

Louisiana Budget Basics

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Louisiana Budget Project

About Louisiana Budget Project

Provides independent, nonpartisan research and analysis of public policy issues and their impact on low- and moderate-income Louisiana families

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Louisiana's Experience

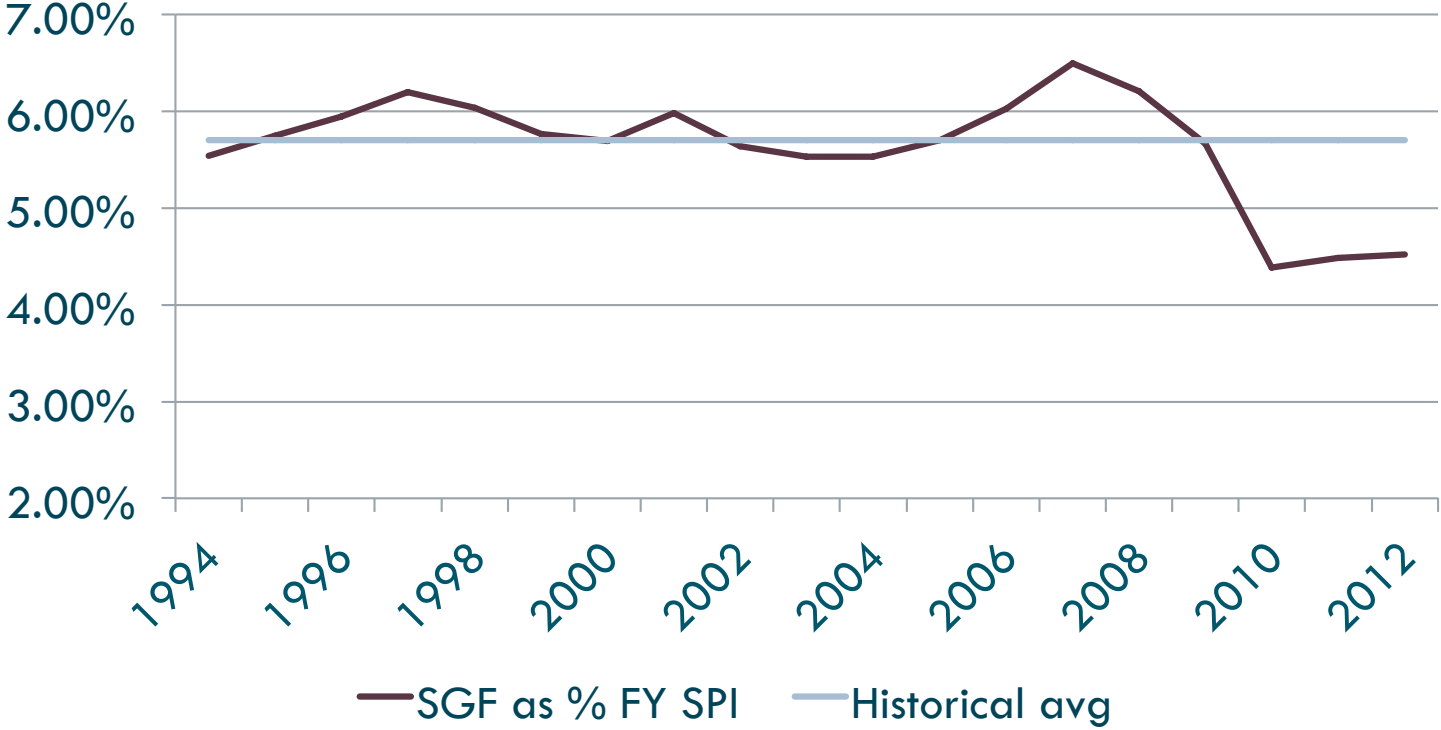
- Louisiana was in the middle of an artificial boom that brought record surpluses when the Great Recession began
- Then revenues **plunged** by 29 percent
 - FY 2008: \$10.1 billion
 - FY 2010: \$7.2 billion

Why Did Revenues Drop?

