REVENUE ESTIMATING CONFERENCE
April 10, 2019

Legislative Fiscal Office
State Revenue Forecast
(millions of $)

	Actual FY18	Forecast=> FY19	FY20	FY21	FY22	FY23
Total Tax Revenue	$12,373	$12,136	$12,354	$12,576	$12,883	$13,165
Less Dedications + NOW	($2,487)	($2,582)	($2,630)	($2,532)	($2,578)	($2,616)
SGF Revenue	$9,887	$9,554	$9,725	$10,044	$10,305	$10,550
Change From REC	$298	$110	$119	$380	$401	na
Yr/Yr SGF Change	$458	($333)	$171	$319	$261	$245
Yr/Yr % Change	4.9%	-3.4%	1.8%	3.3%	2.6%	2.4%
Yr/Yr Total Tax Change	$436	($238)	$219	$222	$307	$283
Yr/Yr % Change	3.7%	-1.9%	1.8%	1.8%	2.4%	2.2%

The table above depicts the total recommended forecast in terms of total tax receipts and general fund receipts. The drop off from FY18 to FY19 is due largely to the reduction in the statewide sales tax rate from 5% in FY18 to 4.45% in FY19 and beyond, and net of all other recommendations. Modest base growth underlies the forecasts, with a step-up in general fund in FY21 due to the elimination of a significant statutory dedication of tobacco tax receipts effective with that year. Significant forecast revisions were incorporated in April and June of 2018 to reflect estimated effects of the federal tax law change, and continuation of the state sales tax rate at 4.45%, along with modifications to the sales tax base. Price and production reassessments have been built into mineral revenue forecasts, along with an upgrade to corporate receipts as various tax base enhancing legislative changes enacted since 2015 seem to be coming to fruition, and in light of FY18 actual performance relative to very modest earlier forecasts. With a recommended increase in the forecast, an estimate of the allocation of general fund resources to the New Opportunities Waiver program (NOW) is also incorporated, as well as a reduction in the dedication of revenue forecast to the Budget Stabilization Fund as other resources have become available for allocation to that fund.

Forecast risks are probably balanced. The state economy is exhibiting very modest growth, oil prices have exhibited short-term cycling but have averaged a level consistent with expectations, and while world economies have diverged in their growth paths, the U.S. economy is expected to continue to grow, although at a slowing pace as federal fiscal stimulus plays out. Downside risks are always present with regard to revenue forecasts and commodity prices in particular, as they are with the U.S. and world economies, in general. As the state's industrial construction boom plays out, no other single economic driver sector has revealed itself, and only very modest growth has been exhibited in the economy overall.

Aside from the total tax and general fund forecasts summarized here, numerous separate dedication and fee projections are presented on supplemental schedules. Those projections are constructed for budget development purposes by analysts of the various agencies and the DOA. The LFO columns of those schedules are simply filled with those agency and DOA values, and do not constitute independent analyses or projections.

Oil and Gas Price Forecast

	FY18	FY19	FY20	FY21	FY22	FY23
Oil, $/bbl	$62.89	$58.96	$59.15	$60.00	$61.71	$62.17
Change From REC		($0.46)	($0.05)	$1.09	$2.34	na
Gas, $/mcf	$3.06	$3.08	$2.96	$3.02	$3.24	$3.33
Change From REC		$0.05	($0.09)	($0.07)	$0.10	na
Gas Sev. Tax, ¢/mcf	11.1	12.2	11.9	11.4	11.5	12.4

Oil prices have exhibited short-term cycling but have ultimately maintained an average level comparable to prior forecasts as far back as June 2018. Current strengthening has reflected the success of OPEC and allied oil producers have had implementing their production curtailment agreements even as the U.S. and world economic expansion has wavered. World production restraint has also been helped along by Venezuelan and Iranian production declines, and geopolitical risks in general even as U.S. shale oil producers have ramped up domestic production. **Natural gas prices** have exhibited little in the way of strengthening as the U.S. market is still oversupplied by shale production, and U.S. exports, while ramping up, are still a relatively early phenomenon. Price forecasts are based on an average of West Texas Intermediate projections by Moody's Analytics, the Energy Information Administration, and the New York Mercantile Exchange, along with Louisiana spot price projections by the State Department of Natural Resources. Recognition is given to the fact that implicit severance valuations are typically lower than observed market prices. With horizontal drilling / hydraulic fracturing of shale formations becoming an industry norm, there may be a supply-based ceiling range on oil and gas prices for the foreseeable future. These wells can be drilled relatively quickly and there is a substantial inventory of drilled but not yet fractured wells built up that can be quickly completed as prices rise. In addition, U.S. shale producers are increasingly efficient, and shut-in prices have dropped into the mid-$20s and $30 per barrel. Ultimately, U.S. shale production is likely to constrain price increases. However, sustained output changes by other producers, variability in worldwide demand, and geopolitical events can still result in considerable volatility in prices, with relatively short-term cycling occurring within a varying ceiling and floor range.

