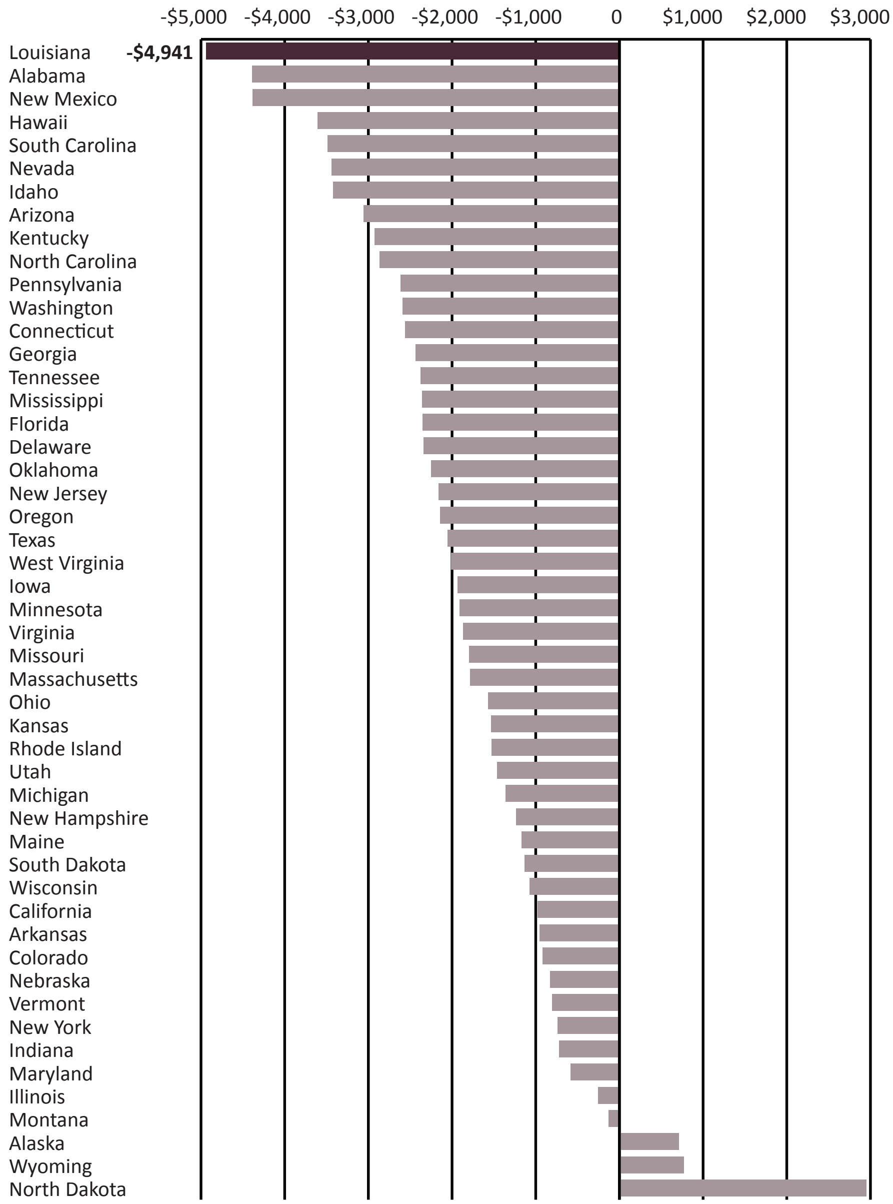
Elementary and secondary students fared a bit better. For the sixth time in eight years, state support through the K-12 school funding formula (the "Minimum Foundation Program") was frozen. But at the last minute, the Legislature added an increase outside the MFP of $54 per student. While that is better than nothing, basic state support per student is still down $236 since 2009 after adjusting for inflation, even though costs have gone up at the local level. That means fewer after-school programs, larger class sizes and deferred school maintenance across Louisiana—not a recipe for success.