- 52 percent due to weak economy
- 27 percent due to tax cuts (Stelly Repeal)
- 21 percent due to mineral revenue decline

Revenues (cont)....

Revenues as share of the economy at historical low



Current Shortfall

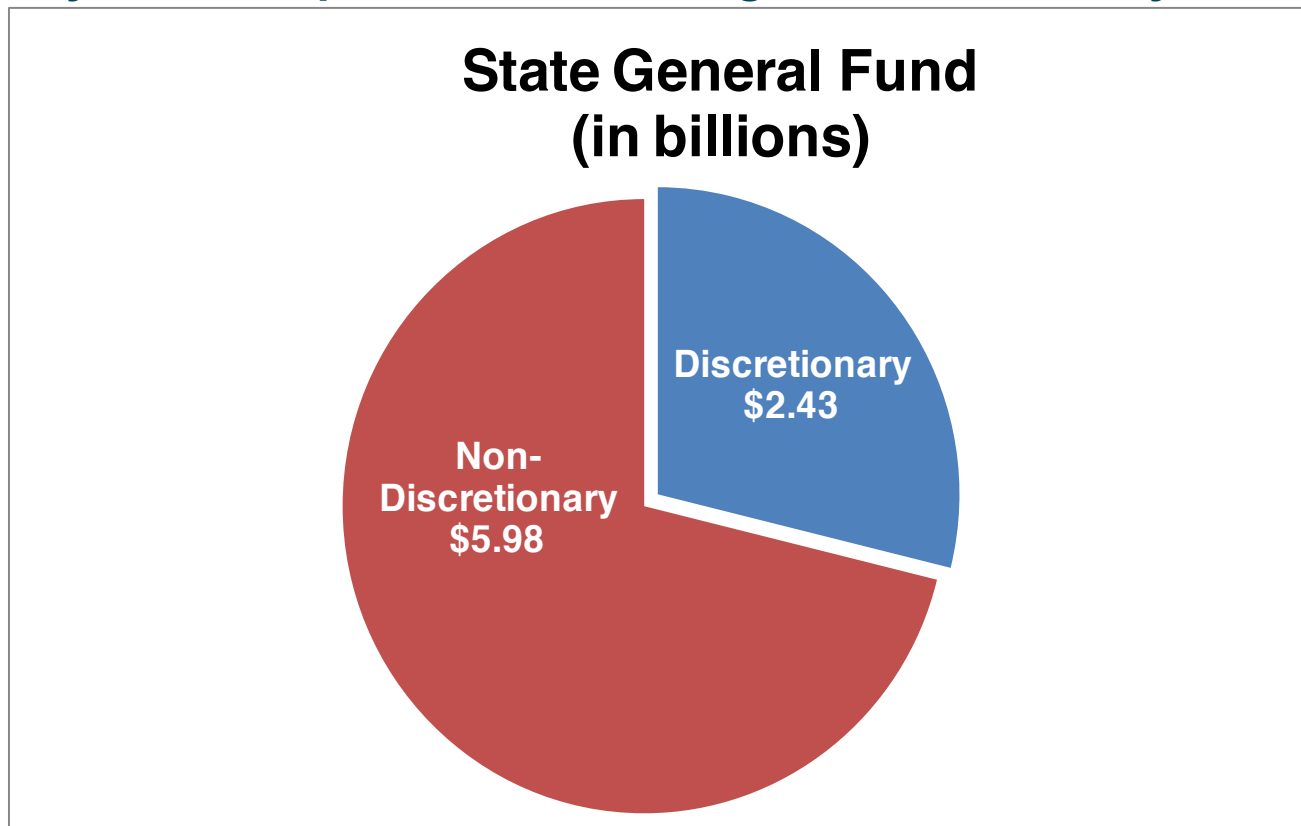
- Current shortfall: **\$1.3 billion**
- Governor's executive budget patches gap by:
 - \$280 million more cuts
 - \$350 million not funding inflation
 - \$215 million in new federal dollars
 - \$435 million from one-time dollars
- Eliminates 10,000 jobs, 2/3 of them in LSU hospital system