Severance and Royalty Forecast
(millions of $)

	FY18	FY19	FY20	FY21	FY22	FY23
Severance & Royalty	$612	$678	$734	$767	$808	$834
Change From REC		$107	$169	$207	$252	na

Mineral revenue forecasts are upgraded from the existing forecast baseline as the result of comparable price forecasts, and general stabilization in production. Rapid decline rates in oil production, and especially in royalty oil production, have been the norm since 2014, but production rates for severance oil have flattened, and for gas have jumped dramatically due to a second surge in Haynesville horizontal production since 2017. While this gas is exempt from severance tax in the early periods of production, volumes eventually come off exempt status and the taxable well count grows. While not to the extent of severance, royalty production has also improved, in the sense that decline has flattened, as well. It should be noted that Louisiana is not an oil-fracking state. Even as total production volumes have improved, horizontal oil production volumes are very small, essentially immaterial, and have actually been declining since their peaks in 2015. While helping the near-term mineral revenue outlook, production is likely to eventually return to historically normal decline rates.

Risks to the mineral revenue forecast always exist, as these revenues are largely influenced by international and regional commodity prices that can experience dramatic swings. Until very recently, the near-term balance of those risks seemed to be to the downside as price increases (from mid-2017) sowed the seeds of decline as the incentive to increase production stimulated U.S. shale output, as well as other producers. However, the oil price narrative has turned markedly to one of a market in balance or even slightly under-supplied, and market prices have risen in recent weeks. Regardless of current projections, oil prices will likely continue to cycle, and those cycles may exhibited fairly short durations.

Sales Tax Forecast
(millions of $)

	FY18	FY19	FY20	FY21	FY22	FY23
General Sales Tax	$3,892	$3,454	$3,471	$3,514	$3,603	$3,689
Change From REC		($76)	($164)	($59)	($24)	na
Vehicle Sales Tax	$498	$443	$459	$466	$494	$511
Change From REC		($20)	($8)	($14)	($4)	na

General sales tax forecasts are still more pessimistic than the current official forecasts. While confidence in the behavior of this revenue stream is relatively high, there is still uncertainty associated with the reduction in the tax rate (from 5% to 4.45%) and change in the exemption base (modified taxed exemptions, especially business utilities) enacted in the last session of 2018, especially with regard to accrual effects. The first month of collections this fiscal year should have accrued back to FY18 at the prior rate & base structure, with a smaller amount of accrual into FY19 at the end of this fiscal year at the current rate & base structure. Once this transition completes, a constant rate & base structure should contribute stability to the tax through FY25, barring material futures changes. Underlying projected base growth is still only about 1.5% per year in the out-years. This may appear to be fairly conservative, but is consistent with performance in FY18, and the fact that this tax has not exhibited consistently stronger base growth for a number of years.

Vehicle sales tax forecasts are fairly close to the current official forecast, but also have uncertainty associated with them due to the tax rate change and accrual effects. Growth is more erratic given for this revenue stream due to the big-ticket nature of vehicle purchases.

Personal Income Tax Forecast
(millions of $)

	FY18	FY19	FY20	FY21	FY22	FY23
Income Tax	$3,269	$3,445	$3,513	$3,611	$3,714	$3,820
Change From REC		$32	$64	$58	$17	na

Personal income tax forecasts are higher than the official forecast. Underlying base collections have been increased in all years, as the economy has very slowly improved, with the year-over-year base growth rates in the 2.5% range. A caution is warranted here due to the fact that this tax has failed to exhibit consistent growth in recent years.

