The Good, the Bad, and the Ugly in Louisiana’s New Budget

By Tim Mathis and Steve Spires

Summary

The 2012 Legislature followed what is by now a familiar pattern. Lawmakers made more cuts to public education and health care that jeopardize Louisiana’s economic future, while siphoning millions of dollars for other uses—in this case private schools and special-interest tax breaks.

Nonetheless, policymakers finally may be coming to the realization that state revenues are simply too low to sustain even a basic level of services, much less to make the kind of investments in schools, transportation and other ingredients of a sound economy that are needed to create jobs and compete in the 21st century. The legislature agreed it is time to take a look at the hundreds of exemptions that permeate the tax code and drain millions of dollars in needed revenue each year.

The 2012 Legislature started with passage of historic education bills that will shift tens of millions of dollars—and thousands of students—from traditional public schools to private and charter schools. It ended the way most Louisiana legislative sessions do—with high-stakes fights about money.

In between, the Legislature adopted a new pension system for future state employees and used a loophole in state law to approve new corporate tax breaks.

While the session may be best remembered for its marathon debates about education, another key event occurred in late April when the state’s troublesome economic situation required the Revenue Estimating Conference to reduce the state’s revenue forecast by a combined $509 million - $205 million for the 2011-12 budget year and $304 million for the 2012-2013 budget cycle that starts July 1. It marked the fourth consecutive year that the forecast has been reduced in mid-year, adding fuel to the argument that Louisiana’s money problems come not from overspending but from a built-in lack of revenue.

For several years, policymakers have chosen not to raise enough money to maintain the state’s investments in healthcare, education, social services and infrastructure—the building blocks of a strong, sustainable economy that works for everyone. Instead, money continues to go to tax breaks for wealthy people and profitable companies that can easily afford to pay their own way.

If there is a silver lining to the most recent revenue drop, it’s that policymakers in both parties finally appear ready to tackle one source of the persistent shortfalls by agreeing to take an in-depth look at the hundreds of exemptions, rebates and other loopholes in the tax code. A bipartisan commission created by Senate Finance Committee Chair Jack Donahue will begin work in September, and is to release a report by late winter.

A thorough review of tax exemptions—as envisioned by the Donahue Commission—has the potential to bring in revenue we need to invest in the future.
The Good
The good news about the state budget is that things could have ended up much worse.

Lawmakers agreed to use $205 million from the state’s Budget Stabilization Fund—commonly called the rainy-day fund—to close the gap between revenue and spending needs in the fiscal 2012 budget. Some legislators had suggested pushing the problem into the 2013 fiscal year, which had the potential to damage the state’s credit rating and force yet another round of mid-year cuts.

Meanwhile, a group of conservative House Republicans spent the final weeks of the session trying to purge the fiscal 2013 budget of $268 million in so-called “one-time” revenue, such as proceeds from the sale of a New Orleans hospital and money from various funds, that the Jindal administration had planned to use to offset deeper budget cuts. Although the conservatives won passage of a House floor amendment that replaced the one-time money with spending cuts, the Senate later restored the funding. The governor’s office then persuaded enough of the House group to switch sides and support the restoration.

Had the House group prevailed, the damage to critical state services would have been hard to undo. Public colleges and universities alone would have lost a total of $190 million in state support, pushing state funding down to levels not seen since the late 1990s. Entire academic programs and majors would have been shut down and scores of professors laid off.

Health-care programs would have seen even deeper reductions, totaling more than $500 million when the loss of matching federal Medicaid money is included. The result would have been elimination of a state program for developmentally disabled children, sharply reduced mental health services and cuts of nearly 10 percent in the rates paid to some private Medicaid providers—a move that almost certainly would have reduced care for Louisiana’s poorest and most vulnerable residents and potentially have cost the healthcare sector jobs.

To understand why the one-time money was so critical to the overall budget, it helps to look at where the budget cycle began. When the governor presented his FY13 budget in February, the state had just finished a bruising round of mid-year cuts for FY12 totaling $251 million, which left colleges and health-care providers scrambling to adjust. Despite the mid-year belt-tightening, revenue was running $895 million less than what was needed to maintain existing service levels for FY13.