The Impacts of 5 Years of Cuts

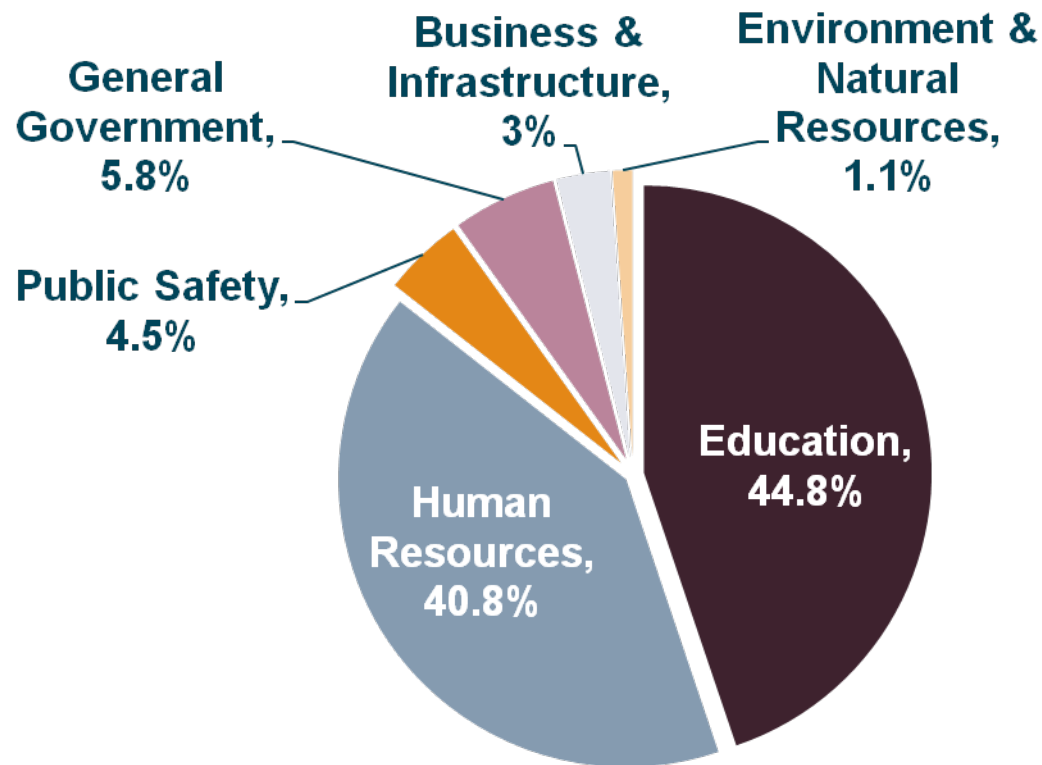
- Four years of frozen funding for public schools
 - **\$560 less per student** by not funding inflation
- Five years of cuts for colleges and universities
 - **\$625 million and counting**, while tuition climbed 49 percent
- And healthcare...

Why health and education?

Only about 10 percent of the budget is discretionary



Discretionary General Fund By Subject Area



Discretionary SGF: \$2.43 billion
Only 10% of total budget

The Bottom Line

- **“We’re running out of things to cut in state government.” – Sen. Jack Donahue**

The evidence is crystal clear: More revenue is needed to fund critical services

Public Reaction

- 68% say budget has been cut enough
- 89% concerned about cuts to LSU hospitals
- 80% said Louisiana residents will lose access to health care

