

La. faces \$2 billion in red ink in 2009

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New tax breaks and an expected decrease in state revenue are creating a \$2 billion shortfall for the upcoming state fiscal year.

The drop-off in state revenue will also affect Louisiana's ability to attract federal funds — such as 3-1 matches of health-care dollars — and compound financial woes.

Commissioner of Administration Angèle Davis said the shortfall is based on the continuation budget, which is the cost of funding state services at their current levels including inflation and other increases.

The shortfall reflects less revenue from the current year, plus the cost for government to keep providing the same services it does today, Davis said, mentioning areas such as health care, education, public safety and debt service.

The current state operating budget, as enacted for the fiscal year that ends in June, was \$29.9 billion. The state is cutting \$341 million because of declining revenue.

The enacted budget was based on \$9.1 billion in general fund state revenue. For the fiscal year that starts July 1, the state expects to have about \$8 billion in state general fund revenue, a decrease of \$1 billion.

Davis said she did not have an estimated overall budget number for the fiscal year that begins in July. An overall budget number would include federal funding. How much that would decline because of fewer state dollars available to attract federal funds is unknown. It depends on where the administration decides to make cuts.

State economists expect mineral revenue and state tax revenue to decline in the upcoming budget year.

A state revenue panel adopted an oil price of \$56.74 a barrel for next budget year, a more than \$27 drop in the price used in the original budget for the current fiscal year.

The state collects royalties from production on state land and severance taxes that are tied to the price of oil and natural gas. The higher the price, the more revenue the state receives.

Earlier, the Legislature approved tax breaks that will cost the state a significant amount of money in the upcoming budget year.

Included are:

An income tax break that will decrease state revenue by \$308 million.

A deduction on school tuition and uniforms that will cost the state \$23 million.

An earned income tax credit at a cost of \$41 million.

Michael DiResto, spokesman for the Division of Administration, noted that the shortfall factors in increased expenses such as \$76 million in medical vendor payments and \$207.6 million in a Medicaid rate change.

He said the continuation budget also includes 3,000 vacant state government positions.

DiResto said state agencies will be asked to absorb inflation, merit pay increases and higher insurance costs.

Jim Brandt, president of Public Affairs Research Council, said the administration should have taken a tougher stance on tax breaks.

He said tax cuts are a recipe for disaster unless they are combined with spending cuts.

The Jindal administration actually increased the state general fund by \$1 billion in the current year.

"It wasn't the downsizing of state government that the new administration had certainly forecast," Brandt said.

The administration expects to have an \$865 million surplus from the state fiscal year that ended June 30, 2008.

The state constitution limits how a surplus can be spent. The money only can be used for paying off bonds, reducing state retirement system debt, capital outlay projects, coastal restoration and new highway construction for which federal funds are available.