To close the gap, the governor’s budget cut $325 million in spending, saved another $286 million through spending freezes and found $284 million by swapping out state dollars, mostly with new sources of federal funds. So by the time Louisiana’s revenue forecast was reduced in late April, Louisiana’s budget was already suffering. In fact, when the House Appropriations Committee attempted to address the $304 million shortfall for FY13, it could not come up with enough cuts on its own and directed the governor’s Division of Administration to cut $43 million.

Given all these cuts, reducing another $268 million by eliminating one-time money, as the House suggested, would have been devastating for the millions of Louisianans who rely on state government for basic services. Moreover, the very notion of “one-time” money is a bit of a misnomer, as the state has a long tradition of using such money to finance ongoing expenses. Only once in the previous decade has the state balanced its budget without using one-time cash: In 2008, when Louisiana’s revenue forecast swelled by more than $800 million in the last month of the session, which allowed legislators to replace one-time cash with “recurring” revenue.

Fortunately, the worst was avoided this year. The Senate restored the one-time money, and an agreement was reached in the final hours of the session to close the FY12 shortfall with money from the rainy-day fund—avoiding even deeper cuts to important services.
The Bad

Despite the last-minute restorations, the people who study at and work for Louisiana’s colleges and universities continue to bear the brunt of budget cuts. State support for higher education was cut by $66 million* for 2012-13, pushing total cuts to $491 million since FY2009. That’s more than a one-third decrease in state funding for a state that ranks among the lowest in the nation for educational attainment.

Universities have made up for some of this with steep tuition increases—a troubling trend that could put a college education financially out of reach for many poorer residents. Four years ago, state funding made up about 60 percent of university budgets, with the other 40 percent coming from tuition and fees. But that ratio has been reversed, and students now pay more than 60 percent of the cost.

Unless it’s reversed, that trend will have grave consequences for the state’s economy. Unrelenting cuts in higher education that make college less affordable and accessible can contribute to a downward spiral, resulting in a greater concentration of low-wage and low-skilled jobs. By 2018, Louisiana is projected to be second-to-last among states when it comes to the availability of higher-paying jobs requiring a post-secondary education, and near the top for low-paying jobs that require little education.1

Health-care programs, which already had to absorb millions in cuts earlier this year, are also being cut in the FY13 budget. Medicaid providers and Bayou Health plans face a 3.7 percent rate cut and other reductions, totaling $186 million. Local behavioral health services will also be cut, and programs that provide home-care services for people with disabilities will stop accepting new patients—even though there is already a long waiting list. Finally, state funding for LSU hospitals will be reduced again, meaning more closed clinics, fewer patient beds, and more staff layoffs.

The state also took a step backward on its four pension systems. While Gov. Jindal proposed a number of changes to state workers’ retirement plans, only one of them passed—a plan to enroll new employees in a 401(k)-style plan instead of giving them the same type of retirement security that existing workers get. Unfortunately, according to the Legislative Actuary, this move will actually raise costs for the state even as it increases financial risk for state employees and makes their retirement less secure.

Even as it was making cuts that will close health clinics and lay off teachers, the Legislature approved new corporate tax subsidies that will cost the state even more revenue, while benefiting a favored few. The New Orleans Hornets basketball team will get $36.5 million in tax credits over the next decade, and new tax rebates were created for corporations that would have taxpayers reimburse companies for 25 percent of the cost of moving their corporate headquarters to Louisiana or rebate up to 15 percent of certain businesses’ payrolls for as long as 10 years. Such tax breaks have not been shown to result in economic growth, while they deprive the state of revenue that could otherwise be invested in schools, job training, infrastructure improvements and other proven economic engines.

The tax breaks were approved even though Louisiana’s constitution prohibits revenue bills being considered in even-numbered years. That’s because a loophole in state law allows for rebates to be adopted in non-tax years.