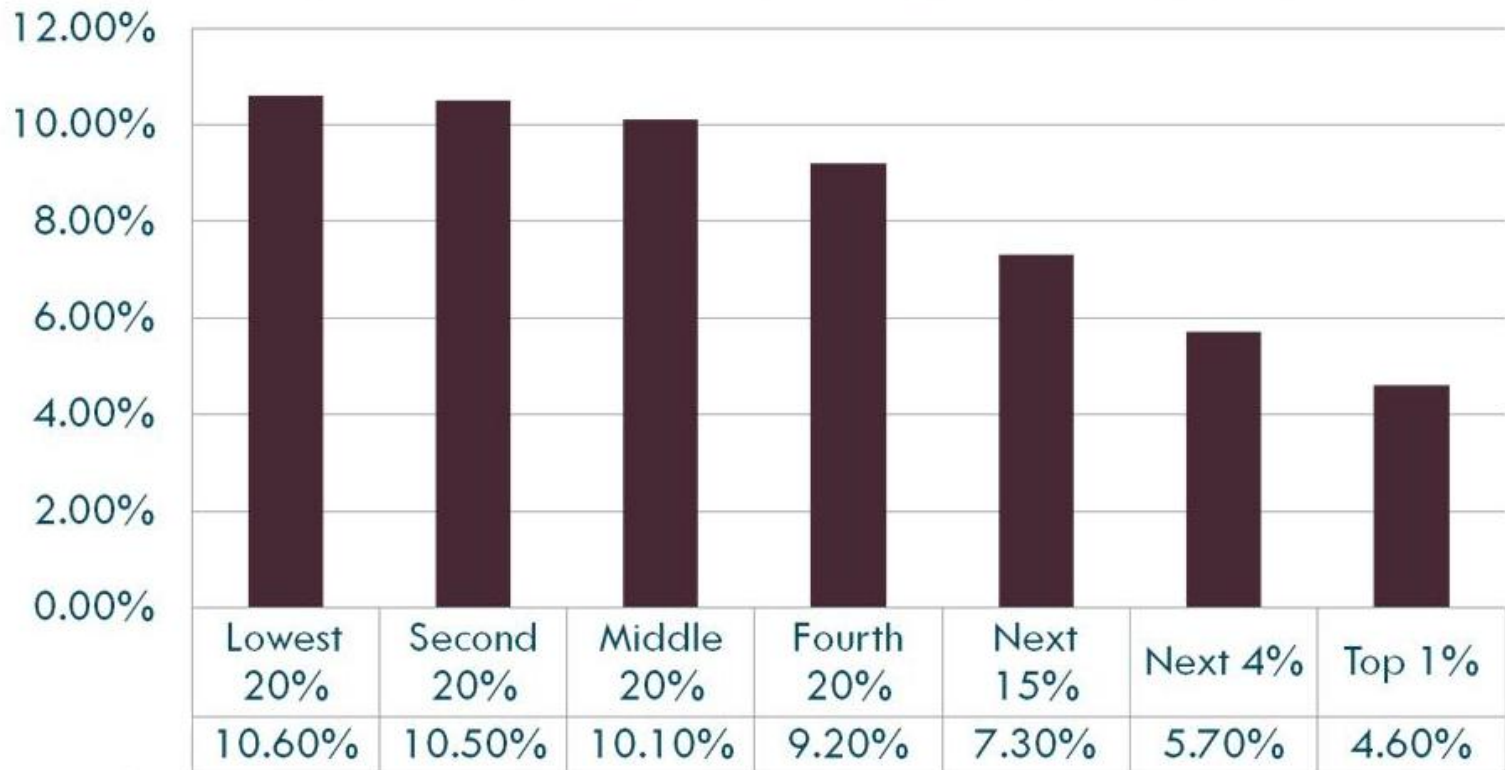
(Source: Southern Media & Opinion Research)

LBP Principles for Tax Reform

- Must raise needed revenue
- Must increase or maintain the progressivity of the state tax code

Who Pays in Louisiana?

Shares of Family Income for Non-Elderly Taxpayers



Source: ITEP

Louisiana's Taxes Are Low

State Rank	Total State & Local Taxes (as percent income)
1. New York	12.8
2. New Jersey	12.4
3. Connecticut	12.3
47. Louisiana	7.8
48. Tennessee	7.7
49. South Dakota	7.6
50. Alaska	7.0

Source: Tax Foundation

... Especially Property Taxes

State	Median Property Tax on Home (2009)
1. New Jersey	\$6,579
2. Connecticut	\$4,738
3. New Hampshire	\$4,636
4. New York	\$3,755
48. West Virginia	\$464
49. Alabama	\$398
50. Louisiana	\$243

Source: Tax Foundation

But Sales Taxes are High

State	Sales tax rate (state & local avg. percent)
1. Tennessee	9.45
2. Arizona	9.12
3. Louisiana	8.85
47. Delaware	None
47. Montana	None
47. New Hampshire	None
47. Oregon	None

Source: Tax Foundation

If the tax shift becomes law, Louisiana would almost certainly have the **highest combined sales tax rate** in the country.

