

REVENUE ESTIMATING CONFERENCE
April 12, 2018

Legislative Fiscal Office
State Revenue Forecast

(millions of \$)

	Actual FY17	Forecast=> FY18	FY19	FY20	FY21	FY22
Total Tax Revenue	\$11,936	\$12,262	\$11,544	\$11,711	\$11,937	\$12,211
Less Dedications + NOW	(\$2,508)	(\$2,600)	(\$2,570)	(\$2,591)	(\$2,611)	(\$2,632)
SGF Revenue	\$9,428	\$9,662	\$8,974	\$9,121	\$9,326	\$9,579
Change From REC	\$0	\$68	\$373	\$364	\$463	\$497
Yr/Yr SGF Change	\$1,531	\$235	(\$688)	\$147	\$205	\$253
Yr/Yr % Change	19.4%	2.5%	-7.1%	1.6%	2.2%	2.7%
Yr/Yr Total Tax Change	\$1,535	\$326	(\$718)	\$167	\$226	\$274
Yr/Yr % Change	14.8%	2.7%	-5.9%	1.5%	1.9%	2.3%

The table above depicts the total recommended forecast. A large increase in collections occurred in FY17 as tax increases enacted late in FY16 were realized for the full year, followed by modest base growth in FY18 through FY22. The general fund revenue forecast for FY18 is up modestly from the December forecast largely as a result of expected income tax withholdings associated with federal tax law changes, as well as stronger oil price. This forecast also acknowledges the New Opportunities Waiver program (NOW) allocation that reduces general fund resources. Revenues then step down sharply in FY19 from FY18 due to the expiration of a 1% sales tax levy and base expansion. This FY19 step-down is significantly ameliorated by the incorporation of federal tax law changes that will result in greater state income tax liabilities, in FY19 through FY22. Relative to the official baseline forecast in place, the recommended forecasts reflect upgrades largely due to a continued more optimistic outlook, albeit one with very modest growth forecasts, somewhat higher oil price projections, and the inclusion of the effects of federal tax law changes. Major revenue areas are discussed further below.

Underlying economic projections anticipate only modest growth of the economy over the forecast horizon. Over the eighteen-month period since the trough of the state's oil price recession of August 2016, total payroll employment has grown by less 0.6%, only 11,100 jobs from Aug'16 to Feb'18, and no acceleration is apparent. Average hourly earnings growth has decelerated to about a 1% annual rate, as well. Broad economic conditions are depicted and discussed further below.

Forecast risks are probably still balanced. The state economy is exhibiting anemic growth, but oil prices seem to have established a somewhat higher range as the U.S. and world economies have exhibited simultaneous growth. 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 industrial construction boom plays out,

some other economic driver sector will have to emerge to carry the economy. So far, those other economic driver sectors have yet to reveal themselves.

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

	FY17	FY18	FY19	FY20	FY21	FY22
Oil, \$/bbl	\$48.51	\$56.87	\$59.34	\$60.24	\$60.98	\$62.17
Change From REC		\$5.09	\$5.03	\$6.18	\$6.95	\$7.65
Gas, \$/mcf	\$3.14	\$2.97	\$3.08	\$3.24	\$3.41	\$3.48
Change From REC		(\$0.05)	(\$0.05)	\$0.12	\$0.25	\$0.28
Gas Sev. Tax, ¢/mcf	9.8	11.1	12.2	12.4	12.6	12.9

Oil prices are upgraded with this forecast, reflecting the success OPEC oil producers have had extending and sticking to their production curtailment agreement, and the rare synchronization of economic expansion in the world’s major and emerging economies, even as U.S. shale oil producers have responded with increasing production. **Natural gas prices** have not exhibited as much strengthening as the U.S. market is still oversupplied by shale production and U.S. exports are still in their infancy. Consequently, forecasts have been modestly downgraded in the early periods of the horizon while upgraded somewhat in the later periods. Price forecasts are based on an average of West Texas Intermediate projections by Moody’s Analytics and the Energy Information Administration, along with Louisiana spot price projections by the State Department of Natural Resources. With horizontal drilling / hydraulic fracturing of shale formations becoming an industry norm, there may be a supply-based ceiling on oil and gas prices for the foreseeable future. These wells can be relatively quickly drilled 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 cutbacks by other producers and solid worldwide demand can still result in upward pressure on prices, and the ceiling level can vary over time.

