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# Oil Price Plunge Drills Larger Holes in Louisiana Budget

From Credit Outlook

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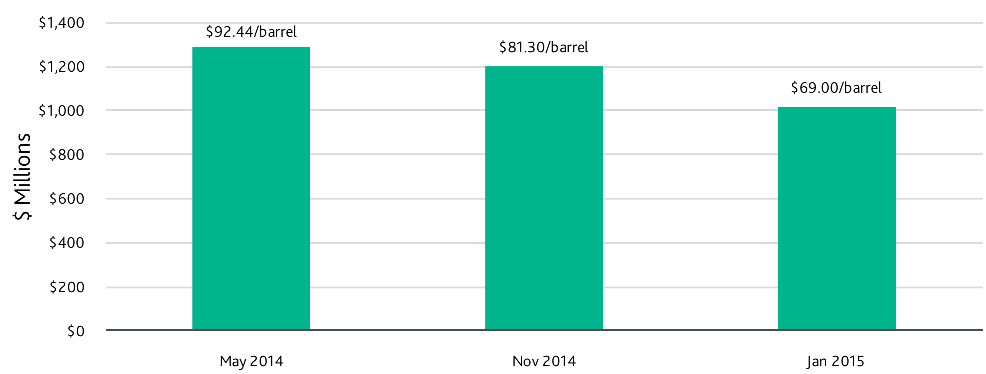
On Monday, a panel of Louisiana (Aa2 stable) government officials reduced revenue projections for the fiscal years ending 30 June 2015 and 2016 by a combined $330 million because of plummeting collections from oil and gas extraction. The mid-year adjustment by the Revenue Estimating Conference (REC) is credit negative for the state, which also cut revenue projections in November.

The latest change includes a net $126 million revenue reduction for fiscal 2015 and $203 million in fiscal 2016. Falling revenues from oil and gas extraction, which made up nearly 16% of fiscal 2014 general fund revenues, have compounded a gap the state faced at the outset of fiscal 2015. The shortfall is about $300 million on a cumulative basis, and the state faces a larger gap of as much as $1.6 billion in fiscal 2016.

The revision by the REC included shaving $182 million from the state's projected energy-related severance and royalty revenues for fiscal 2015. Combined with reductions in November, the REC has cut a total of $275 million from fiscal 2015 severance and royalty revenues, which it now expects will total 12% of projected tax collections.

The REC based its latest fiscal 2015 revenue projections on an assumed average annual oil price of $69.00 per barrel, significantly lower than the $81.30 per barrel underlying November's forecast and the $92.44 price assumed last May, when the fiscal 2015 budget was adopted (see exhibit).

**Louisiana's Severance and Royalty Revenue Forecast Tracks Falling Oil Price Assumptions**




*Source: Louisiana Revenue Estimating Conference*

## What is Moody's Credit Outlook?

Published every Monday and Thursday morning, Moody's Credit Outlook informs our research clients of the credit implications of current events.

The latest REC forecast recognized some additional general fund sales tax revenues, but continues to account for weakness in individual income tax collections. As the US economy picked up steam, Louisiana had muted job growth even before the oil price decline. Payroll employment grew just 0.8% in the first half of 2014, compared with 1.4% in 2013.

Because Louisiana has a structural deficit, significant downward adjustments to revenues will make balancing the 2016 budget especially challenging. When adopted last spring, the fiscal 2015 budget was balanced with nearly $1 billion in onetime actions. But, shortfalls in income and sales tax revenues late in fiscal 2014 revealed a gap in 2015, subsequently widened by falling oil prices. The November REC projection reduced fiscal 2015 revenue estimates from the previous projection by $171 million, prompting mid-year budget adjustments consisting primarily of onetime revenue actions that failed to address the growing gap in fiscal 2016. With the January revenue revised estimates, the fiscal 2016 gap has grown to $1.6 billion, or 18% of the projected operating budget of $8.7 billion.

Although the state has closed significant gaps in the past, its actions in recent years have diminished reserves and budgetary flexibility. For example, its formal rainy-day fund dwindled to $444.5 million in fiscal 2014 from $646 million in fiscal 2011, and its unassigned balances fell to $62.5 million from $112 million over the same period. The decline in the rainy day fund balance will be partly reversed this year when the state makes certain mandatory deposits. The state has also directly or indirectly drawn upon funds from various reserves, such as those held by the Office of Group Benefits, reducing available balances.

A recent change in the Louisiana constitution makes it more difficult to make selective reductions to healthcare spending. Spending on health and hospitals accounts for nearly one third of the general fund budget. Other big-ticket budget items include the Department of Education, which accounts for about 44% of the budget and provides foundation aid to local schools, and higher education, which accounts for 7% of the budget, but is more vulnerable to cuts because of the ability of colleges to raise revenues through tuition.

Notably, the state's liquidity has remained healthy despite the blows to general fund revenue collections. The state relies on borrowable funds from various state accounts to provide liquidity throughout the year. The treasurer's office reports that borrowable fund balances rose to about $2.7 billion on 31 December 2014, versus about $2.3 billion a year earlier.

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