A Better Solution

- Both the governor's plan and the alternatives include reforms that would modernize and improve our tax code for families and businesses—and help the state raise the revenue needed to invest in education and health care

But the money raised through these reforms should not be spent on tax cut for the wealthiest people and companies

1. Tax Exemption Reform

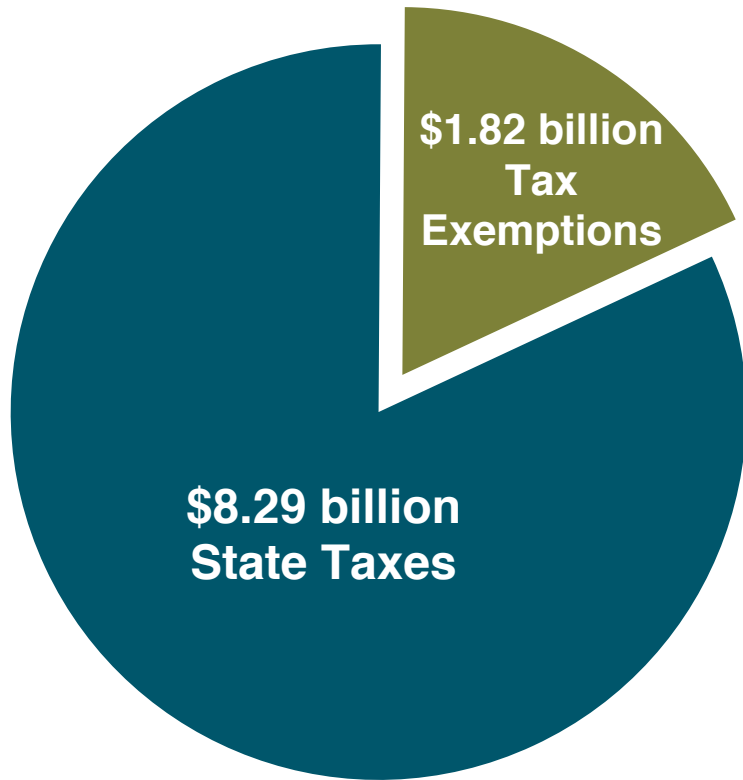
“Tax exemptions are tax dollars that are not collected and result in a loss of state tax revenues available for appropriation. In this sense, the fiscal effect of tax exemptions is the same as a direct fund expenditure.”

