

## Louisiana Fiscal Cliff Inches Closer

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DALLAS (S&P Global Ratings) March 7, 2018--As the sun sets on Louisiana's (AA-/Negative) special session without a resolution, the state inched closer to its manufactured fiscal cliff. In S&P Global Ratings' view, the cliff is a consequence of the expiration of revenue enhancements that the legislature adopted in 2016, which buoyed its budget during a period of pronounced fiscal stress. The June 30 expiration of a "fifth penny" sales tax is the largest such revenue enhancer, which alone provides over \$800 million in operating revenue. If all measures expire, fiscal 2019's revenues would be roughly 10% less than in 2018 as initially estimated in Governor John Bel Edwards's executive budget.

To preempt the looming June 30 cliff, Gov. Edwards called for a two-and-half week special session to address revenue measures prior to the beginning of the regular session, which is set to begin on March 12. The levying or authorization of tax measures during a regular session is constitutionally designated to odd-numbered years, requiring the legislature to renew or extend the temporary measures during a special (extraordinary) session. Louisiana is also constitutionally (Art. VII, Section 10) obligated to adopt a balanced budget. As a result, the state will now have to wait until the adjournment of its regular session before it can again consider tax measures should the governor decide to call another special session prior to the start of fiscal 2019. We understand that the governor and legislative leadership have agreed to adjourn the regular session on or about May 12, ahead of its originally scheduled June 4 adjournment date, adding additional cushion to work through

potential solutions.

In our view, political risk--as evidenced by the legislative gridlock during the special session--has emerged as a credit weakness, which has the potential to stunt what otherwise has been recent positive momentum in the state. The rebound in oil prices has improved economic and revenue trends in Louisiana while the state also projects a revenue boost of slightly more than \$300 million stemming from the enactment of the federal Tax Cuts and Jobs Act. Both will help narrow the revenue gap, but absent legislative fiscal measures, deep cuts across services and programs will invariably hallmark the state's fiscal 2019 budget.

While over the short term, we anticipate continued modest improvements in economic and fiscal trends, uncertainty about fiscal 2019 now looms over Louisiana. As the legislature and governor work to find a path forward in crafting the state's next budget, we will continue to assess whether any measures provide for a sustainable framework to maintain long-term structural balance.

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