In addition, added to the baseline forecast are incremental estimated amounts attributable to the significant federal tax law changes enacted in late 2017 and affecting tax years 2018 – 2022. These federal law changes reduce federal income tax liabilities for almost all taxpayers, and consequently reduce the deduction of those tax payments from state income subject to state taxation. Additionally, the near doubling of the federal standard deduction will significantly reduce or eliminate entirely the amount of excess federal itemized deduction allowed on state tax returns for those state taxpayers that itemize at the federal level. Numerous other changes will bleed through to state returns, as well. The aggregate state tax liability increase will be collected through enhanced state withholdings, effective in mid-March 2018 and fully showing up in collections by April 2018, as well as through enhanced payments with returns in the spring 2019 filing season. The withholding changes applied to calendar year liability changes, translates to estimated fiscal year collection increases of $302 million during FY19 and $271 million in each year FY20 – FY22. While withholdings are being remitted significantly greater than expected, and contributed to the strength of total income tax collections in FY18, it is likely that a significant portion of these withholdings will be refunded back to taxpayers when 2018 tax year returns are filed in the spring of 2019. At the same time, enhanced withholding collections will continue in 2019, and beyond. Given the fact that withholdings are advance payments of an annual liability that is reconciled when returns are filed to a true liability, they do not by themselves indicate what the fiscal year collections gain will be. Thus, a baseline forecast reflecting actual collections before the federal law effects plus an annual increment of the estimated federal law effects will have to be the basis of the forecast. Not until tax payments have more fully transitioned to the new state & federal regime in FY20 will stronger confidence be possible in forecasts of this tax.

Corporate Tax Forecast Combined Income & Franchise Tax (millions of $)	FY18	FY19	FY20	FY21	FY22	FY23
Corporate Tax	$478	$400	$400	$400	$400	$400
Change From REC		$100	$100	$100	$100	na

Corporate tax forecasts are higher than the official forecast. Forecasts are typically placed in the bottom of the range of likely outcomes. Receipts step down in FY19 as a result of this cautionary adjustment, but reflect as much about the very cautious forecast in place as about optimism about current and future collections. Forecasts are held constant each year, but little confidence can be associated with any forecast of corporate tax receipts. Performance of these receipts in FY18 and beyond, is likely due, in large part, to various enhancements to the effective tax base enacted since the 2015 session, and finally coming to fruition. Significant among these enhancements are restrictions to the inventory credit, elimination of net operating loss carrybacks, extension of franchise tax to many pass-through entities, add-back provisions, and apportionment changes. While often not reliably quantifiable, these changes ultimately work to expand the tax base, liabilities, and final payments. Additionally, federal tax law changes will eventually reduce the amount of federal tax deduction claimed on state returns, but will also eventually increase the amount of capital expense deduction affecting state returns; and the Louisiana corporate tax base is highly capital intensive.

Regardless of tax law changes, corporate tax liabilities start with corporate profits, which are inherently erratic. Corporate receipts have always been the riskiest of all the taxes that finance the state general fund budget. Combined with the substantial tax planning potential of corporate tax filers and the fact that one-half to two-thirds of total receipts are routinely collected in the last quarter of the fiscal year, monthly receipts over much of the fiscal year impart little useful information, making it essentially impossible to forecast corporate tax collections, even near the end of the fiscal year.

Gaming Revenue Forecast (millions of $)	FY18	FY19	FY20	FY21	FY22	FY23
All Gaming	$890	$898	$895	$890	$890	$895
Change From REC		$23	$22	$17	$17	na

Gaming forecasts are modestly higher than the official forecast. These receipts reflect discretionary spending in the state's economy from both residents and tourists. Lottery transfers in calendar year 2018, supporting the FY19 budget, are complete and reflect the two large jackpots in October. Normal sales levels are utilized for projecting forward until actual jackpots, extraordinary and average occur, such as the relatively large one this past March. The implementation of a lottery in Mississippi is a concern primarily for sales in 2020 and beyond, supporting the budgets of FY21 and beyond. Sales dropped significantly after the start of the Texas lottery in 1992, but a sales effect is hard to discern after the start of the Arkansas lottery in 2009. Some loss of Louisiana sales is likely when instant game sales begin in Mississippi, with more of a loss once the multi-state jackpot games start due to I-10 and I-20 corridor traffic. Based on analysis by the Lottery Corporation, out-year projections of transfers to the state are reduced by $5 million for FY21, and $10 million per year for FY22 and beyond, pending actual performance as the Mississippi lottery comes on-line. Land-based casino activity distinctly stepped down in mid-2015 after the New Orleans ban on indoor smoking, but performance has improved modestly since then. Monthly transfers are fixed by contract, but a true-up to actual annual gaming activity occurs in March each year, at which point all influences on this gaming activity are realized by the state fisc for any given fiscal year. At this point, transfers throughout the forecast horizon are expected to modestly exceed the $60 million minimum amount provided for in the operating contract. Riverboat gaming has exhibited only very modest ups and downs in most years, except when new venues open, and is expected to modestly decline in FY19 and then modestly grow in subsequent years. A downward adjustment has already been incorporated for FY19 and beyond to account for the Baton Rouge smoking ban effect on activity in that market that went into effect June of 2018. Video Poker gaming exhibited negative performance in FY16 and FY17, then modest growth in FY18. A gain is expected in FY19, then modest declines after that. Racetrack Slot gaming performance has also been negative in recent years, with improvement in FY18 but and an expectation of modest weakness thereafter.