– Louisiana Dept. of Revenue

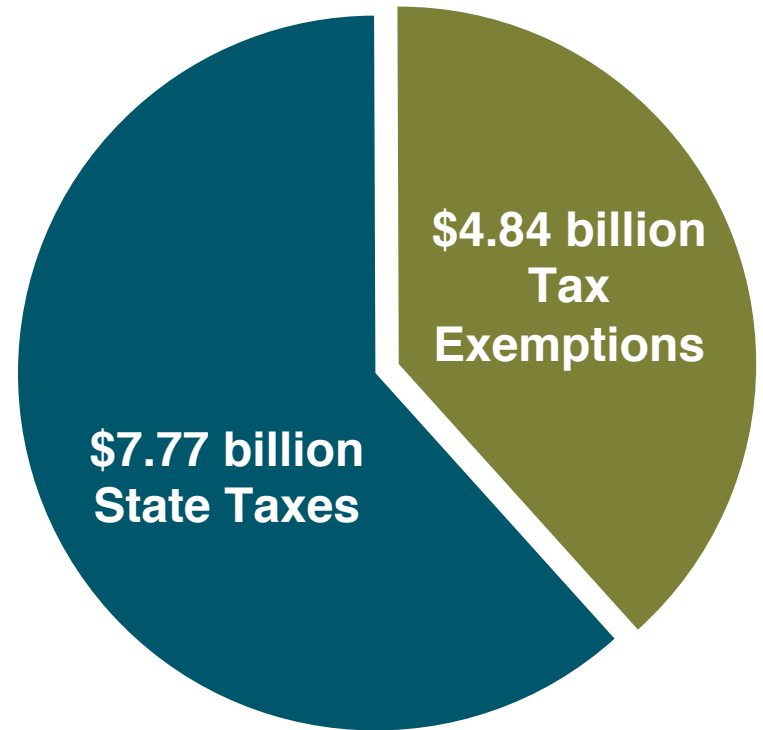
Exemptions Grew 167% Since 2001

(figures adjusted for inflation)

2001



2011



■ State Tax Collections ■ Tax Revenue Loss

Tax Expenditures Are Mostly Hidden

- Louisiana's tax code includes 468 different exclusions, credits, exemptions and other loopholes worth a combined \$4.8 billion
- Tax expenditures have the same effect as other government spending, but receive far less scrutiny
- Corporate tax exemptions have grown dramatically in recent years

Case study: horizontal drilling exemption

- First passed in 1994 when oil and gas industry was suffering economically and horizontal drilling was in its infancy
- Discovery of Haynesville Shale gas, technology improvements, and high prices in 2008-09 turned this “incentive” into a giveaway
- Cost the state \$235 million in lost revenue in 2011

Bottom Line: Exemption is outdated and costly; needs to be reformed, better targeted to incentivize new drilling

Motion picture tax incentives

- Film productions eligible for 30% of in-state expenses, and 5% of payroll for residents
- After 10 years, there are fewer than 3,000 direct jobs that often last 4 to 6 months. We're paying roughly \$60,000 per job in subsidies
- Louisiana spent \$231 million on film subsidies last year, and \$1 billion over the last decade
- Louisiana needs to phase down or cap the program

Not All Exemptions are Bad

- Sales tax exemptions on **groceries, nonprofits, pharmaceutical drugs**, and **residential utilities** are broad-based and effective
- The state Earned Income Tax Credit (EITC) is a cost-effective, proven anti-poverty initiative
- A reasonable degree of corporate tax uniformity with other states can help keep Louisiana competitive

2. Tobacco taxes

- Louisiana has one of the lowest cigarette taxes in the nation
- Raising the cigarette tax by \$1 per pack would raise more than \$200 million and improve public health by reducing smoking (especially among teenagers and first-time smokers)

3. Sales Tax Modernization

- Positioning Louisiana to be able to enforce collection of online sales taxes (once federal law allows) will help create a level playing field for local businesses
- Today, consumers are spending more on services and less on goods. The sales tax base should be broadened to include some services in recognition of this change.

4. Federal Tax Deduction

- Louisiana is one of only three states that allow 100 percent deduction of federal income taxes
- This tax break costs \$643 million per year. Most of its benefits – **83 percent** – flow to the top 20 percent. More than half (**55 percent**) goes to the top 5 percent.

Ending or capping this tax break could help lower overall rates, reduce business burdens and make the system more progressive

5. Medicaid Expansion

Taking advantage of the opportunity to expand Medicaid would:

- Help 400,000 Louisiana adults get health coverage
- Create a healthier, more-productive workforce
- Ensure health-care providers get paid
- Add steady, well-paid jobs in the health-care industry.

Medicaid Expansion

- A recent report by DHH concluded that Medicaid expansion could save Louisiana as much as **\$367.5 million** over the next 10 years
- LFO estimate: **\$554 million** over five years

Could save **\$14 million** to **\$78 million** in the last six months of the 2013-14 fiscal year

How Can You Help?



BETTER CHOICES *for a*
BETTER LOUISIANA

- BCBL represents a diverse coalition of over 43 organizations from throughout Louisiana
- Calling for a balanced approach of RESPONSIBLE revenue measures and COMMON SENSE savings

Visit www.betterchoicesla.org for more info!

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