



OFFICE of the GOVERNOR

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Louisiana's Fiscal Cliff

WHAT IS THE "FISCAL CLIFF?"

The "fiscal cliff" is the upcoming **\$1 billion decrease in major revenue** sources resulting from the expiration of several temporary tax measures. Facing an historic budget deficit that he inherited upon taking office in 2016, Gov. Edwards proposed a broad plan to stabilize the budget.

The plan included budget cuts and revenue measures. One of the revenue measures approved by the legislature was an additional penny of sales tax. This penny was to serve as a "bridge" to allow time for the legislature to engage in **comprehensive tax and budget reform in 2017**.

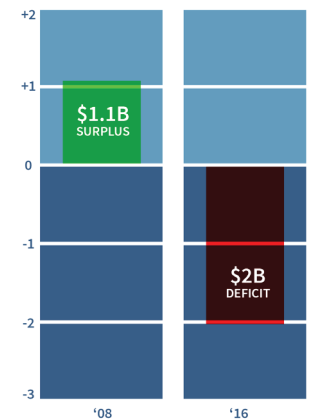
In the 2017 regular session, the **House leadership failed** to act on any reform measures, despite bipartisan calls from Gov. Edwards and Republicans, Democrats and Independents.

On July 1, 2018, the additional penny of sales tax will roll off, as well as a temporary reduction of tax credits, incentives and deductions. Combined, these measures make up a **\$1 billion budget shortfall** that must be addressed by either replacing the revenue or imposing deep budget cuts across state government that would be unsustainable in many cases.

The Governor is **not calling for net new tax revenue**; instead, he is advocating for implementing the recommendations of the legislatively created Task Force to reform our system and replace the temporary measures enacted in 2016. Louisiana has the **fifth lowest per capita tax burden in the country** according to the Tax Foundation. However, a Johns Hopkins University study identified Louisiana as one of the **ten most complex tax structures in the country**. These two rankings are consistent with the conclusions of the Task Force.

HOW WE GOT HERE

Upon taking office in January 2008, the previous administration inherited a **\$1.1 billion surplus**. When he took office in January 2016, **Gov. Edwards inherited a \$2 billion state general fund deficit** – a \$3 billion swing to the negative.



On top of massive budget shortfalls, the previous administration packed the state budget with tricks and gimmicks – making unprecedented use of one-time funds to pay for recurring state expenses.

RAIDED TRUST FUNDS

The previous administration took office with trust funds sitting in the bank totaling more than \$5 billion. Year after year, they raided trust fund after trust fund to plug budget holes. As a result, Gov. Edwards inherited a severely eroded trust fund balance of \$2 billion.

In addition, the previous administration was able to make use of \$189 million in interest income on these funds in FY 2008. Today, that projected income has dwindled to \$8 million.

DISPELLING THE MYTH

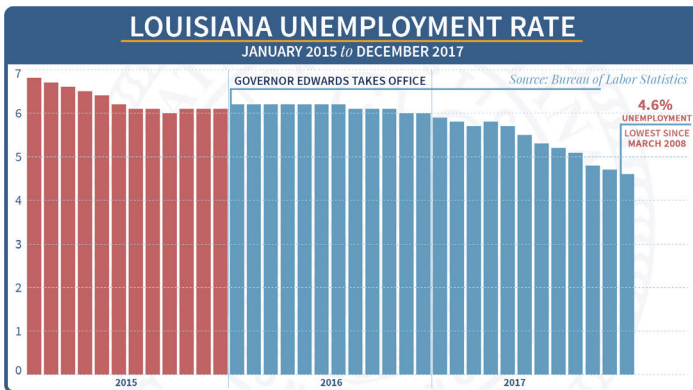
There exists a myth in the state of Louisiana that Gov. Edwards is growing the size of the state government. A good metric for determining the size of the state government is to examine the size of the State General Fund.

The State General Fund in FY 2017 (\$9,442,198,100) is **more than a billion dollars less** than it was 10 years ago (\$10,492,708,192).

LOUISIANA ON THE REBOUND

Louisiana's economy is stabilizing:

- A balanced approach of spending cuts and revenue is key to stabilizing the state budget. Since taking office, Gov. Edwards has **cut more than \$600 million** in state general fund. No other governor in the state has made such deep cuts in state general fund alone.
- The unemployment rate is on the decline – reaching a nine-year low in October – 4.8 percent. That's the **lowest unemployment rate since May of 2008**.



- When Gov. Edwards took office in January 2016, the unemployment rate was 6.2 percent

Over the last decade, Louisiana's higher education system has faced the largest disinvestment in the nation, with state support dropping more than any other state, while tuition continued to rise. For the first time in 9 years, under Gov. Edwards' watch, **higher education funding has been stabilized** with no cuts in the current year's budget. TOPS was also fully funded despite the state's fiscal challenges.

But that's not enough – we have to begin re-investing in our future.

Thanks to the Medicaid expansion, we're employing more people in the health care sector than ever before, and the state's uninsured rate has dropped from over 21.7% uninsured to approximately 10%.

Expansion is also saving the taxpayer's money - \$280 million in state general fund alone in FY 17 and projected to save approximately \$317 million in FY 18.

And most importantly, Medicaid Expansion is saving lives.

WHAT ARE OUR OPTIONS?

The legislature created a **bipartisan task force** to thoroughly examine the state's budget and tax structure. Ultimately, recommendations were made to the Legislature for its consideration.

Unfortunately, House leadership chose not to allow consideration of any of those measures. Thus, the full House has not even had an opportunity to consider these ideas.

Some of the reforms which have died in committee include:

- Lower the sales tax, currently the highest combined sales tax in the nation, and replace it with a more balanced tax policy that is fair, predictable and stable for the state
- Repeal the federal income tax deduction for individual and corporate income tax and lower the individual income tax and establish a flat rate for the corporate income tax
- Phase out the corporate franchise tax over 10 years
- Allow only 50% of federal excess itemized deductions
- Reduce the number of sales tax exemptions
- Remove the expiration of tax credit and rebate reductions
- View more recommendations from the bipartisan Task Force on Structural Changes in Budget and Tax Policy by visiting gov.louisiana.gov/taskforce
- The task force recommendations were supported by an array of groups including the Council for a Better Louisiana, the Public Affairs Research Council, the Committee of 100 for Economic Development and the Louisiana Budget Project.