Tobacco, Alcohol, and Beer Tax Forecast

(millions of $)

	FY18	FY19	FY20	FY21	FY22	FY23
Tob, Alc, Beer Tax	$372	$361	$371	$372	$372	$372
Change From REC		($22)	($17)	($16)	($14)	na

Tobacco, Alcohol, and Beer personal excise taxes are somewhat lower than the current forecast; primarily a continuing re-assessment of tobacco tax collections, a process that has swung the tobacco forecast up and down repeatedly. Receipts from liquor, wine, and beer stepped-up with the tax increases that went into effect in April of 2016 and, while beer fell off in FY18, an eventual return to stable behavior is expected in the forecast. Cigarette tobacco products faced tax increases in 2015 and 2016, and while it took into FY17 for receipts to settle into an apparent new norm after stockpiling and work-off behavior of wholesalers, a weakening of that new norm occurred through FY18. Based on current collections, another drop is expected in FY19, before tobacco finally settles to a new stable norm.

Motor Fuels Tax Forecast

(millions of $)

	FY18	FY19	FY20	FY21	FY22	FY23
Motor Fuels Tax	$602	$643	$656	$665	$675	$684
Change From REC		$20	$24	$24	$20	na

Motor Fuel tax forecasts are higher than the official forecast, following a drop-off in FY18 due to an accumulation of refunds associated with exported fuel. FY19 steps up reflecting the abnormally weak prior year, then these revenues fall back into a more normal slow growth pattern typical of this tax; directly reflecting consumption of physical volumes of fuel that are fairly price insensitive within normal price bounds. Barring abnormal influences, the tax is an indicator of a relatively slow growing economy in general.

Excise License Tax Forecast
(millions of $)

	FY18	FY19	FY20	FY21	FY22	FY23
Excise License Tax	$893	$937	$959	$984	$1,009	$1,034
Change From REC	$0	$24	$9	$22	$18	na

Premium tax collections have stepped up considerably in recent years as the traditional and expansion Medicaid population was brought into an insurance-based healthcare financing model. In addition, the tax rate on the premiums of health maintenance organizations, largely serving Medicaid recipients, have been increased. These changes, occurring essentially simultaneously, also increased the backloading of tax receipts toward the end of the fiscal year, making premium tax forecasting increasingly difficult. If these changes have largely completed, then premium tax receipts should stabilize to a more normal growth path.

The projection for the Medicaid premium tax allocated to the Medical Assistance Trust Fund is provided by the Dept. of Health for only a two-year period. Out-years simply repeat the last provided projected year. Tax receipts attributable to the non-Medicaid premium base flow largely to the state general fund. Some caution should be considered here since this projected revenue stream may still be influenced by both tax rate and base increases that may not have yet settled into a new norm.

Miscellaneous Revenue adjustments include Unclaimed Property receipts and general fund investment earnings. Unclaimed Property receipts for FY19 have been downgraded by nearly $30 million as greater reimbursements to property owners has occurred as a result of the treasury program to proactively send reimbursements to owners who are a match between the records of the treasury and the Department of Revenue. In subsequent years the forecast downgrade is $10 million in each year. These adjustments will be reassessed as the program's actual success at making reimbursements is realized. The forecast for general fund investment earnings is held at $1 million, even though actual results in FY18 were a negative $5.6 million. This resulted from a long-standing procedure for allocating earnings to statutory dedications based on 6-month CD rates while the overall investable pool actually earns a lower rate, leaving the non-dedicated general fund with a negative residual in FY18. The treasury is planning to change the methodology for dedicated fund earnings allocations that will more closely allocate the earnings of the total investable pool proportional to its dedicated and non-dedicated components. The expectation is for a positive allocation to the general fund in FY20 and beyond, but forecasts beyond $1 million will be adjusted once the methodology change is implemented, and greater general fund allocations are observed.