Severance and Royalty Forecast
(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
Severance & Royalty	\$512	\$609	\$606	\$623	\$639	\$656
Change From REC		\$68	\$62	\$97	\$123	\$150

Mineral revenue forecasts are upgraded from the existing forecast baseline largely as the result of higher price forecasts. Of note in mineral revenue has been the rapid decline rates exhibited in oil production, and especially in royalty oil production, since 2014. The decline rates for severance oil are anticipated to moderate to more historically normal rates, to the extent prices stabilize and sustain higher levels, allowing price strength to translate to revenue forecast upgrades. However, even the expected moderated decline rates in royalty production are significantly higher than those for severance production.

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. Currently, the balance of those risks seems to be to the upside as the U.S. and world economies experience a rare period of joint expansion, and non-U.S. oil producers continue to constrain their production. However, as prices improve the incentive to increase production also increases, for all producers, not just U.S. shale producers. Thus, some ceiling probably exists for these prices.

Sales Tax Forecast
(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
General Sales Tax	\$3,827	\$3,887	\$2,944	\$2,974	\$3,009	\$3,072
Change From REC		(\$47)	(\$161)	(\$186)	(\$115)	(\$122)
Vehicle Sales Tax	\$529	\$490	\$422	\$428	\$440	\$470
Change From REC		(\$11)	(\$5)	\$1	\$2	(\$3)

General sales tax forecasts are still more pessimistic than the current official forecasts, although no change has been made to the FY18 forecast. Only a small downgrade from the previous forecast was made to FY19, acknowledging a smaller amount of receipts from the 1% tax on business utilities that will persist through March of 2019. After that, the forecasts have actually been upgraded modestly from previously, although they are still lower than the official forecasts. The expiration of a 1% of state sales tax rate and base expansion at the end of the current fiscal year accounts for the substantial drop in sales tax in FY19 – FY22 relative to FY17 and FY18. Base tax receipts growth, exclusive of the effects of temporary legislative changes to the tax rate and base, are still only about 1.0% - 2.1% per year in the out-years. Fairly conservative, but this tax has not exhibited consistent growth for a number of years, and the labor market has been essentially flat, exhibiting only very modest job growth from the August 2016 trough of the last state downturn.

Vehicle sales tax forecasts have also been more pessimistic than the current official forecasts, and are reduced even more in FY18 and FY19. Vehicle replacements necessary in the aftermath of the late August 2016 flooding boosted FY17 receipts but have ceased to be a factor in FY18. Collections step down in FY19 as a 1% state sales tax rate expires at the end of FY18. Some growth returns in the out-years after these extraordinary influences play out.

Personal Income Tax Forecast
(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
Income Tax	\$2,960	\$3,079	\$3,442	\$3,505	\$3,602	\$3,702
Change From REC		\$86	\$404	\$388	\$349	\$351

Personal income tax forecasts have been materially upgraded for all years of the forecast horizon. Underlying base collections have been increased in all years, as the economy has very slowly improved, but the year-over-year base growth rates are still in the very modest 1.8% -2.8% range, acknowledging only very slow employment growth, and the fact that this tax has also failed to exhibit consistent growth in recent years.

In addition, added to the baseline forecasts 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 liabilities from state income subject to state taxation. Additionally, the near doubling of the federal standard deduction will significantly reduce the amount of excess federal itemized deduction allowed on state tax returns for those state taxpayers that itemize at the federal level. Given the material nature of these federal changes and the interaction with state tax liabilities, the effect of these changes on state liabilities was simulated as if state tax law itself had changed. The aggregate state tax liability increase will be collected through enhanced state withholdings, effective in mid-March, 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 collections of increases of \$31 million during the remaining months of FY18, \$302 million during FY19, and \$271 million in each year FY20 – FY22.

