John Bel
EDWARDS
GOVERNOR-ELECT

December 30, 2015

Dear Legislator:

As 2015 comes to a close, I am looking forward to working with you in the New Year. Three weeks ago, on December 7, 2015, Governor-elect John Bel Edwards asked me to join him as the Commissioner of the Division of Administration. We immediately began evaluating the state's budget and planning for the future. With less than two weeks to go until this new administration takes office, I want to update you on the current financial status of our state, as there are some serious issues we will need to address together.

BUDGET CONCERNS

On November 16, 2015, the Revenue Estimating Conference (REC) projected a $487 million revenue shortfall for FY 15-16, consisting of a $117 million FY 14-15 revenue shortfall (last year) that must be addressed in this year's budget and a projected $370 million FY 15-16 (current year) revenue shortfall. The outgoing administration proposed mid-year budget fixes for this $487 million revenue shortfall. These changes recently were approved by the Joint Legislative Committee on the Budget.

Our incoming administration has reviewed data presented to the Transition Team Fiscal Matters Committee and has met with and/or consulted with economists, Louisiana Senate and House fiscal staffers, the Office of Planning and Budget, and the Legislative Fiscal Office. We have identified the following concerns:

FY 2015-2016: TOTAL ADDITIONAL ESTIMATED SHORTFALL $700-$750 MILLION

Since the REC's November meeting, additional information is available and numbers for the month of November 2015 have become available.

Based on just that one additional month's numbers, the state now appears to be facing an additional **$400-$450 million revenue shortfall for FY 15-16**. This is due, at least in part, to the continuing drop in oil prices, a dramatic slump in corporate income tax collections and a slowing in the collection of sales taxes.

In addition to this new $400-450 million problem, the state is estimated to have another **$300 million spending problem for FY 15-16.** This is due to the following:

- An estimated $250 million in Medicaid spending based upon (1) an underestimation of how many people would use Medicaid and (2) expected one-time infusion of money from legal settlements with pharmaceutical companies which has not yet materialized;
- An estimated $20 million in additional funds needed for the MFP, based upon the October student headcount;
- An estimated $20 million in additional money needed for the TOPS program; and
- An estimated $3 million needed to pay sheriffs for housing state prisoners.

There is yet an additional concern. Language in the preamble of the FY 15-16 budget directs that the state will reduce its expenditures by roughly $20 million, which has not yet been done by this administration. These anticipated, but not yet realized, cuts include $10 million in the reduction of state contracts; $4 million in personnel position reductions and an additional unspecified $5 million to be realized from cuts elsewhere in the budget.

FY 2016-2017: TOTAL ESTIMATED SHORTFALL $1.9 BILLION

In addition to the problems in the FY 15-16 budget, there are even greater challenges in the year ahead.

The incoming administration will seek to stabilize the state budget by building a FY 16-17 budget that addresses current structural defects.

At the current rate of expenditures projected for FY 16-17 and to construct a budget that reflects what it takes to operate state government without using undesirable measures like excessive one-time money or fund sweeps, **it is estimated that the state will be $1.3 billion short of revenues to fund projected FY 16-17 expenditures**.

Additionally, the latest November 2015 economic performance numbers indicate that the state faces an additional **$600 million revenue shortfall**, when compared to revenue the state expected in FY 16-17.

This additional estimated $600 million revenue shortfall is based upon a slowing in mineral tax collections (the price of oil has dropped from the REC's November $48 per barrel prediction to a current rate of $37.89 per barrel) and the aforementioned slowdown in receipts of both corporate income tax and sales tax collections.

Thus, the anticipated shortfall for FY 16-17 totals $1.9 billion. The shortfalls we share with you today for both FY 15-16 and FY 16-17 are much more severe than anyone previously had anticipated. We are not facing a simple "belt-tightening" exercise ahead of us.

Escalating use of one-time money, excessive fund sweeps, tax exemptions and credits that are more generous than we can afford, and external factors such as the drop in oil prices, slow corporate income and sales tax collections and a drop in mineral tax collections all bring us to the unfortunate situation that all of us will face in the coming year.

Our message to you and the people of Louisiana is this: we commit to you that we are ending the era of gimmicks and trickery. We are committed to stabilizing the budget and structurally changing the way Louisiana handles its budgetary obligation to our citizens. We will do this by telling the truth and presenting the unvarnished facts.

We believe the people of Louisiana are ready for reality and recognize that all of us together must make tough decisions to make our state stronger for our children and grandchildren.

The Governor-elect and I are optimistic that the critical work we will do in the coming year will accomplish this task. We are looking forward to working with you. We welcome and solicit your input. Please do not hesitate to contact me at any time if you have additional questions.

Very truly yours,

Jay Dardenne
Commissioner of Administration Designee