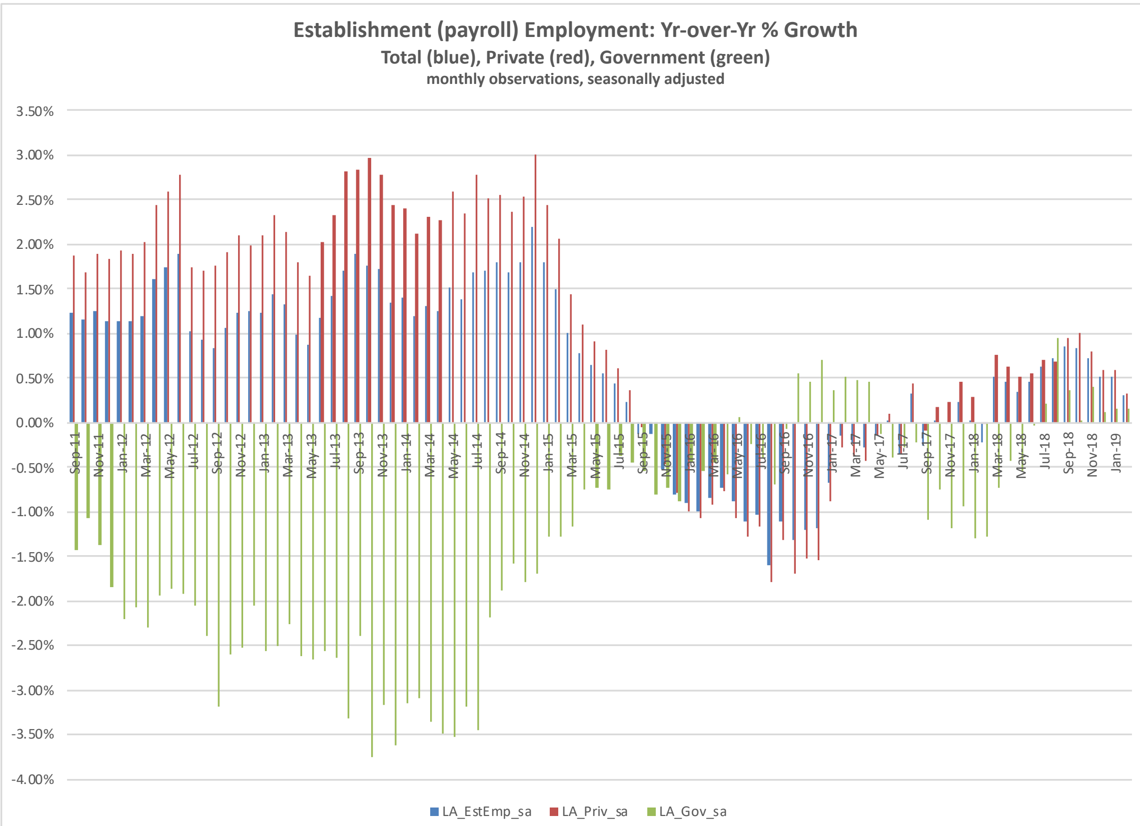
New Opportunities Waiver (NOW) allocation is estimated in this forecast. This allocation is calculated as 12% of the positive difference in the current general fund revenue forecast relative to the forecast in place at the start of the fiscal year, up to a maximum of $50 million. The general fund forecast in place at the start of the fiscal year was some $9,443.8 million. At this point, for FY19 this calculation results in a $15 million allocation to the NOW program, and reduces the forecast available to support the general fund budget. This allocation is not made until the end of the fiscal year, when the last forecast for the year is made. The amount ultimately allocated will change as forecasts for the year change.

The **Budget Stabilization Fund (BSF)** dedication is adjusted to account for current law availability of resources. Under current law, the BSF is to receive a minimum annual amount of $25 million from any source. Until a specific source is identified, the revenue forecasts account for this as a $25 million dedication of what would otherwise be general fund resources. With the availability of some $308 million of surplus from FY18, presented at the October 2018 JLCB meeting, the constitutional allocation of 25% of this surplus, some $77 million, is available to the BSF in FY19, relieving FY19 revenues from this obligation and enhancing the FY19 general fund projection by $25 million.