Corporate Tax Forecast
Combined Income & Franchise Tax
(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
Corporate Tax	\$388	\$383	\$325	\$350	\$375	\$400
Change From REC		\$33	\$25	\$50	\$75	\$100

Corporate tax forecasts have not been changed from the previous forecast, and still reflect a more optimistic expectation than the official forecast. Forecasts are placed at the

bottom of the range of likely outcomes, and then an ad hoc deduction was made for FY19 in anticipation of credit claims from earlier periods being redeemed at full value upon expiration of the 28% reduction in credit values enacted in 2015 and 2016. Corporate receipts step-up each year thereafter. Once the fiscal year completes, a reassessment of possible future fiscal year outcomes will be made.

Corporate tax receipts have always been the riskiest of all the taxes that finance the state general fund budget, and substantial changes have been made to final corporate tax calculations in the last four sessions; some temporary and some permanent. Taxpayer response and the interaction of those changes is essentially unknown and unpredictable. With the substantial tax planning potential of corporate tax filers and the fact that one-half to two-thirds of corporate tax is routinely collected in the last quarter of the fiscal year, it is essentially impossible to forecast corporate tax collections, even near the end of the fiscal year.

Gaming Revenue Forecast
(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
All Gaming	\$894	\$880	\$869	\$868	\$867	\$867
Change From REC		\$7	\$4	\$3	\$2	\$2

Gaming forecasts are only modestly changed. These receipts reflect discretionary spending in the state’s economy from both residents and tourists, and that spending has remained fairly stable but weak. Lottery transfers in calendar year 2017 supporting the FY18 budget are complete, and reflect the actual jackpots experienced during the year. Normal sales levels are projected forward until actual jackpots, extraordinary and average occur. Land-based casino activity distinctly stepped down in mid-2015 after the New Orleans ban on indoor smoking. 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 not expected to be greater than the \$60 million minimum amount provided for in the operating contract. Riverboat gaming has exhibited only very modest growth or declines in most years, except when new venues open, and is expected to modestly decline in FY18 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. Video Poker gaming has exhibited negative performance since FY16, and modest drops are expected throughout the forecast horizon. Racetrack Slot gaming performance has also been negative in recent years with the expectation of eventual stabilization in annual performance.

Tobacco, Alcohol, and Beer Tax Forecast

(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
Tob, Alc, Beer Tax	\$392	\$381	\$382	\$382	\$383	\$383
Change From REC		(\$12)	(\$9)	(\$14)	(\$14)	(\$13)

Tobacco, Alcohol, and Beer personal excise taxes are downgraded somewhat from the current forecast; primarily a continuing re-assessment of tobacco tax collections, a process that has see-sawed the tobacco forecast up and down repeatedly. Receipts from liquor, wine, and beer have stepped-up since their tax increases went into effect in April of 2016, and have returned to their stable behavior. 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 over the last few months has warranted a decrease in the baseline tax forecast.

Motor Fuels Tax Forecast

(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
Motor Fuels Tax	\$635	\$612	\$621	\$630	\$638	\$647
Change From REC		(\$25)	(\$29)	(\$39)	(\$47)	(\$56)

Motor Fuel tax forecasts have been more pessimistic than the official forecast baseline, but have also been downgraded since previous forecasts. Fuels tax growth has been negative for the entire fiscal year after five consecutive years of positive growth. This reversal is exhibited in both the largely passenger automobile gasoline component and the largely trucking diesel component. These tax receipts directly reflect consumption of physical volumes of fuel, and while prices at the pump may have ticked up a bit this year, they are still historically low. Thus, it is worrisome that this recent performance may be an indicator of a slowing economy in general.

