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

Edward Seyler, Economist
Presentation to Government Fiscal Sustainability Workgroup
July 15, 2020
Overview

• How we decided to focus on local government

• Methodology

• Results

• Reception and ongoing work
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
• 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)

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

Billions

$5.0
$4.5
$4.0
$3.5
$3.0
$2.5


Sales Taxes (Without Covid)
Sales Taxes (With Covid)
Ad Valorem Taxes (Without Covid)
Ad Valorem Taxes (With Covid)

Great Recession
Price of Oil Falls
COVID Recession
Revenues by Entity Type With and Without Covid-19
Fiscal Years 2020-2021

- Municipalities
  - Without Covid: $1,704
  - With Covid: $1,660

- Parish Governing Authorities
  - Without Covid: $4,890
  - With Covid: $4,692

- School Boards
  - Without Covid: $7,719
  - With Covid: $7,387

- Sheriffs
  - Without Covid: $3,438
  - With Covid: $3,224
Most Impacted Parishes for Fiscal Years 2020 and 2021 (Average Scenario)

- All Other Parishes: $229
- Orleans: $176
- Jefferson: $80
- East Baton Rouge: $70
- Calcasieu: $54
- St. Tammany: $45
- Lafayette: $38
- Caddo: $29
- Bossier: $26
- Ouachita: $22
- Ascension: $20
Effects by Parish

Average Scenario

New Orleans’ economy relies heavily on tourism.

Baton Rouge, river parishes heavily concentrated in chemicals, construction.

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

NW La. has energy production and casinos.

South La. has energy production.

SW La. has casinos, some energy.
• 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
  – Ed Seyler, Economist, (225) 336-8061, eseyler@lla.la.gov
  – Gina Brown, Manager, (225) 339-3980, gbrown@lla.la.gov

• If you send us your email we can add you to the distribution list for the next report when it is released