And while education didn't take any major steps backward, policymakers failed to make the new investments necessary to move Louisiana forward. That's especially true when it comes to the state's youngest children. Act 3 of the 2012 legislative session established a framework for improving early childhood education for children from birth to 5. But the Legislature has not come up with the money needed to implement the new law. The Department of Education requested $80 million this year, but none of it was included in the budget.

A growing body of research has found that investing in early childhood education today is the best thing we can do to reduce poverty and boost economic growth tomorrow. A dollar invested today in a child age 0 to 3 from an at-risk family can produce up to $17 in long-term savings to the state. The next governor and Legislature must make this a priority.

Louisiana has cut more from higher education than any other state

Change in state spending per student, inflation adjusted, 2008-2015



Source: CBPP Calculations using data from Illinois State University's annual Grapevine Report and the State Higher Education Executive Officers Association

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Health care

The session dawned with bleak prospects for health care. The governor's executive budget proposal did not provide enough money for the private operators of Louisiana's charity hospitals, and did not include money for "legacy costs" from the old Louisiana State University-run charity hospital system. That meant LSU's medical schools in New Orleans and Shreveport did not have enough to pay retirement and insurance costs for workers who were laid off as a result of privatization. The budget also included no funding for a network of neighborhood clinics that provide primary care to 57,000 uninsured adults in the four-parish New Orleans metro area.

By the time session ended, legislators found money to fund all three critical needs.

But legislators continued to reject the opportunity to provide basic health coverage for the working poor through the expansion of Medicaid. This marks the third year in a row that legislators have denied coverage to an estimated 300,000 uninsured Louisiana adults, even though federal dollars would cover almost all of the costs. The benefits in terms of better access to preventive health service and reduced mortality are clear. More than half the states, including many led by Republicans, have chosen to take advantage of this option.

But in a potential sign of changing winds, legislators approved House Concurrent Resolution 75, which would allow for a new hospital fee to cover any of the state's costs provided coverage was expanded by April 2016. The resolution is as a tool for the next governor to use and holds the promise of better access for uninsured Louisianans who currently make low wages.

Looking ahead

Louisiana's fiscal problems weren't created overnight, and it was unrealistic to expect a lame-duck governor and Legislature to fix them in a single election-year session. But while the 2015 Legislature missed several opportunities to make long-lasting change that benefits Louisiana's low- and moderate-income families, the revenue changes that were passed represent a small but encouraging down payment on the kind of long-term changes that are needed.

In early 2016, Louisiana will have a new governor and dozens of new faces in the House and Senate. It is widely expected that their first order of business will be to revisit this budget deal and take another stab at reducing the state's structural budget deficit. When that session happens, policymakers should use it as an opportunity to not just maintain the status quo but to make new investments in vulnerable communities.

It is not enough to simply keep higher education funded at current levels; state investments in colleges and universities must be increased if we are to train enough workers to meet the future demand for skilled labor and grow the middle class. It's not enough to fund a network of private hospitals to treat the uninsured; policymakers need to ensure there is health coverage for those who need it by taking advantage of available federal Medicaid dollars.

And it is not enough to merely reduce the amount of one-time, temporary financing in the state budget. Despite modest progress, Louisiana still doesn't raise nearly enough revenue to provide basic services, let alone make the investments necessary to ensure that the next generation of citizens grows up healthier and better educated than its predecessors. Raising that revenue in a fair manner that doesn't widen our state's endemic inequality and burden our most vulnerable should be the chief challenge for the next governor.

Constitutional Convention

The Legislature wisely voted down a proposal calling for a "Convention of States" to make changes to the U.S. Constitution. The idea, advanced by Rep. Ray Garofalo of Chalmette, is part of a national effort by right-wing activists to sidestep the congressional process by using a little-known provision in the Constitution that allows a convention if two-thirds of states agree. While supporters of the resolution said the convention's subject matter could be restricted to specific topics, the reality is that a convention could be expanded to include virtually any subject matter, including reconstructing the entire system of checks and balances that have governed American democracy for more than 225 years.

A Constitutional convention would create grave uncertainty for the country, and undermine the world's confidence in America's political stability. That, in turn, could have had severe consequences for the national economy and particularly the most vulnerable.