Last year’s effort to enact a balanced state budget for FY 2000-01 was a chaotic and confusing process requiring three legislative sessions, serious spending cuts and $211.5 million in temporary new taxes. In addition, the administration had to postpone plans to raise teacher and faculty pay.

The confusion began with an initial $1 billion-plus projected revenue shortfall that changed continually throughout the budget process as proposals were dropped, taxes were renewed or added, new official revenue projections were adopted and spending cuts incorporated. A series of major tax proposal trial balloons released by the governor created a sense of fiscal uncertainty. Adding to the confusion was the constant shifting of programs and expenditures above and below the line—the line separating those that would be funded from those that wouldn’t.

The budget process is already proceeding more smoothly this year, in part due to cyclical fiscal problems that skip a year and partly because of changes in the administration’s approach to budgeting this year. However, next year, budgeters will have to deal with the expiration of $540 million in temporary (two-year) taxes among other problems.

The following conclusions are drawn from PAR’s review of the budget process during the 2000 legislative sessions. The “fiscal-only session,” while a good concept, has proven unworkable in practice. The “continuation budget” is a useful tool for projecting the effects of inflation and workload on program costs, but can be quite misleading. “Performance-based budgeting” is beginning to provide some useful information but is still in the process of being implemented. The capital outlay budget has become a wish-list of state and local projects. Agencies face unreasonable hurdles in obtaining legitimate fee increases. Equitable funding formulas for education are in danger of being undermined by legislative micro-management. The governor’s discretion in making mid-year cuts to avoid deficits is too limited. The tax structure is incapable of providing stable revenues at growth rates reflecting the growth of the economy or of the cost of maintaining existing programs.

To help avoid a recurrence of last year’s budgeting ordeal and to improve the process of preparing, enacting and implementing the budget, PAR recommends that the state:

- return to annual regular sessions
- allow cuts in the “uncuttables” under certain circumstances
- avoid legislative interference with education funding formulas
- improve performance data
- free colleges and agencies to set reasonable fees
- minimize supplemental budget recommendations by avoiding temporary taxes
- disengage local projects from the state capital outlay budget and provide an alternative mechanism to fund them
- include in the annual capital outlay budget only those projects that the state can reasonably expect to fund
- undertake a comprehensive reform of the state and local tax structure.
The process of enacting the state operating budget for the current fiscal year (FY 2000-01) was one of the most chaotic and confusing in recent memory. Without a workable plan to guide it, the Legislature struggled through three sessions last year with constantly changing tax and spending alternatives in an effort to overcome a large revenue shortfall and provide education pay raises. The current budget was finally balanced with program cuts and $211.5 million in temporary tax increases. The “Stelly Plan” was sent on to the voters as a method to fund teacher and faculty raises by increasing personal income taxes.

With voter rejection of the “Stelly Plan” in November, an early forecast of a $218 million revenue shortfall for FY 2001-02 and increasing pressure for teacher raises, the budget process appeared headed for trouble again this year. However, the presentation of the governor’s proposed 2001-02 budget gave the impression of better control. One thing is certain—this year’s budget process differs significantly from last year’s.

This analysis discusses differences in the budget process from last year to this and examines several factors contributing to the confusion and difficulty last year in adopting the current budget. This report also recommends steps to help improve the decision-making process in the future.

HOW THE 2001-01 AND 2001-02 BUDGETS DIFFER

The process of preparing the 2001-02 budget differs from the current year’s in several ways:

- Revenue-based spending targets replaced the continuation budget figures as the starting point in developing agency requests;
- The difference between the continuation budget and the revenue forecast was downplayed and excluded entirely from the budget presentation this year;
- There are no large temporary taxes about to expire before the next fiscal year begins;
- No lengthy lists of supplementary spending are appended to each agency budget;
- The only significant supplementary requests are for teacher pay raises and these are made contingent on specified additional revenue sources;
- The table of organization reflects more realistically the number of filled positions;
- Except for expanding gambling revenues in a special session, no new taxes are envisioned. (Taxes can not be increased in the regular session.)

Some of the differences between the two years reflect the cyclical nature of the biennial fiscal session which restricts tax options. Cyclical factors that ease the process this year, however, will return to cause trouble next year. Other differences are the result of decisions by the Division of Administration (DOA) to alter its approach to preparing and submitting the budget.

The most significant of these decisions was to give each agency a spending target and require it to present a budget request within that target. The DOA set the overall spending target to match the expected available revenue. (The official revenue forecast projected only about a $154 million increase in general fund revenue, not counting any possible casino money.) The DOA then used its set of priorities in assigning each agency a spending target. A second round of targets was required to lower total spending. The agencies then were left to devise a way to meet the targets they were given.

Unfortunately, several major agencies have not yet determined how they are going to cut spending to meet the target set for them in the proposed budget. The uncertainty could worry clients and supporters of programs that might get cut. There is even a possibility that agencies might play on these concerns by suggesting cuts designed to get legislative support for funding increases. If this year is any guide, agencies could be struggling with the decisions on how and where to make cuts well into the next fiscal year.