* Excluding the Louisiana Office of Student Financial Assistance
While it’s encouraging that the Donahue Commission will study the effectiveness of tax giveaways, Gov. Jindal vetoed a bill—HB 1104 by Rep. Katrina Jackson—that would have required state agencies to collect and report more information on tax exemptions. Such information could help determine which tax exemptions are giving the state a true return on investment and which are wasteful. The bill unanimously passed both chambers of the Legislature. But the governor’s veto deprives legislators of a valuable and necessary tool to correct Louisiana’s fiscal imbalance.

The Ugly
This FY13 budget will inflict long-term damage on K-12 public schools, threatening Louisiana’s ability to create a world-class education system to ensure a better future with high-paying jobs for the next generation.

The primary source of funding for school districts, the Minimum Foundation Program (MFP), will get about $70 million less than it needs to maintain current services, when the rising cost of things like employee retirement and gas prices are taken into account.

This marks the fourth year that school funding will remain at a standstill, putting pressure on local school districts to come up with more money on their own. Per-pupil spending has been frozen at $3,855 since 2008, as policymakers have refused to fund the 2.75 percent “growth factor” in the funding formula. That amounts to a $442 reduction for each student (see figure) after factoring in inflation. Poorer school districts and those with large numbers of at-risk and special education students have been hit particularly hard.

To cope, school leaders are dipping into their reserves and delaying or canceling building projects. Many are laying off teachers and staff, cutting bus routes, reducing academic programs, and consolidating or closing schools. Children going back to school this August can expect larger class sizes, fewer field trips, outdated textbooks, reduced tutoring and fewer after-school programs.

Meanwhile, millions of dollars have been redirected to for-profit charter schools, virtual schools, private schools and colleges and universities.

The school voucher bill that Gov. Jindal signed into law this spring promises even more uncertainty for public school students, parents, teachers and school administrators. The modest voucher program that began in New Orleans in 2008 will be expanded statewide, with nearly 7,450 students—mostly in urban areas—expected to attend private and parochial schools at taxpayer expense, with little accountability for how well the kids are learning.

The way that legislators plan to pay for the vouchers—by including the money as part of Louisiana’s financing formula for public schools—could force new costs and mandates on local school districts and will result in an expensive legal battle. The state Constitution is clear that the MFP formula is designated for “public” education and that the money should go to local districts. Adding the voucher program into the MFP will blur the clear line between taxpayer funding of public and private schools. It will also strip the Legislature of its power and discretion to control the cost and scope of the experiment by turning it into a new entitlement.

Another troubling sign is the potential for abuse due to insufficient accountability and oversight. A series of news reports have raised important questions about the ability of some voucher schools to handle an influx of new students. One example is the New Living Word Academy in Ruston, which plans to more than triple its enrollment by accepting 315 voucher students despite having insufficient classroom space or teachers. The school, which delivers much of its instruction through religious-themed DVDs, would raise tuition close to the maximum allowed under the law to receive about $2.7 million in taxpayer dollars.²
Such a dramatic expansion of private school vouchers demands an equally strong commitment to accountability and transparency. Private schools accepting public funds must face the same level of oversight and controls applied to public schools. That isn’t the case with Louisiana’s voucher program.

**Conclusion**

State support for higher education and health care has been reduced over and over, for four straight years, as revenues continuously fall short of what the state needs to invest in a prosperous future. It is clear that years of cuts to critical services have not been the answer to Louisiana’s fiscal troubles. Fortunately, there is bipartisan agreement that the state needs to look at the revenue side of the ledger by taking a hard look at the hundreds of exemptions, credits and other loopholes that riddle its tax code. This would be a good start toward taking a balanced approach to the state’s fiscal woes, one that includes revenues instead of relying solely on cuts that will cripple our ability to create jobs and build a strong economy.

**About the Louisiana Budget Project**

The Louisiana Budget Project (LBP) provides independent, nonpartisan research and analysis of Louisiana fiscal issues and their impact on Louisiana families and businesses. We seek to bring wider prosperity to Louisiana though a deeper understanding of the state budget, broadening fiscal policy debates, and increasing public participation in decision-making. As part of the State Fiscal Analysis Initiative’s 42 state budget projects that are coordinated by the national Center on Budget and Policy Priorities, we uphold a commitment to issuing work that is credible, timely, and accessible.

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**End Notes**
