

Louisiana Legislative Auditor's Response to COVID-19: Impact on Local Government Finances

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Presentation to Government Fiscal
Sustainability Workgroup

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Overview

- How we decided to focus on local government
- Methodology
- Results
- Reception and ongoing work



Focusing on Local Government

- During first week of lockdown, reached out to other state economists to identify ways we could contribute
- Local government finances were an area we had evaluated previously and were not already being studied at the state level
- Local government financial projections could be useful to decide how to allocate federal dollars, to identify entities at risk of insolvency, and to help local officials budget in the face of uncertainty



Methodology Overview

- Goal was to focus on the four types of entities:
 - Parish (county) governing authorities
 - Municipalities (villages, towns, and cities)
 - School boards
 - Sheriffs
- These four are the largest by expenditures, and are broad in their scope of activities



Methodology Overview (Cont'd)

- Focused on four types of revenues
 - Sales tax
 - Ad valorem (property) tax
 - Severance tax
 - Mineral royalties
- These four types of revenues accounted for 43.6% of local government revenues in fiscal year 2019
- Sales, severance, and royalties would be highly sensitive to economic downturns
- All results tabulated based on a fiscal year ending June 30



Developing Scenarios

- We developed average, pessimistic, and optimistic scenarios
- Each scenario has an anticipated initial shock to different sectors of the economy, and how long it would take for each sector to recover to its prior trend
- In the optimistic scenario, the initial decline is less severe and the recovery time is faster, and vice-versa for the pessimistic scenario
- For example, restaurants were assumed to experience an initial decline of 60% in sales and earnings in the average scenario, requiring 2 years to recover.
- Intermediate sectors, such as drilling activity, other retail spending, etc., were modeled based on the underlying sectors



Economic Sectors (Average Scenario)

Sector	Initial Impact (CY 2020 Q2)	Years to Recover to Pre-COVID Trend
Groceries	+36%	1
Tourism	-90%	2
Restaurants	-60%	2
Manufacturing Machinery and Equipment	-58%	3
Automobile Sales	-41%	1
Oil Prices	-48%	8
Oil Production	-6%	8
Natural Gas Prices	0%	0
Natural Gas Production	-10%	2
Upstream Energy Earnings	-69%	8
Other Earnings (Before UI Benefits)	-5%	3
CARES Act Unemployment Benefits	+\$600/week	Through 7/31/20
Retail Spending During Initial Outbreak	-50%	3/15-5/15



Modeling Each Type of Revenue

- Sales taxes were modeled by dividing up the sales tax base in each parish into categories
 - Tourism, groceries (less SNAP), prescription drugs, motor vehicles, other retail, manufacturing machinery and equipment, other non-retail
- Ad valorem taxes based on estimated employment-tax elasticity for business personal property



Modeling Each Type of Revenue (Cont'd)

- Mineral Royalties and severance taxes based on price multiplier times production multiplier
 - Most production comes from existing wells, so the actual change in production is less than the change in new drilling activity