In the proposed 2001-02 budget, the only supplementary spending contingent on new taxes is $70.4 million for teacher pay. Last year, there were basically two sets of supplementary budget requests attached to the recommended budget, one was contingent on renewing the temporary 3% sales tax on exempt items and a second set was contingent on passage of a substantial package of additional taxes. Adding to the confusion last year was the series of major tax proposals the administration put forward.
In the early stages of preparing the 2001-02 budget, the projected “revenue shortfall” between available general fund revenue and the “continuation” budget has played a less prominent role than it did last year. This is partly by design and partly due to the fact the shortfall for 2001-02 was only $218 million compared to the $867 million shortfall initially estimated for the current year.

### THE CONTINUATION BUDGET

The continuation budget is a major source of confusion in the budget process, not because it is a faulty concept, but because of the way it is used, abused and often misunderstood. The law requires a continuation budget to be developed and used to prepare a long-range, five-year fiscal outlook by comparison with long-range revenue forecasts. It also has played a very visible role in the annual budget preparation.

The continuation budget is an estimate of the cost of continuing the existing level of services by applying inflation, scheduled merit pay raises and changes in workload to existing costs. Adjustments may also be made to annualize partial year expenditures in the prior year or to account for other similar spending requirements.

The continuation budget has provided a starting point from which the administration develops its spending recommendations. It is a “best estimate” of what it would cost to continue the same level of services with no change in programs or policies. It is not a statement of what the state should spend nor does it affirm the validity of existing programs and policies.

The continuation budget for 2000-01 was ripe to create misunderstanding. Initially, it exceeded $1 billion. However, the early official revenue forecast did not include $326.8 million from the “temporary” 3% sales tax on food and utilities that was due to lapse but expected to be renewed. The Revenue Estimating Conference (REC) can only include legally authorized recurring revenues in the official forecast.

The huge revenue shortfall was whittled down in a series of steps over three legislative sessions which left many observers, and even participants, wondering what the shortfall was and why it was always changing.

Critics of the continuation budget approach suggest it provides an overly inflated starting point for budgeting preferring instead to begin with the current spending level as the base and require justification for any increases. However, the inflation factors used to create the continuation budget have made little impression on the administration’s recommended budget.

In recent years, state agencies have consistently been asked to absorb any increased costs due to inflation as well as the 4% annual merit pay increases for employees who have not yet reached the top of their salary schedules. ($30.2 million and $23.8 million respectively for 2000-01). The fact that most agencies have managed to do this year after year raises some interesting questions.

Agencies have a great incentive to build “wiggle room” into their budgets. A common way to absorb inflation costs is to keep authorized, funded positions unfilled and use the salary savings. If the agencies can operate with all of these vacant positions, why continue funding them? The elimination of many authorized positions in the current budget could make it more difficult for agencies to cover their merit raises and inflation costs using salary savings. The proposed budget for 2001-02, according to the DOA, has tightened up the Table of Organization (T.O.) in an effort to include only actual required positions.

The continuation budget is useful in projecting the impact of expected changes in costs and workloads on current programs but it has some shortcomings. It does not reflect what spending should be nor does it take into account possible gains in efficiency or productivity. If an agency is overspending, it will further inflate the overspending. These questions of adequacy, efficiency and productivity are not the problem of the continuation budget but must be addressed by administrative and legislative budget analysts. For example, in the private sector, productivity has largely offset inflation in recent years. Analysts must assess whether training or technology investments have reduced an agency’s funding requirements.

One source of misunderstanding has been the use of the term “deficit” to describe the
amount by which the continuation budget exceeds the projected revenues. But this is a “deficit” that cannot actually occur. Any projected revenue shortfall must be eliminated by cutting spending or raising revenues before the constitutionally required balanced budget is approved. When the so-called “deficit” is large, it receives much attention in the media and elsewhere. The fact that the “deficit” is always eliminated by budget approval time simply reinforces the idea that the continuation budget and revenue shortfall are “phony” numbers.

In preparing the 2001-02 budget, the governor’s budget staff have paid less attention to the continuation budget and more to the actual funding available. This approach certainly responds to the twin messages voters sent in November—“no new taxes” and “state government had better learn to get by on the revenue it has.”

SUPPLEMENTAL BUDGET RECOMMENDATIONS

Another source of confusion for those attempting to follow the legislative budgeting process last year was the way spending programs bobbed up and down, above and below the “line” that divided those that would be funded and those that would not.

Prior to adoption of the balanced budget amendment in 1990, the governor simply presented one budget for all desired spending along with recommended revenues including any proposed tax increases. If the Legislature did not approve the governor’s proposed tax increases, it then had to make cuts.

The 1990 amendment required the governor to submit a budget that balances proposed spending with the official revenue forecast. It also allowed the governor to recommend additional revenues with proposals for their use. Since then, the executive budget has separated the recommended spending, which is to be funded by expected revenues, and spending that is contingent on the availability of revenues not included in the official forecast.

As explained above, a temporary tax that is scheduled to expire cannot be included in the official forecast for the following year until it has been renewed. The budget process is usually well under way before there is an opportunity for renewal. If spending from these funds is to be budgeted, it must be shown as supplemental.