Excise License Tax Forecast

(millions of \$)

	FY17	FY18	FY19	FY20	FY21	FY22
Excise License Tax	\$885	\$1,021	\$1,040	\$1,059	\$1,079	\$1,098
Change From REC	\$0	\$69	\$127	\$109	\$117	\$107

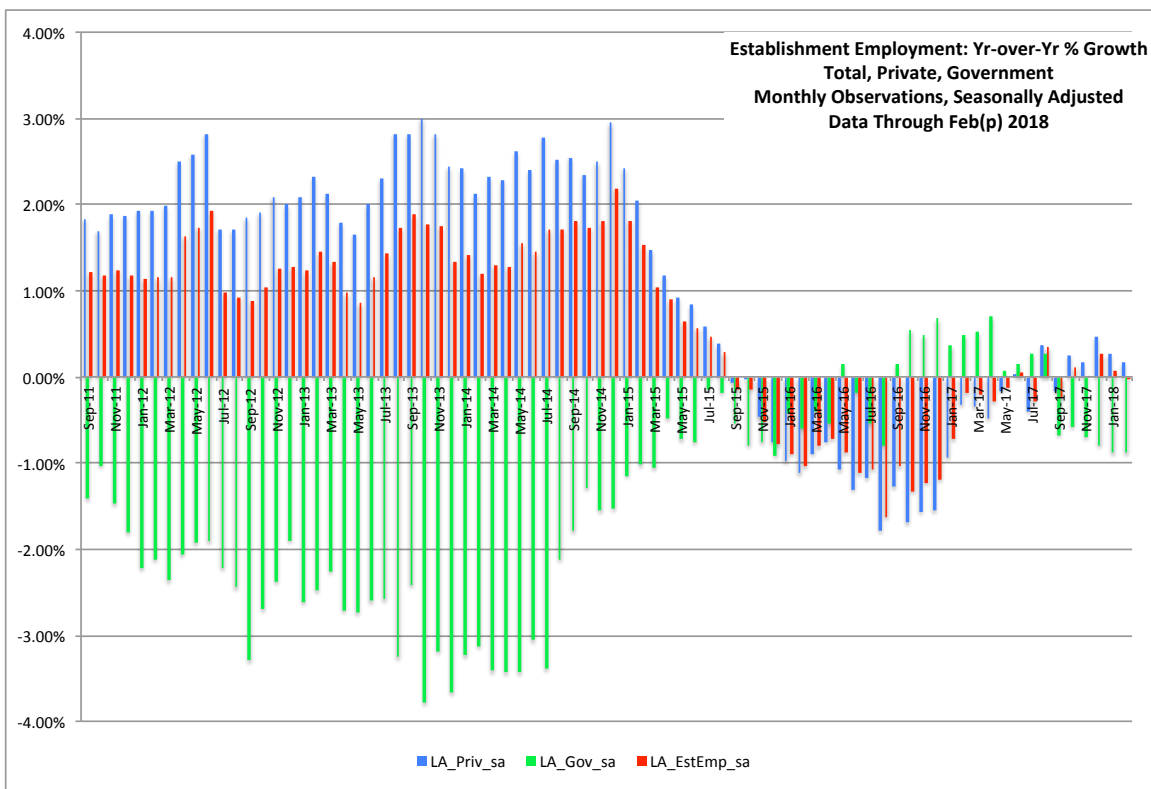
Premium tax forecasts have not been changed since being previously materially upgraded relative to then current baseline forecast. Collections began stepping up in recent years as the expansion of coverage associated with the Healthy Louisiana program (formerly Bayou Health) has proceeded, and as Medicaid expansion has been implemented. In addition, legislation was enacted increasing the tax rate on the premiums of health maintenance organizations. Collections stepped-up especially sharply in FY17 and have run well ahead of those amounts for much of FY18. Changes in the timing of

these enhanced payments, as well as the allocations to the Medical Assistance Trust Fund have made revising the forecast before the end of the fiscal year problematic, and no further changes are considered. The projection for the Medicaid premium tax amount is capped at \$495 million per year throughout the forecast, dedicated to the Medical Assistance Trust Fund, with all other growth in the tax attributable to the non-Medicaid premium base, flowing largely to the state general fund. Considerable caution should be considered here since these projected revenue increases result from both tax rate and base increases that may not have yet settled into a new norm.

Hospital Lease Payments have been maintained for FY18. However, a change in the timing of payments by one of the private partner providers may occur, as indicated by the Division of Administration, who will no longer make a payment for the subsequent year's lease (FY19) in advance of that year (FY18). Thus, the FY18 general fund forecast will lose this payment. However, FY19 will not be affected, even though it retains the payment, because the advance payment for the FY20 lease will not be made late in FY19. This shifting of payments will likewise occur in subsequent years. This change is significant and may warrant an REC level discussion and acknowledgement.