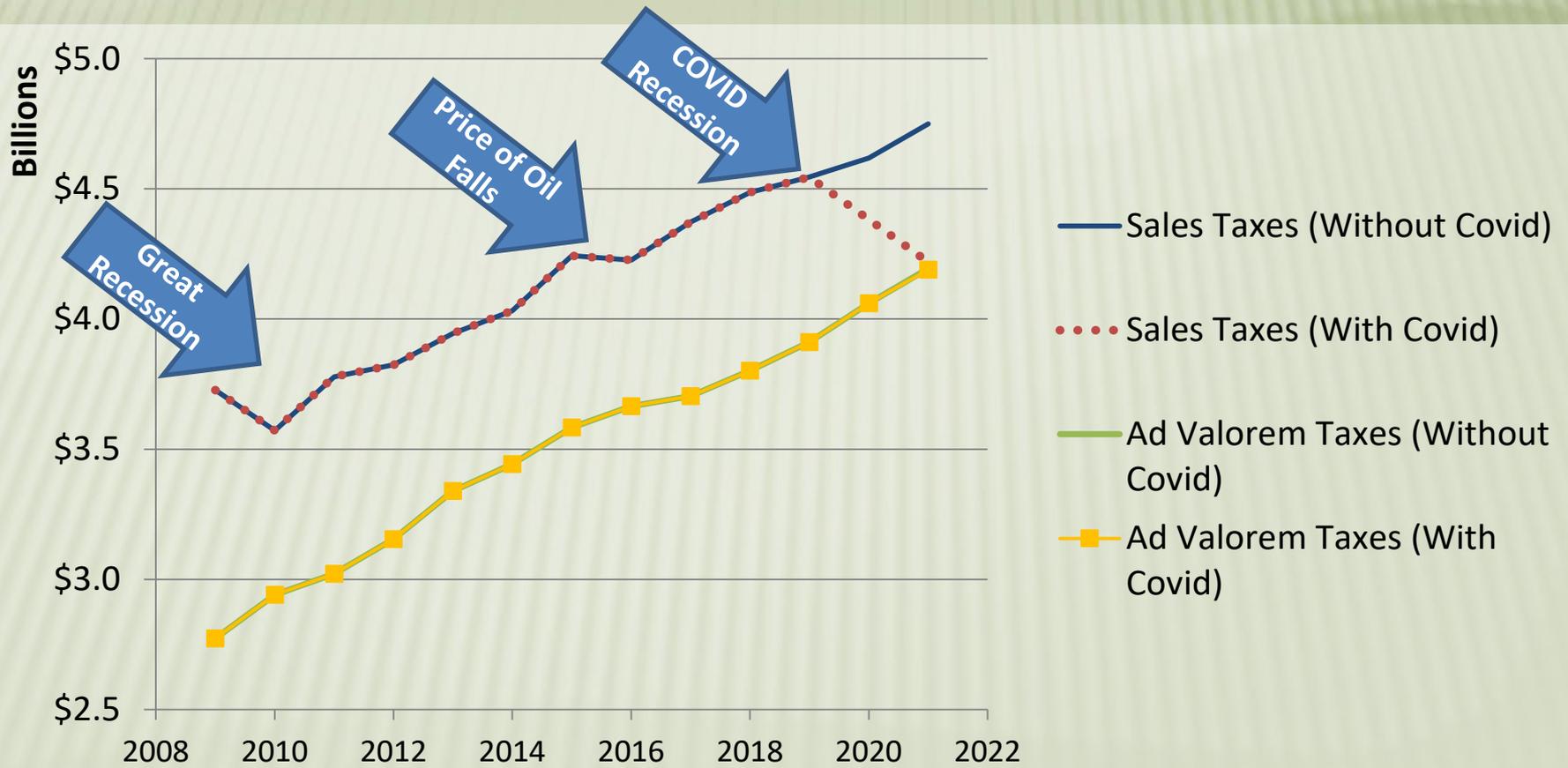


Results Overview

- We estimated that local government revenues will be \$404.7 million to \$1.1 billion less because of COVID-19 over FY 2020-2021
- These losses would amount to 2.3% to 6.9% of revenues from sales tax, ad valorem tax, severance tax, and mineral royalties, or 1.0% to 2.8% of total revenues



Sales and Ad Valorem Taxes Average Scenario



Revenues by Entity Type With and Without Covid-19 Fiscal Years 2020-2021





Most Impacted Parishes for Fiscal Years 2020 and 2021 (Average Scenario)