Critics claim the administration tends to play games with the supplemental items by using politically popular or “tear jerker” programs to encourage legislative approval of taxes. The supplemental recommendations that were made contingent on suspending the 3% exemption for food and utilities for the 2000-01 budget left the Legislature little choice. If the tax was not renewed, the administration proposed cutting $326.8 million in general fund spending. This meant a loss of $2.36 in federal matching funds for each state dollar or a total of $1.1 billion in funding for health and medical programs (including some for the mentally retarded, mentally ill, developmentally disabled and the medically indigent).

If the “temporary” 3% food and utilities tax was not such a deeply ingrained part of the state’s revenue structure, tying it to these health-related programs might have appeared manipulative.

However, some of the programs recommended by the governor for the next $269 million in supplemental spending for 2000-01 was a little more suspect. This spending was contingent on passage of new taxes. In addition to some large non-mandatory Medicaid programs, the “below-the-line” items included several with great legislative appeal: supplemental pay for deputy sheriffs, police and firemen ($29 million) and the urban and rural development funds (so-called “governor’s slush funds”—$19 million that legislators can direct to local projects) and restoring a $2 per day increase for sheriffs to keep state inmates ($13 million). These programs generated local pressure on legislators to come up with the extra money.

While the above mentioned programs are political lightning rods, they are also justifiably considered lower-priority items from a state funding perspective. Legislators, of course, have the right to reorient spending priorities. The eventual restoration of funding for the slush funds was hailed by many as the poster child for misapplied legislative priorities.

Throughout the 2000 regular session, these items were bounced above and below the funding line. The extensive committee and floor amendments and revisions as the bill moved through the two houses resulted in much confusion. Fortunately, bicameralism saved the day in a number of instances as poorly considered amendments in the House were...
Later undone in the Senate. One was an amendment to undercut the technical college funding formula by adding a hold-harmless provision for campuses that would lose money if they were funded on an equitable basis. Another would have forced school districts to put most of any additional money received from the state into teacher salaries regardless of their local situation or needs.

The problem with the supplemental recommendations last year was the unusual size and number of programs involved and the lack of a realistic funding plan. The recommended 2001-02 budget avoids many of last year’s problems by including only one supplemental item along with a plan to fund it. However, the problem will return next year bigger than ever. The supplemental portion of the 2003-04 budget could initially include at least $545 million in spending funded by temporary taxes passed last year with two-year expiration dates.

### The Fiscal Session

Louisiana’s form of legislative sessions caused some of the confusion and raised several unique problems in enacting a budget last year. While the governor continues to support the state’s system of biennial, fiscal-only sessions, many others have declared it a resounding failure. The system requires a special session if any substantive statutory changes are to be made or to authorize fee increases in even-numbered years. These issues may not be taken up in a fiscal session. By controlling the special session call, the governor ensures that his agenda is the only one considered and is able to grant legislators access for their local bills.

As initially conceived, the first special session of 2000 was to increase revenue for teacher raises, increase a variety of fees, privatize the economic development department (create Louisiana Inc.), and again suspend the sales tax exemptions on food and utilities. However, the governor did not include the tax-for-teachers issue in the call. Few of the fee proposals were approved and the Louisiana Inc. implementation was postponed and made subject to a popular vote later that fall. The sales tax could have just as easily been renewed in the fiscal session. In short, the three-week special session proved to be a poor use of legislative time and money.

The fiscal session once again failed to live up to expectations. The money committees met and did some budget analysis, but few of the subject matter committees undertook any serious examination of related budget issues. Furthermore, the Senate had little to do while waiting for the money bills to come out of the House.

Also, through a quirk in the constitution, the fiscal session was not able to consider significant fiscal issues such as tuition increases for higher education and fees for various agencies that depend heavily on this source of funding. In addition, the Legislature could not even undo a “drafting error” from a prior session that shifted $43 million from the general fund to the transportation trust fund. To top it off, the session adjourned without adopting a budget.

The second special session of 2000 was largely limited to adopting budgets for the executive and judicial branches, tuition and fee increases and another batch of local bills. The most controversial item in the governor’s call tied tuition increases for all higher education institutions to upgrading LSU-A to a four-year university. This was described by some as an attempt to “legislate by call.”

The special session not only gives the governor a great deal of control of the legislation presented, it also generally prevents the Legislature and the public from seeing the final drafts of proposals in time to digest them before action on them begins. The call may be made as little as five days in advance of the session and bills need not be prefiled. The recent special sessions illustrate how the details of significant proposals can be withheld from the public right up to the start of special session. In the case of a tax measure, there may be no time to prepare an adequate fiscal note before the bill is taken up.

The fiscal-session system has significantly reduced the total number of bills over a biennium but apparently has not reduced legislative costs. In fact, the Legislature increased its own appropriations for the current year by 14%. With 4,000 bills one year and 400-500 the next, the legislative staff cannot be operating at maximum efficiency.