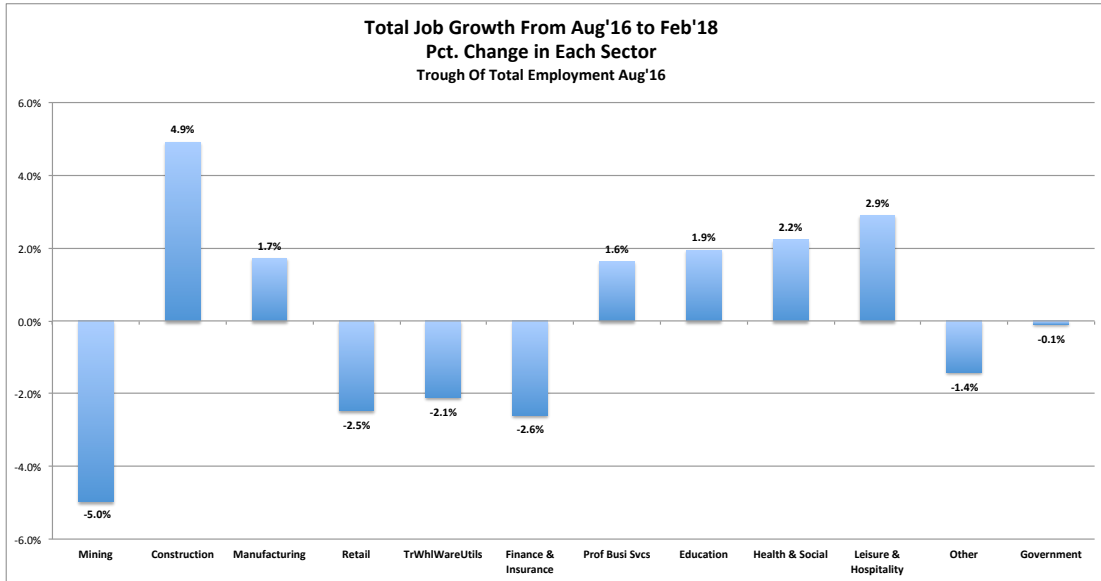
New Opportunities Waiver (NOW) allocation is being acknowledged in this forecast. This allocation is calculated as 12% of the positive difference in the current general fund revenue forecast relative to the forecast in place at the start of the fiscal year, up to a maximum of \$50 million. The general fund forecast in place at the start of the fiscal year was some \$9,442.2 million. For FY18 this calculation results in a \$19.5 million allocation the NOW program, and reduces the forecast available to support the general fund budget. This calculation was neglected in the December 14, 2017 forecast, and is being incorporated at this time.

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 2018. These charts reflect payroll employment growth after benchmarking revisions of 2017 and 2016 data, made early in 2018. After the state recession of 2015-2016, it took a few months into 2017 to stop declining on a year-over-year basis, and that appears to have happened with regard to the private sector and total employment. However, positive employment growth has been variable and low since mid-2017, resulting in total payroll employment that has barely grown at all from the August 2016 trough (less than 0.6% and only 11,100 jobs). This very modest employment growth is the basic economic driver of the revenue forecasts. From the month of May 2017 to February 2018, total establishment employment growth has been less than 0.6% (11,100 jobs), and for the private sector only 0.7% (11,400 jobs).