For FY20 and beyond, the R.S. 39:91 allocates 45% of the economic damage payments attributable to the Deepwater Horizon settlement to the BSF. These payments are $53.5 million per year. While diverted to the general fund in FY18, no diversion of these payments is currently in place. Thus, some $24 million is available to the BSF from this source in FY20 and beyond, relieving revenues in FY20 and beyond from this obligation and enhancing the general fund projections for FY20 and beyond by $24 million. Consequently, only a $1 million dedication of annual revenue is retained in the forecasts.

Act 612 of the 2018 regular session eliminated and reclassified numerous statutory dedications. A few of those modifications were applicable to the REC general fund forecasts, effective with FY21. Those modifications have been incorporated into this forecast recommendation. The most notable change was the elimination of the Tobacco Tax Medicaid Match Fund, created to receive the proceeds of the 50¢ per pack cigarette tax increase enacted in 2015. This dedication is expected to receive $119 million per year in FY21 and beyond, which will now be redirected to the state general fund in the out-years of the forecast horizon.

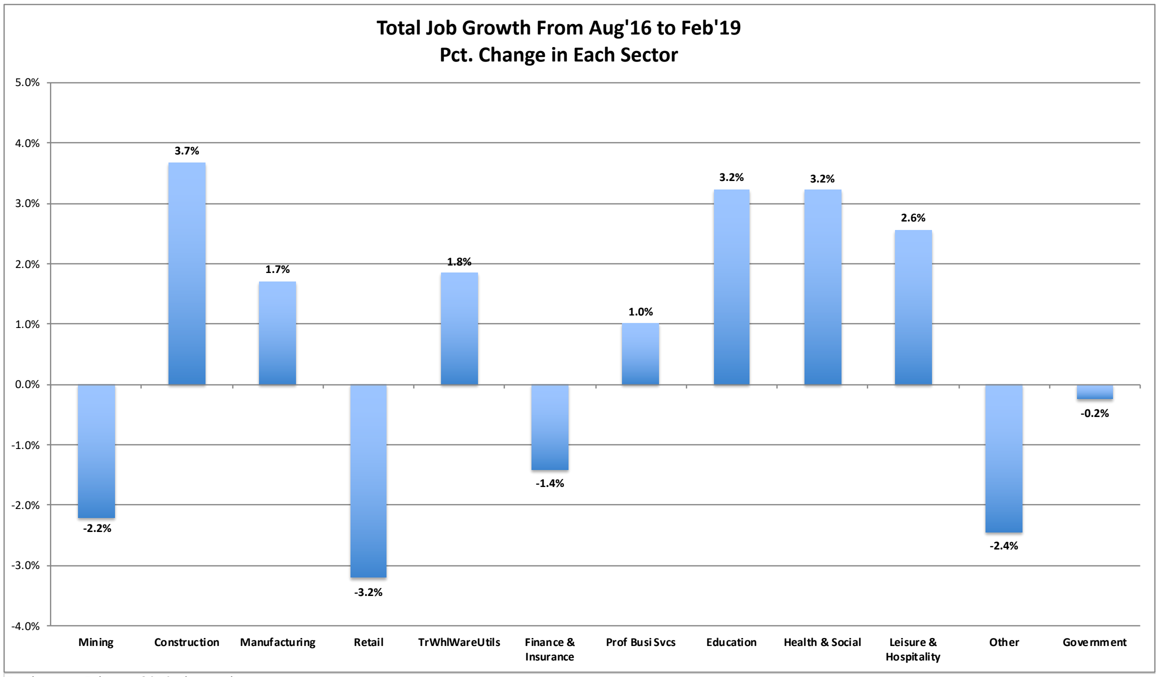
Underlying economic conditions are summed up in the following charts. The first displays payroll employment growth for each month from the same month one year before, as of February 2019. These charts reflect payroll employment growth after benchmarking revisions of 2018 and 2017 data, made early in 2019. After the state recession of 2015-2016, it took well into 2017 for employment to stop declining on a year-over-year basis. Growth sputtered into early-2018 before beginning to exhibit steady growth, as high as a 1% rate, but recently no more than a 0.5% rate. In the thirty months since the state trough of August 2016, total payroll employment has grown by 15,400 jobs; gaining back about 37% of the loss from the peak of December 2014, and exhibiting an annual growth rate of only about 0.03%. While it is encouraging to see positive growth months, the state's recovery has been less than spectacular.