Originally, the fiscal-only session idea promised to concentrate legislative attention on fiscal issues every other year and to cut down on the number of bills legislators and staff would have to deal with. However, as demonstrated last year, the fiscal-only session has not resulted in better budget analysis or fiscal decisions.
Over the years, Louisiana has been quick to adopt the latest fad in budgeting approaches. These have included “program budgeting,” “sunset review,” “PPBS,” “Zero-based budgeting,” and most recently, “performance-based budgeting.” These approaches differ somewhat but all were efforts to go beyond simple incremental, line-item budgeting by tying spending to programs and requiring some analysis of performance to justify funding.

For the past half century, the state has required agencies to provide performance data with their budget requests. Unfortunately, the data was often inaccurate, misleading and unusable for decision making. Efforts to refine performance indicators over the last dozen years met with varying acceptance and success.

The 1997 Louisiana Governmental Performance and Accountability Act attempted to truly integrate performance into the budget process. It required budget units to develop program objectives and performance indicators to be presented along with the governor’s proposed budget, as in the past. However, beginning in fiscal 1998-99, the new law required “key objectives” and “key performance indicators” to be included in the annual appropriations bill itself.

Agencies must report quarterly on whether they are meeting their standards and the performance data is maintained on the Internet in the Louisiana Performance Accountability System (LaPAS). The Legislative Fiscal Office (LFO) must summarize the reports for the joint budget committee. Beginning this year, agencies may be rewarded or punished based on their performance and on their use of performance-based budgeting. The LFO must also report each September on the performance for the prior year and adequacy of the data.

The reason for including program objectives and performance standards in the budget act was to create a formal obligation on the part of the agencies to meet the standards set. According to the appropriations committee chairman, who has spearheaded this effort, it has been an evolutionary process. By focusing attention in this way, agencies have been forced to rewrite their objectives and improve their performance data.

While the law requires “key performance indicators” to be in the appropriations bill, the intention apparently was to require “performance standards,” which are the targets the agency is supposed to meet. Last year’s budget bill included general performance information and actual prior year performance indicator data for many agencies in addition to or instead of the targets. As a result the bill swelled to a confusing 285 pages of small print.

The appropriations bill for 2001-02 has done a better job of paring down the data included although it still refers to the “standards” as “indicators.” The result is a somewhat shorter, 235-page bill.

While performance data played an important role in the deliberations on many issues last year, it is clear that many agencies still need to improve their data. Recent hearings of the Performance Review Subcommittee of the Joint Budget Committee highlighted numerous problems involved in selecting, setting and interpreting performance indicators.

While useful to legislators, good performance data is essential for effective program management and budget development. In preparing the governor’s recommended spending plan, budget office analysts should depend on workload and unit-cost data in assessing agency and program effectiveness, efficiency and funding needs. However, budget analysts are not always making optimum use of the performance data that exists. One problem is that within the Office of Planning and Budget, the planning staff has primary responsibility for performance data while the budget staff concentrates on financial data. The planned merger of the planning and budget staffs might help merge performance review with budget analysis.

The current efforts to install performance-based budgeting are clearly having a positive effect. However, continued progress is needed to make adequate data available for making budget decisions for all agencies and programs.
Total actual state expenditures rose 72% in the 10 years from FY 1989-90 to FY 1999-00 (See Figure 1). Adjusted for inflation, the increase in real dollar spending was about 36% or slightly above the 26% rise in inflation during the period. Spending rose somewhat faster than inflation in the early 1990s fueled largely by a tremendous growth in federal funding. Following the sharp cutback in federal Medicaid matching funds, the growth in state spending slowed substantially. Total state spending grew only 10.4% ($11.9 billion to $13.1 billion) during the last half of the 1990s. However, when adjusted for inflation (real dollars), this five-year growth was less than 1%.

The budget for 2001-02 projects only a 1% increase in total spending over the current year. The $14.3 billion budget would include $5.2 billion in federal funds (a 0.3% drop) and $9.1 billion in total state effort (a 1.8% increase). The $6.4 billion general fund portion of the state effort would grow 3.7%, but only if $70 million in casino funds are included (otherwise it would only grow 2.5%).
The state capital outlay budget has become overloaded with local projects and state projects that far exceed available funding. The $2.8 billion capital outlay budget bill for the current fiscal year moved through the 2000 regular session with relatively little discussion although a number of local projects were added along the way. Of the total, about $1 billion is funded by cash or revenue bonds and $1.8 billion was to be funded by general obligation (GO) bonds.

Nearly two-thirds of the $1 billion cash portion is for transportation projects funded largely with gasoline taxes and federal money. Revenue bond construction for universities and hospitals comprise most of the remaining third. A dozen small local projects ($3.9 million) are included in the cash portion.

The $1.8 billion GO bond portion of the budget includes projects under five priorities. Most of the projects in the $655 million priority 1 classification are projects continued from prior years for which bonds had not yet been sold.

The state has operated under a self-imposed limit of selling no more than $200 million in bonds each year (even though the constitutional debt limit would have allowed more). However, bond sales were deferred for the last three years, in part to avoid adding debt service to a tight operating budget. (Each $200 million in bonds would have taken $15 million to $20 million in annual debt service from the general fund.) Also, the financial advisors had warned that issuing bonds in the state’s poor fiscal situation could lead to a downgrading in its bond rating and consequently raise the interest rates it must pay. The administration’s fiscal policies are credited, in part, for the November upgrading of the state’s bond rating, however it still remains the lowest among the states.

