

THURSDAY'S TAKE 5!

The fiscal and economic challenges facing Louisiana are well-documented. Deficits have persisted annually for seven years, and short-term measures were chosen to close the gap with little regard to long-term impact, prioritizing government spending, or promoting economic growth and individual prosperity. To help employers and the public understand the state budget and reasons for the deficit, the Louisiana Association of Business and Industry (LABI) developed a three-part research series, "Budget Basics," available to LABI members, employers, and citizens across the state at www.labi.org/budget-basics. The effort culminated in more than 20 short and long-term solutions to Louisiana's budget challenges grounded in research and national best practices.

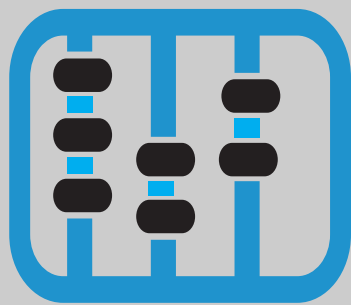
The state budget is complicated and fixing the state's fiscal challenges is a huge undertaking. The causes of the deficit, however, are clear. The state has a revenue problem, a spending problem, and fundamental problems with the structure of the budget itself. All three components will have to be addressed in a smart, strategic way to overcome long-standing issues that have cyclically plagued Louisiana for decades. The approach of the new Legislature and administration to closing the deficit must be comprehensive and recognize that cost containment, a review of sacred cows, transparency and structural budget reform must be on the table along with any discussion regarding revenue increases.

As Louisiana confronts economic and budget challenges, LABI agrees that reforming the state's approach to our tax code and budget structure should be at the top of the agenda. The fundamental importance of a competitive economy has long been recognized by both parties as the foundation for Louisiana's growth, and LABI encourages leaders to take this into account as they seek to address state government's fiscal challenges in the months ahead.

The recommendations of "Budget Basics" are categorized in five broad areas outlined below. The 23 specific solutions proposed by LABI address budget reform, spending, and revenue.

Unlock dedications and remove unnecessary obstacles to prioritize state spending.

Dedicated funds represent billions of dollars of state resources currently on auto-pilot, even as other areas of the budget suffer disproportionately. A single bill in 2016 to eliminate most funds created in statute would allow for scrutiny of state spending through more than 250 funds and more than \$1.5 billion that have largely been left untouched throughout the years of state deficits. Policymakers should then evaluate whether the agency, operation, or service funded with the dedication is still necessary to the state and will require replacement revenue, if that share of revenue can be reduced, or if the service or function itself should be eliminated. Other recommendations in this category include requiring that interest earned on dedications flow to the General Fund, a higher threshold be created for new dedications, and zero-based budgeting be established for special funds.



Reduce state spending and limit the growth of government.

While state government has grown 44 percent from Fiscal Year 2005 to Fiscal Year 2016, the state's economy has only grown about 25 percent. To avoid more recurring deficits, it will take more than new revenue and more than budget reform. State spending and expensive programs must be analyzed and contained where possible, even if the results are years in the making. First, lawmakers should reinstate a genuine expenditure limit to help control growth in the future to a realistic level, as intended by the voters when it was placed in the Constitution. Simultaneously, the largest cost drivers in the state budget must be addressed, such as the consideration of best practices for state retirement and healthcare, smart-on-crime legislation to address over-incarceration, and reforms to the TOPS program, among others. Other recommendations in this category include better expenditure monitoring, more time to debate new revenue in the Legislature, and additional scrutiny on so-called "non-discretionary" spending that has largely avoided review and reduction to date.



Adopt a pro-growth tax code that is simple, efficient, and nationally competitive.

Comprehensive tax reform is needed in Louisiana, where the business tax climate ranked No. 37 in the recently released 2016 Tax Foundation study. The focus of LABI's Budget Basics research is state spending and the budget, not the tax structure of Louisiana, which has been well-studied by both public agencies and private organizations over the past year. The recent study conducted by the Tax Foundation and the Louisiana Committee of 100 is a strong starting point for policymakers to begin discussions of comprehensive tax reform that meets these principles. Louisiana's myriad system of tax exemptions and incentives has been created to mask the poor and noncompetitive foundations of the tax code itself. LABI supports systematic overhaul grounded in key principles that result in a tax system that is more stable, simple, transparent, fair, modern, and competitive.

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Reform the budget structure and process for long-term improvements.

Even with new revenue and less spending, Louisiana will continue to face fiscal challenges as long as the current structure of the budget is maintained. The good news is there is much to learn from states across the country on state budgeting. Lawmakers should consider an initial round of zero-based budgeting to review every expenditure prior to appropriation for the first time in many years – a bi-partisan approach utilized by a number of states to truly analyze funding and prioritize spending. Because nearly half of our capital outlay is funding non-state projects, this process should be reformed to focus on statewide infrastructure projects. National experts also recommend soliciting the input of the private sector to improve revenue forecasting and generating better expenditure estimates to define the true needs of state government and the size of the deficit.

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Enact greater transparency and public input in the budget.

As the Public Affairs Research Council of Louisiana has noted: "Citizens need maximum access to information if they are to have any chance of influencing decisions or understanding proposed policy and budget changes." Consistent with best-practice states, LABI recommends lawmakers expand the executive branch transparency database, LaTrac, to include spending in all branches of government and at the local level, which receives roughly one-third of its revenue from the state. In addition, LABI recommends stabilizing higher education funding and granting additional tuition autonomy, along with enhanced transparency for performance and better incentives tied to outcomes in the funding formula. Similarly, state agencies should have performance scorecards similar to many other states, and lawmakers should consider a formal means of accountability for governmental performance that engages both public and private stakeholders in a long-term effort.

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