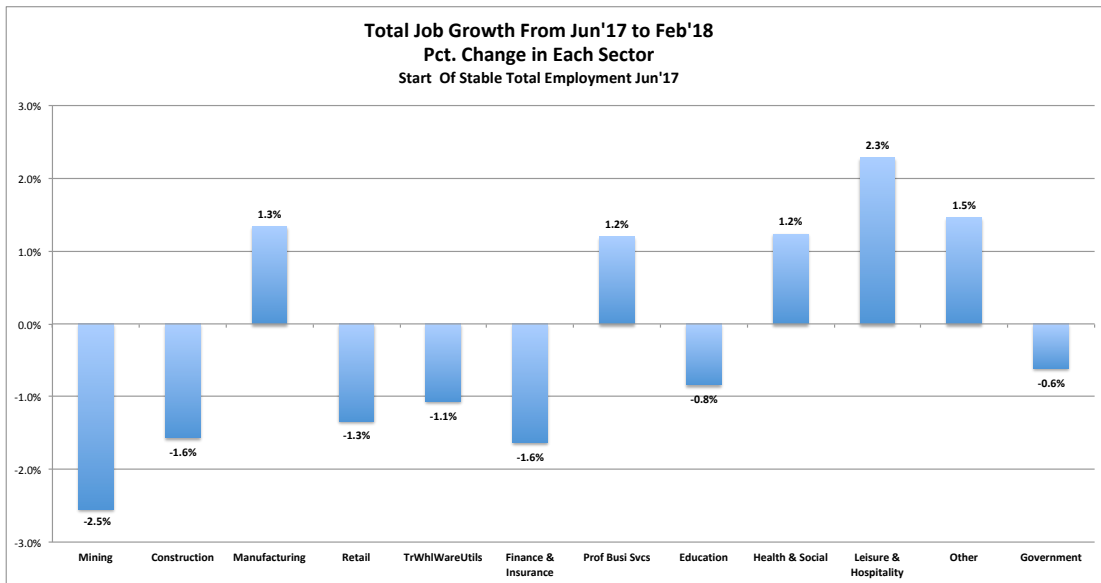
The composition of this growth is of interest, as well. The two charts below decompose employment growth by major industry sector from the trough month of statewide employment in August 2016 to the latest reported month. The first most obvious aspect of the chart is the continuing decline in mining employment (oil & gas) over this period, along with retail trade, transportation, finance, and combined miscellaneous sectors. Other than retail trade, these are relatively high average wage sectors of the economy. The second most obvious aspect is the outsized positive contribution of the construction sector. While construction is a relatively high average wage sector, its activity has been concentrated in industrial projects that will eventually play out. The chart does contain some positive elements though. The sectors of manufacturing, business services,

education, health/social, and leisure/hospitality have all exhibited growth, although the largest absolute job count growth has been in leisure/hospitality, with health/social the second highest.



Employment, February 2018, thousands	1974.4	34.4	145.2	136.7	228.9	148.8	90.3	211.7	47.3	270.5	237.8	97.5	325.3
Change Since Aug'16, thousands	11.1	-1.8	6.8	2.3	-5.8	-3.2	-2.4	3.4	0.9	5.9	6.7	-1.4	-0.3
Average Annual Wage, 2016	\$93,805	\$58,558	\$70,739	\$26,953	\$60,245	\$64,421	\$52,444	\$39,692	\$43,065	\$20,384	\$35,389	\$49,717	

The chart below illustrates the composition of job growth from June 2017 to date, the recent period of mostly positive employment growth; albeit at a low average rate.



Employment, February 2018, thousands	1974.4	34.4	145.2	136.7	228.9	148.8	90.3	211.7	47.3	270.5	237.8	97.5	325.3
Change Since Aug'16, thousands	2.5	-0.9	-2.3	1.8	-3.1	-1.6	-1.5	2.5	-0.4	3.3	5.3	1.4	-2.0
Average Annual Wage, 2016	\$93,805	\$58,558	\$70,739	\$26,953	\$60,245	\$64,421	\$52,444	\$39,692	\$43,065	\$20,384	\$35,389	\$49,717	

In this period, a mixed bag of performance has occurred, with the state still not firing on all cylinders in either of these recent periods. Also, notice that the chart growth scale is half that of the first growth decomposition chart. Of note here is that both mining and construction employment have fallen, with manufacturing making a smaller contribution than in the broader period. Education has also fallen in this period, and government has fallen even more. Growth is still occurring in business services, health/social, and leisure/hospitality, but all at lower contribution rates than in the broader period. Only the miscellaneous other combined sector has switched from decline to positive growth contribution. This underlying sporadic weakness of the economy is why the various personal income aggregates are projected to grow at relatively low rates of 2% - 2.5%, and the baseline income and sales tax outlooks are so modest.