The accumulated bond authority since the last sale totals $763 million which is also the amount set as a limit in the capital outlay act. The state is now in the process of selling $347 million in bonds. This money will go into a capital outlay escrow fund to be drawn against by capital outlay projects. The administration has already granted cash lines of credit totaling $762.5 million ($646.3 million for priority 1 and $116.3 million for priority 2 projects). The remaining bond authority would have to be used to cover these projects. Even then, there would still be over $1 billion in projects with little hope of funding in the near future.

Most priority 1 projects and half of the priority 2 projects have cash lines of credit. Projects in priority 3 and 4 have no chance of funding any time soon but are on the list. Priority 5 projects are the next most likely to be moved up to priority 1 next year and these have been granted $310 million in non-cash lines of credit to get them started.

The capital outlay appropriations act clearly has been extended to include many more projects than can reasonably be expected to be funded. Many of these have probably been included to appease the projects’ supporters. It does give the administration a great deal of leeway in selecting projects for funding.
It would appear that the capital outlay process has moved away from a priority system based on a rational application of feasibility criteria. This conclusion is further borne out by the current policy of extending cash lines of credit so far in excess of available bond revenue.

**Local Capital Projects**

Over one-third ($628 million) of the GO bond portion of the current capital outlay budget is for 167 non-state projects. These include port and levee projects, local parks, museums, art and theater buildings, fire and police facilities, economic development infrastructure and various other local facilities. The number of local projects has grown in recent years and some critics suggest they have been used as bargaining chips in the political process to secure legislators’ support for administration positions. Whether a direct quid pro quo has been extracted for projects, the opportunity and temptation to do so are obvious.

In addition to the administration's local projects, individual legislators add “pet projects” to the budget. Legislators’ projects are often treated as a professional courtesy by other legislators who expect to have their own pet projects treated similarly. While the law requires that all projects placed in the capital outlay budget be subjected to a feasibility study, local projects can escape this bothersome review. In practice, the fact that a legislator has submitted a project is deemed proof of its feasibility. As examples, the state doesn’t independently determine if a tennis center should be expanded or if a community theater group should have a new theater.

The administration has established a laudable policy of requiring local matches for most non-state projects. Also laudable were the governor’s vetoes of several local projects last year because they did not require a local match. The budgeted match requirement varied by project. Some project descriptions still required no match, others simply stated that a match was required, yet others specified a 50% match. However, most stated a dollar amount which varies greatly as a percentage of the project. For example, the state is putting up $23 million for an Audubon Park renovation with a $26 million local match but is funding only $1.5 million of an art museum project with a $12.5 million local match.

The extent to which state and local projects in the high priority categories exceed the available funding has turned the capital outlay budget into a wish list with the commissioner of administration as the gate keeper. With the governor’s acquiescence, the commissioner decides which projects will be presented to the state bond commission for funding.

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**THE YEAR-END SURPLUS/DEFICIT PROBLEM**

At the end of each fiscal year, the accountants close the state books and prepare the comprehensive annual financial report (CAFR) following accepted accounting principles. It is normally halfway into the next fiscal year before the report is released and the official surplus or deficit for the completed year is made known.

The CAFR must comply with accepted governmental accounting methods which differ from the methods used in budgetary accounting. These differences have created several problems that a subcommittee of the Revenue Estimating Conference is now struggling to define and solve. One problem is an apparent double-counting of certain tax refunds in the CAFR year-end balance and the official revenue forecast for the next year. Another problem is that the CAFR surplus or deficit may not reflect actual cash in the bank or actual debts that have to be paid.

The constitution requires any prior year surplus to be used for certain non-recurring purposes. If the surplus does not represent actual cash, spending the surplus as required could result in redirecting funding from other operating purposes. Until the last two years, the CAFR has been reporting surpluses. These surpluses have been used to retire state debt early and this in turn freed money that would otherwise be used for debt service. Thus, the impact on the budget process was not particularly noticeable.

When the CAFR shows a deficit, the budget problem is immediately noticeable. The constitution requires that a year-end deficit be eliminated before the end of the following year. This means that half way through the year, the budget must be cut in the amount of the deficit. If the
deficit includes amounts that do not require actual expenditures, then the cuts will have been made unnecessarily—perhaps damaging operating programs.

If the REC study committee determines the problem needs to be addressed, several options have been discussed. Because the CAFR numbers are the only audited figures available, any redefinition of the general fund surplus or deficit must be CAFR based. If the CAFR fund balance is altered for budgeting purposes, any adjustments should be limited to those accrued revenues or expenditures which definitely will not be realized.

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**RECOMMENDATIONS**

The following recommendations and explanations are offered to help reduce some of the confusion that has plagued the budget process and to improve fiscal decision-making.

**FISCAL SESSIONS**

*Louisiana’s Legislature should return to annual general sessions of 60 legislative days each within 85 calendar days.*

Proposals to levy or increase a tax should be prohibited in general sessions in odd-numbered years.