Keeping the caution regarding the aggregate level of employment in mind, the composition of this growth is of interest. The chart below decomposes employment growth by major industry sector from the trough month of statewide employment in August 2016 to the latest reported month. Overall, the composition of growth is encouraging, although, it is concerning that over this thirty-month period the mining sector continued to decline. This is particularly concerning because mining is the highest wage sector in the state economy. If it is any consolation, essentially all of this decline occurred prior to 2017, with the sector stabilizing since then. While this means zero growth in this high wage sector, the sector is not declining anymore.

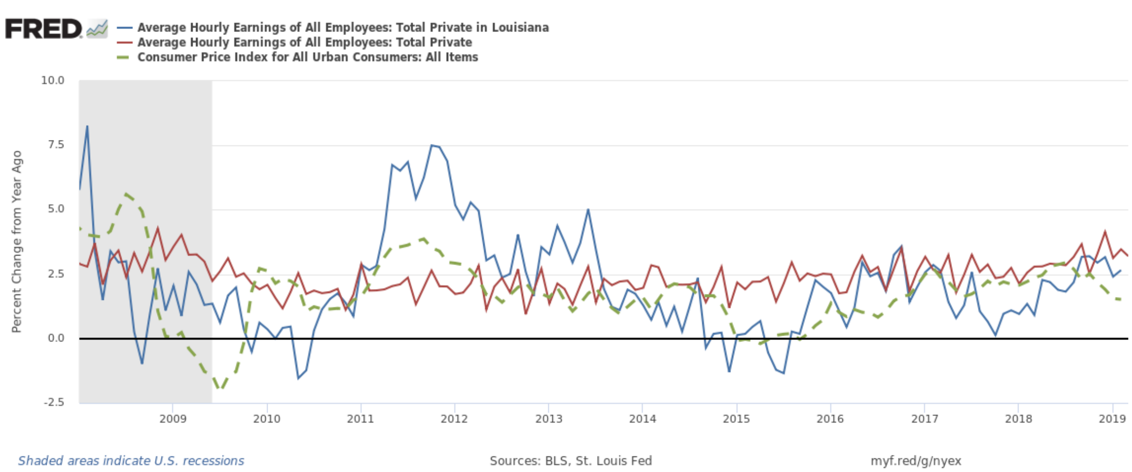
Other than mining, the other relative high wage sector that has declined over this period is finance & insurance, although this sector also appears to be stabilizing. Retail declined as well, but is the lowest wage sector of the economy, and also appears to be slowly stabilizing while wholesale trade is growing. The government sector had largely stabilized in 2016 and 2017, fell off again during 2018, then stabilizing again since late-

2018. Most of the other major sectors of the economy have exhibited growth, with these sectors exhibiting a range of wage levels.



Employment, February 2019, thousands													
	1980.1	35.6	143.7	136.7	227.1	154.7	91.3	210.5	48.0	272.9	237.0	96.0	326.6
Change Since Aug'16, thousands													
	15.4	-0.8	5.1	2.3	-7.5	2.8	-1.3	2.1	1.5	8.5	5.9	-2.4	-0.8
Average Annual Wage, 2018 q3													
		$91,780	$61,568	$72,800	$27,664	$60,755	$65,468	$53,273	$40,716	$43,836	$20,607	$37,232	$53,092

Finally, a graph of hourly average earnings growth of private sector employees for the state and the nation is below, including a dashed line for consumer price inflation. Louisiana earnings growth can exceed the nation's, but it takes periods of very high oil prices for that occur, as evidenced most recently in the 2011 – 2013 period. The state caught up with the nation during 2016, lagged in 2017 and 2018, but appears to be nearly on par by late 2018. In recent months, state earnings growth has exceeded consumer price inflation, resulting in buying power gains on average.



As usual, the state's economy exhibits somewhat of a mixed bag of performance, with it rarely firing on all cylinders. However, most of the major sectors are exhibiting some degree of positive growth, albeit very slow in the aggregate, with others at least stabilizing in recent months even if their thirty-month growth has been negative. Overall, the state's economic picture is positive, and a continuation of that positive growth is the most likely outlook for the forecast horizon, but the slow pace of growth is worrisome. Slow growth makes the state vulnerable to negative shocks from the energy sector and/or the national and international economies. The growth in state tax revenue attributable to in-state economic activity is likely to be modest for the foreseeable future, but also vulnerable to out-of-state shocks.