

Katrina leaves Louisiana's weak state budget in even worse shape

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This story by Melinda Deslatte, Associated Press, first appeared in the Seattle Post Intelligencer, San Jose Mercury News, Washington Post, San Francisco Chronicle.

With New Orleans' industries devastated and many of its individual taxpayers scattered across the country, Louisiana faces huge new budget problems in the wake of Hurricane Katrina.

Those new problems are adding to old ones across a state where nearly one in five residents lived in poverty before the storm, and even more depended on government social and health services.

It's clear that Katrina created a huge hole in Louisiana's \$18.7 billion state budget, but there's no consensus on how big that hole is or how to plug 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 shambles with New Orleans flooded, contaminated and nearly empty. Shipping was disrupted, along with much oil and gas production. Agriculture was battered by wind and flooding, and the seafood industry is threatened by the toxic muck draining through and around southeast Louisiana. Some displaced businesses can be salvaged; others may be beyond repair.

Corporate taxes, sales taxes, income taxes and gambling taxes all are 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," said state Senate President Don Hines.

In neighboring Mississippi, also hit hard by Katrina, the situation doesn't seem quite so dire.

Sales and payroll taxes are slumping because casinos and other industries on the Gulf Coast are closed. But that should be offset in a few months when reconstruction and repairs begin for tens of thousands of homes and hundreds of businesses.

Darrin Webb, a senior economist for the state, told lawmakers that Mississippi might collect all the taxes it had anticipated this fiscal year anyway.

One big question facing Louisiana that isn't as much an issue in Mississippi is how many residents who evacuated elsewhere will decide not to return, taking their tax dollars with them permanently.

Rudy Aguilar, a managing partner of the **McGlinchey Stafford** law firm, said 50 lawyers and support staff are setting up in the firm's Baton Rouge office, but others are going to states like Texas, Illinois and New York.

"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."

But the longer it takes for people to get back into the city's central business district and resume their lives, the harder it is to keep them from leaving for good, Aguilar said.

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

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

There are some hopeful signs, however. Louisiana has a bit of a financial cushion since officials used conservative income estimates to develop the state budget. The state also has a \$500 million "rainy day" fund and legislator could tap as much as a third of it if income projections drop significantly.

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

Federal money is likely to pour into Louisiana for recovery, but that won't help routine state services. Before Katrina, 40 percent of Louisiana's 4.5 million residents depended on the state for health care, and about 16 percent used food stamps.

Jerry Luke LeBlanc, the governor's chief budget adviser, said Louisiana likely will work through its congressional delegation on separate federal bailout legislation to help fund state services.

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

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Rudy Aguilar