Consideration of tax exemptions, exclusions, deductions, or credits should be allowed in odd-numbered years if the result is a tax reduction.

The fiscal session was adopted in Louisiana in 1954 and by 1965 PAR had determined that it was not working as planned. PAR recommended at that time that the state abolish the fiscal session and hold annual 60-day general sessions.

PAR claimed the state’s 30-day fiscal session had “proved a debacle since its inception.” The 1974 constitution changed to annual, 60-day general sessions but limited tax bills to even-numbered years. In 1993, voters approved a constitutional amendment to reinstitute the 30-day fiscal-only session in even-numbered years. PAR observed the new system with the hope that it would live up to its promise—to concentrate legislative attention on fiscal matters every other year.

PAR maintained a neutral position on a 1999 ballot proposal to open the fiscal session to five non-fiscal bills per legislator and to consideration of fees. The proposal made voters nervous by giving legislators a great deal of flexibility in scheduling sessions and granting exemptions and the measure was defeated.

Last year’s budgeting ordeal has made it clear that the fiscal session is not working. It ties the hands of legislators in the first session of their terms and encourages special sessions where the agenda is controlled by the governor. It gives the governor the means to exert control over the fiscal session as well. It prevents subject matter changes to be made that might aid the budget process and even prevents the correction of drafting errors from prior sessions or other subject matter problems. It does not encourage the effective use of legislative staff or of legislators themselves. Most importantly, it has not improved fiscal decision making.

An additional advantage of returning to 60-day annual sessions is that the date for final adjournment would be pushed back nearly two weeks in even-numbered years. Currently the fiscal session ends in the second week of June, about two weeks earlier than the longer general session. Last year, the May tax collection data were not available until after the fiscal session was forced to close on June 7. The higher revenue projections, based on that data, were not available until June 16. If the budget had been adopted in the fiscal session instead of in the following special session, it would have had to be balanced on the lower revenue estimates.

A return to annual general sessions will not bring an end to special session calls but it might reduce the frequency and more likely the range of subjects included in the calls. It would reduce the governor’s incentive to call special sessions prior to the regular session every other year (fiscal session). This would permit the
appropriations committee to concentrate on the governor's proposed budget for the full 45 days prior to the session. This year's special session drew attention away from the budget proposal prior to the fiscal session and left the Legislature less-well prepared than it should have been.

The session change would increase the total number of bills that would require drafting and consideration in a given biennium, but the staff workload would be spread more evenly.

Some have suggested switching the tax session to the odd-numbered years in the hopes of discouraging tax legislation. They argue that legislators would be less likely to support a tax in an election year and that would only leave one year each term that would be particularly vulnerable.

PAR recommends continuing to limit tax bills to regular sessions in even-numbered years. This provides a reasonable impediment to new tax legislation. More importantly, it allows a newly elected governor and Legislature to deal with revenue issues the first year of a term without calling a special session.

The continuation budget, while not the best starting point for agency requests, should remain as an important tool in evaluating agency budget requests and developing the governor's spending recommendations. The inflation factors and adjustments used to determine the continuation budget need to be continually re-evaluated.

For the FY 2001-02 budget, the administration began issuing budget letters setting target funding levels for agencies based on projected available revenues. This is a common budgeting practice that should cut down on some of the confusion with the continuation budget. Reportedly, the new approach has moderated agency funding requests.

Despite its critics, the continuation budget can still be very useful in demonstrating the impact of inflation and workload changes—real factors that should not be ignored in preparing a budget.

BUDGET CUTTING DISCRETION

The governor and Legislature should be given greater flexibility to make cuts in non-discretionary expenditures or redirect dedicated revenues, which are protected by constitutional or statutory mandates, in order to prevent a deficit projected for the current or ensuing year.

Currently, only a little more than one-third of the state's $6 billion plus general fund expenditures are available to be cut in a fiscal crisis. More than three-fourths of this “discretionary” spending is for higher education and health programs which usually bear the brunt of any cuts. Naturally, this burden would be reduced if cuts could be applied to more areas of spending.

The call for the first extraordinary session of 2000 permitted bills to allow cuts in the “uncuttables” to avoid deficits. One proposal made it through the House but died in the Senate Finance Committee. When a 1% deficit was projected in the current or next year, the proposal would have allowed up to 5% cuts in some non-discretionary items once the discretionary spending had been cut 1%. As amended, the proposal excluded the MFP and various other special funds making only about $1 billion of the nearly $4 billion in non-discretionary spending subject to cuts. However, even this would have increased by half the spending subject to cuts meaning that a 3% across-the-board cut could be reduced to 2%.

A $50 million deficit was projected at mid-year for FY 1999-2000 prompting the governor to order a hiring and spending freeze for the remainder of the year. These spending cuts were, of course, limited to those agencies with cuttable expenditures. Under the failed proposal discussed above, $27 million of these cuts (the amount above the first 1% cut in discretionary spending) could have been spread over a broader spending base.
A similar situation occurred again this year when at mid-year an $81 million prior-year deficit was recognized. The problem of eliminating this deficit by the end of the current year was eased by a $67 million mineral revenue windfall due to higher-than-expected oil and gas prices. The brunt of the remaining $29.5 million in cuts will be borne by the usual suspects—Health and Hospitals ($11.6 million), Public Safety and Corrections ($5.7 million) and Social Services ($3.6 million).

