

HoumaToday.com/The Courier – McGlinchey Stafford on Hurricane Katrina

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Katrina leaves Louisiana's budget tattered

BATON ROUGE, La. – With New Orleans' tax base devastated and its taxpayers scattered across the country, Louisiana officials are struggling to estimate Hurricane Katrina's damage on the budget in a state where nearly one in every five residents lived in poverty before the storm – and even more depended on the state for social and health care services.

Economists know Katrina left a crater in Louisiana's \$18.7 billion budget, but they're struggling to figure out the size of the hole and state officials are not even close to determining how to handle it.

"The whole metro area down there is at least a quarter of the population, and I'm sure it's more than a quarter of the state's economy," said Greg Albrecht, economist for the Louisiana Legislative Fiscal Office.

The huge tourism and convention industry is in a shambles with the favorite destination point of New Orleans flooded, contaminated and nearly empty. Shipping was disrupted. Oil and gas production was down in some areas. Agriculture was battered by wind and flooding, and the seafood industry is threatened by a toxic muck pouring through and around southeast Louisiana.

Businesses are displaced, some salvageable and others' fate unknown. Taxpayers spread out of Louisiana, taking their much-needed dollars with them.

Corporate taxes, sales taxes, income taxes, gambling taxes, they're all expected to drop. But no one's certain by how much. More than a third of Louisiana's cash comes from general taxes on individuals and businesses.

"It's going to be devastating," Senate President Don Hines, D-Bunkie, said of Katrina's effect the budget.

Many evacuees from the New Orleans area simply migrated to other portions of the state. Some started working with other branch offices of their companies. Others are trying to re-establish their businesses in the Louisiana cities where they fled to escape the storm. And it's unclear how long people will be forced out of their homes and businesses by the storm damage.

So, Albrecht said that means economists can't just divide out a quarter of the state's general fund and chalk it up to a loss for the entire year. Commissioner of Administration Jerry Luke LeBlanc, the governor's chief budget adviser, said it will take about 30 days to track the impact of Katrina on the budget.

"I think (the loss) is substantial because you have a large sector of the economy that's turned off, but I think it's going to be turning back on quicker than people expect it to because people are resilient as hell," he said.

But no one can predict how many people who evacuated to other states will set up their lives there, refuse to return to Louisiana – and take their tax dollars permanently with them.

Rudy Aguilar, a managing partner of the McGlinchey Stafford law firm, said 50 of the firm's lawyers and their support staff are setting up in the Baton Rouge office, but others are going to offices in Houston, Dallas, Jackson and in a couple of cases, Cleveland and Albany.

"As of right now it's temporary," he said. "We all expect, hope and pray and are determined that New Orleans is going to be rebuilt."

Aguilar said, however, the longer it takes for people to get back into New Orleans' central business district and resume their lives there, the harder it is to keep them from fleeing New Orleans permanently.

"I'm worried about the people whose businesses are located in New Orleans," he said. "The longer they stay in other places, the more they start building a new life."

Russell Kelly, a real estate developer in New Orleans, said he doesn't plan to leave the state, but he's afraid his losses from the hurricane will bankrupt him. His money is invested in a 41-lot property in New Orleans, and he doesn't know what it looks like right now.

"Basically, I can't hold up," Kelly said. "This can take me out."

That looming threat of bankruptcy for businesses would further erode Louisiana's tax base and deepen budget problems.

The state has a bit of a budget cushion. Officials used conservative income estimates, including of oil and gas prices, to develop the budget. Also, as much as a third of the state's \$500 million "rainy day" fund could be tapped by lawmakers if income projections drop significantly midyear, as is now expected because of Katrina.

"It's raining, baby," Hines said.

Federal money is promised to pour into Louisiana to assist with recovery efforts, but that doesn't offer relief to regular, ongoing state services.

Before Katrina, 40 percent of the state's 4.5 million residents depended on the state for health care, and about 16 percent used food stamps at the grocery store. Some of the poor will shift from dependence on state services to federal emergency dollars. But the rest, like those in other stretches of the state untouched directly by Katrina, won't be eligible.

Those federal emergency dollars can't just plug the state's emerging budget hole. LeBlanc said the state likely will be working through its congressional delegation on some separate federal bailout legislation to help the state continue its regular operations and services.

One thing is certain, no matter how bad the numbers are, according to LeBlanc: "The state is not going to go bankrupt. That's a ridiculous option."

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Rudy Aguilar