Effects by Parish Average Scenario

NW La. has energy production and casinos

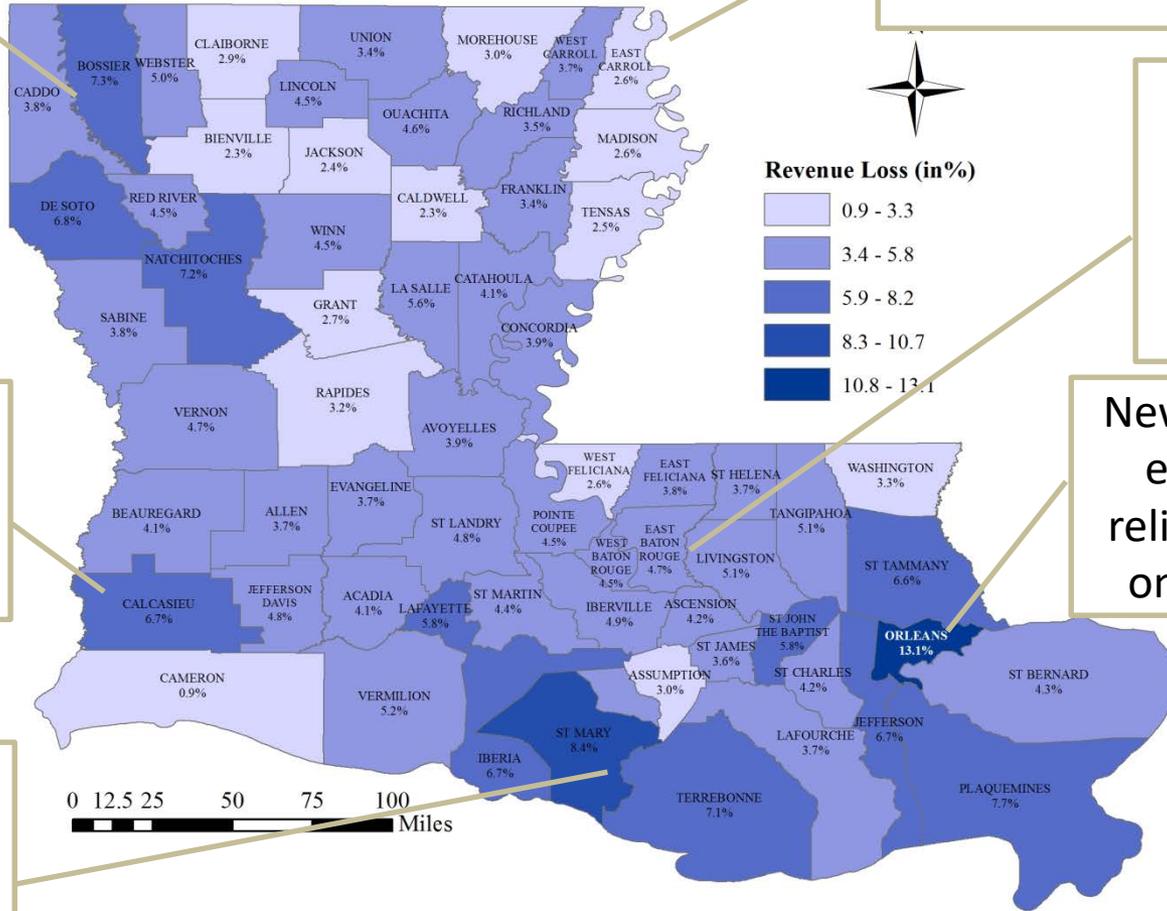
NE La. is more rural, agricultural/timber, already high poverty

Baton Rouge, river parishes heavily concentrated in chemicals, construction

SW La. has casinos, some energy

New Orleans' economy relies heavily on tourism

South La. has energy production





Reception

- Local governments have used projections for budgeting, particularly those with fiscal years ending June 30
- Bond Commission is using projections to evaluate local government borrowing transactions
- LLA Local Government Services using for monitoring



Future Plans

- Updating projections based on newly available economic data, second wave of infections, and comments received
 - Converting to quarterly from annual
 - Impact on balance sheets
 - Add analysis of millages up for renewal elections
 - Include gaming revenues
 - Consider impact of state law allowing for assessed value reductions following disasters
- Anticipating releasing in August 2020



Questions

- Questions or comments appreciated
- Contact Information
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