FORMULA FUNDING

Operating expenditures for schools, technical colleges, community colleges and universities should be funded solely according to the formulas devised by their respective management/oversight boards to achieve performance-based equity among like institutions.

The constitution requires BESE to adopt a minimum foundation formula (MFP) for public education and the Board of Regents to adopt a formula for institutions of post-secondary education. Last year, the Louisiana Community and Technical College board adopted a formula for technical colleges to be phased in over three years. However, Legislators find it difficult to leave the formulas alone. They extended the technical college formula phase-in to four years and some attempted to add a hold-harmless provision to protect funding for schools regardless of their relative program costs and performance.

Also last year, there were efforts to require across-the-board teacher salary increases and to force districts to provide pay raises from the normal increase in MFP funding. The doomed “Stelly Plan,” as passed in the regular session required equal increases for all teachers and for all faculty members. This language was fortunately removed in the special session but still would have left the Legislature to make the decision as to how to distribute the increases.

This year, the governor’s plan to provide a teachers’ pay raise in 2001-02 depends, in part, on making certain the normal increase in state funding for the MFP is all dedicated to teacher salaries. It became clear that it was an across-the-board “$2,000-a-year” raise that was being contemplated.

In the past, misguided efforts to equalize raises have distorted pay schedules and aggravated funding inequities among school districts. Parochial protectionism has delayed the application of a rational funding formula to technical college funding for two decades.

The Legislature should provide oversight of the formula development and implementation, but should not become directly involved in formula design or in funding education outside of the equity formula. To do so would represent micro-management of the worst sort.
to create a formal obligation on the part of the agency to meet the standards. It also was to encourage compliance in producing valid data.

Cluttering up the appropriation bill with a mish-mash of minor indicators and general information has been justified as an aid to those legislators who are not inclined to read the budget or supporting documents. It is not clear how the strange mixture of information in last year’s budget bill could be of much help.

**FEES**

The requirement for a two-thirds vote of both houses of the Legislature to increase a fee or civil fine should be removed from the constitution.

The Legislature should set mandatory review periods for all user fees to maximize self-generated fee revenue and assure that the cost of services is equitably allocated among service users and taxpayers.

Where possible, agencies should be given flexibility to set and adjust fees.

Fees that significantly exceed the cost of providing a service should be designated and treated as taxes.

The Legislature should be allowed to consider fees at any regular session.

In 1995, to slow the growth in state fees, voters approved a constitutional amendment that requires a two-thirds vote of the Legislature to approve any new or increased fee or civil fine imposed by most state agencies. Previously, the Legislature, by simple majority vote, set most regulatory fees or fines by law or fixed a range within which any agency could set them. Some agencies were authorized to set fees by rule, with legislative oversight, particularly those that needed to adjust fees annually or more often to cover their changing costs.

In spite of the state’s fiscal crisis this year, fees could not be considered in the regular budget session even though taxes could. If not for the special sessions, fee increases could not have been authorized. Without increased hunting and fishing licenses, wildlife management areas would have probably been closed. Without added tuition authority, colleges and universities would be even further underfunded next year. Louisiana is the only state in the union to place such strict limitations on the ability of its higher education institutions to set appropriate tuition levels.

The two-thirds vote requirement has probably slowed some fee increases but in doing so has delayed appropriate increases to offset rising service costs. The requirement also interjects a level of politics that may not be healthy. The effort in the last special session to force higher education to accept the four-year LSU-A plan or lose its tuition increase was a deplorable example.

The Board of Regents will be asking the Legislature this year to give higher education boards authority to raise tuition and fees either within a cap, such as the southern state average, or subject to a two-thirds vote of the Legislature. Eliminating the constitutional restriction would make it easier for the Legislature to extend reasonable authority without the need for it to approve each and every change.

**SUPPLEMENTAL BUDGETING AND TEMPORARY TAXES**

The state should discontinue the use of temporary taxes.

The supplemental portion of the executive operating budget should include only enhancements that are of a lower priority than the spending purposes recommended in the funded portion. The supplemental budget should include a clear plan to provide the additional revenues required to fund the recommended additional spending.

Since 1986, the state budget has been funded, in part, by so-called temporary taxes (primarily state sales taxes on food and utilities) that required reauthorization at least every two years. Thus, a “phony” supplemental budget has been required at least every two years to show what programs would be cut if the temporary tax was not renewed. This year, the cuts contingent on renewal of the 3% food and utilities tax were...
$326.8 million in state matching funds for various health programs that would attract another $773 million in federal funds.

The $211 million in “bridge” taxes, approved last session, bring the temporary tax total to $540 million, roughly one-tenth of the state’s general fund revenues, all due to expire June 30, 2002. Because of the failure of the proposed income/sales tax swap at the fall election, the 2002-03 budget will initially have to show a half billion dollars in cuts and an equally large supplemental budget would be required. The possibility of losing a portion of the temporary tax revenue could motivate some gamesmanship in selecting program cuts. By the same token, obtaining the necessary votes to renew temporary taxes has traditionally involved horse-trading with local projects as the bargaining chips. Increasing the amount of temporary taxes requiring renewal further raises the ante.

