



## State faces more financial strife, treasurer reports

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BATON ROUGE - The Legislature has taken only the first step on a long road toward recovery from the financial woes inflicted by hurricanes Katrina and Rita, the state treasurer and political watchdog groups say.

Over the past 17 days, the Legislature and Gov. Kathleen Blanco covered an almost \$1 billion hole in the state budget with a combination of budget cuts totaling \$690 million and fund juggling that made up the rest.

The next steps, patching additional holes in the budget and tackling a projected \$3.7 billion debt that the Federal Emergency Management Agency said is the state's 25 percent match for help dispensed to Louisiana evacuees, will be much tougher.

"They made a good start," state Treasurer John Kennedy said. But slicing \$1 billion in the special session doesn't come near handling the ultimate financial responsibility.

Not counting the FEMA bill, Kennedy said the state is facing the loss of at least \$500 million of self-generated revenue, fees and licenses budgeted to be collected from the affected areas. Also, the tax breaks granted by the Legislature in the special session, the help that local governments and businesses need to get restarted and money that local governments need to avoid forfeiting bond payments complicate the problem.

"After the session, we still have needs of \$1.5 billion and whatever match money the federal government wants for restoring infrastructure damage," the treasurer said.

Barry Erwin, president of the Council for a Better Louisiana, said "the Legislature did what it had to do - cut \$690 million - but it's only the beginning."

Erwin said the Legislature made cuts but what it really needs to do is "restructure government to fit the revenue. We can't afford to do everything we've been doing before the storms. We need to decide what we can do without instead of cutting everybody a certain percentage."

That aligns with the approach Commissioner of Higher Education E. Joseph Savoie is taking with state colleges and universities.

Savoie said that when state universities were hit with across-the-board cuts in the 1980s and '90s, "it fostered mediocrity across the board." That's why the Board of Regents is seeking to eliminate the weakest links instead of cutting everything to balance college and university budgets.

"If we don't really need some things, say goodbye to those programs totally," Erwin said. "It's going to be difficult, but that's part of our new reality" in state government.

The CABL chief said he's concerned that the Legislature might try to borrow the money to pay FEMA.

"If borrowing is the only prescription, we need to reduce government to have to borrow as little as possible," he said.

Jim Brandt, president of the Public Affairs Research Council, agrees that the state should not try to borrow its way out of debt.

"I don't think it's in the cards for the state to repay that size of commitment in three to five years," like FEMA wants, he said. "That puts the state in an impossible position. We have to have a longer pay-out schedule."

Kennedy said there are options, if the governor and Legislature want to look at them.

When he tried to bring up the options in both the House Ways and Means and Senate Revenue and Fiscal Affairs committees, the panel officers cut him off.

Kennedy said the Blanco administration has been talking about taking out lines of credit from banks, which he said "is the most expensive way to do it. Borrowing from a line of credit is like trying to buy a new house on a credit card. The interest eats you up."

The treasurer agrees with Blanco that the state has to talk Congress into amending federal law on payback of FEMA aid, especially in a disaster as wide scale as has hit Louisiana.

"Nobody ever contemplated that not one, but two catastrophic storms would hit a state in less than a month, destroy a major city and shut down a third of a state's economy," Kennedy said. "That's a very compelling argument" for Congress to make an exception.

Kennedy also said the state should demand the right to audit the FEMA bill, especially when so many arrests are being made for fraud.

"How do we know it was handled properly or that FEMA really spent that much on Louisiana?" he asked.

Brandt agrees.

"We had no say in how it was done, the way it was done, who got the money or the timing of it," he said. "And, by the way, here's a bill for \$3.7 billion."

Brandt said the Legislature did some positive things, like adopting statewide building codes, taking over failing schools in New Orleans and passing business tax incentives, which "I certainly don't think hurt ourselves at all" in the effort to convince federal officials that the state is trying to help itself.

Legislators "came up short," he said, in not adopting legislation that would have unified levee boards and only required that government officials and their families report what they make from hurricane-recovery jobs.

"They sent a message that we're happy with the old political fiefdoms" that levee boards have become, he said, and PAR wanted a ban on public officials profiting from recovery efforts.

Like Erwin, Brandt said the state has to "downsize" government to fit its new revenue base.

"By all accounts, we've got the heavy lifting ahead of us," he said.