Clearly, it is easier to pass a temporary tax or temporarily suspend a tax exemption than to enact a permanent tax increase. However, it is time to end the charade particularly with regard to sales tax exemptions. Any general purpose tax increase should be enacted without an expiration date. The tax could still be rescinded any year, particularly if PAR’s recommended return to annual general sessions is adopted. But, this would allow the REC to include the revenue in its projection each year and would eliminate most of the need for “phony” supplemental spending recommendations.

It is the governor’s responsibility to suggest a reasonable means of financing whatever supplemental spending is recommended. The lack of a clear supplemental funding plan created a great deal of confusion last year.

**CAPITAL OUTLAY BUDGET**

The annual capital outlay budget should include only the highest priority state projects from the first year of the state’s five-year capital improvements plan that can reasonably be expected to be undertaken during the fiscal year with the expected cash and bond revenues available.

The capital outlay appropriations act should not be a wish list packed with projects that have no immediate hope of being funded. The excessive number of projects erodes the priority system and allows the administration too much leeway in picking and choosing projects after the fact.

**FUNDING LOCAL CONSTRUCTION PROJECTS**

The Urban Development and Rural Development programs, commonly referred to as the governor’s urban and rural slush-funds, should be eliminated.

Local governments’ capacity to fund their own projects should be expanded through tax reform and by creating a state-seeded revolving loan fund for local capital outlay projects.

The practice of placing local projects in the state capital outlay budget should be sharply curtailed. State aid should be reserved for serious emergencies and for statewide programs with uniform requirements governing project characteristics and the expected local funding match.

Louisiana has a long-standing tradition of appropriating funds to be spent at the governor’s discretion on unspecified public improvement projects. After project commitments ballooned to $66 million at one point in the early 1980s, the program funding was terminated. However, in 1990 the rural development law was enacted. Now, there is both an urban and rural development program in the governor’s office receiving $9 million and $10 million in appropriations respectively this year. The proposed budget for next year would reduce the total to about $15 million.

Some provision needs to be made for true local emergencies where life and property are threatened. Otherwise state aid for local construction should be provided through well-designed, statewide programs geared to specific ends (e.g. parish prisons, court house improvements, etc.) using uniform
criteria for local participation.

Tax reform could broaden the local tax base and expand local capacity to provide for its own needs. Also, by establishing a well-seeded revolving loan fund for local capital projects, the state could help local governments to help themselves.

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**TAX REFORM**

PAR continues to recommend that the state and local tax structures be simultaneously redesigned on a revenue neutral basis to enhance equity, balance, economic development and revenue growth. The reform package would include an upward revision in the personal and corporate income tax, reduction in the state sales tax and corporate franchise tax, phasing-out or reduction of the homestead and industrial tax exemptions and exemption of manufacturing machinery and equipment from the sales tax. (See PAR’s “Taxes: The Unfinished Business of Fiscal Reform” for a detailed discussion and recommendations.)

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As a relatively poor state, Louisiana has a high demand for public services and programs to deal with its social and economic ills. The state’s tax structure should not add to its problems. Tax reform, as proposed by PAR and a number of other groups and commissions over the years, would improve equity in taxation, remove barriers to economic development, and provide more stable and predictable revenues that would grow with the economy.

Last year, the Legislature concentrated on tax increases rather than tax reform. The largest increase was in the already overused sales tax. The proposed income-sales tax swap on the ballot last fall was sold as a “first step” toward tax reform but was only a partial reform and differed somewhat from PAR’s recommendations.

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**CONCLUSION**

Over the past decade, Louisiana has made significant reforms in the budget process including the balanced budget requirement, the revenue estimating conference, limits on the use of nonrecurring revenues and a debt reduction plan among others. However, the process of developing and implementing the state’s annual spending plan can still be improved.

Budgeting will never be a simple process, but the changes recommended in this report could ease the decision-makers’ burden, lessen some of the difficulties and help prevent a recurrence of the confusion that accompanied last year’s budgeting efforts.
PAR is an independent voice, offering solutions to critical public issues through accurate, objective research and focusing public attention on those solutions.

As a private, nonprofit research organization, PAR is supported through the tax-deductible membership contributions of hundreds of Louisiana citizens who want better, more efficient and more responsive government.

Although PAR does not lobby, PAR’s research gets results. Many significant governmental reforms can be traced back to PAR recommendations. Through its extensive research and public information program, PAR places constructive ideas and solutions into the mainstream of political thinking.

In addition to being a catalyst for governmental reform, PAR also has an extensive program of citizen education and serves as watchdog on state government. The organization’s 51 years of research on state and local government in Louisiana give it a unique historical perspective as well as the ability to monitor implementation of reforms and remind public officials of promises made.

Membership in PAR is open to the public. For more information, contact PAR at (225) 926-8414 or write P. O. Box 14776, Baton Rouge, LA 70898-4776.

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