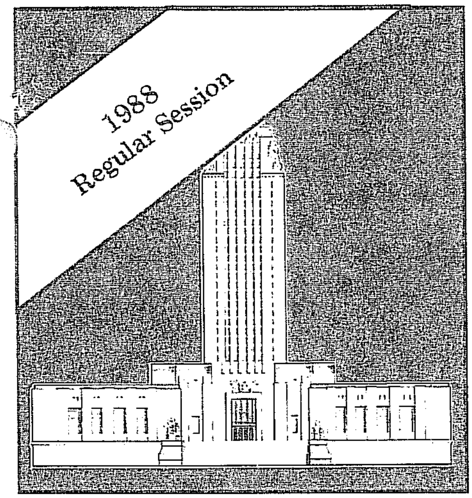


July 1988

PAR LEGISLATIVE ANALYSIS

PUBLIC AFFAIRS RESEARCH COUNCIL OF LA., INC.

IN THIS ISSUE

LOUISIANA FIRST

As Louisiana entered 1988, our state faced problems of staggering proportions brought on by years of failure to address many fundamental issues. Action by the Governor and Legislature in the March special session and the just-completed regular session demonstrated that Louisiana will no longer conduct business as usual.

The $800 million plus prior operating deficit will be paid off with sales tax proceeds over the next few years, and the 1988-89 budget was balanced with a combination of significant budget cuts and fee and tax increases. Funds were allotted for teacher pay raises after years of empty promises, and an evaluation process was established for ensuring competent teachers in the future. Louisiana's opportunity for becoming competitive in the job market was enhanced with reforms in the unemployment and workers' compensation areas and with actual funding of economic development programs. Campaign finance reforms will significantly impact future elections in Louisiana, while repeal of the prevailing wage law will reduce costs on state-financed construction projects. Future generations will be protected from the perils of a $7 billion unfunded liability in the state retirement systems because a rational method for eliminating that debt has been established. The list of accomplishments could go on and on.

A tremendous battle for "fiscal reform" looms in the soon-to-be-called special session. It is imperative that we establish constitutional assurance of balanced budgets, create a mineral trust fund for our dwindling and unpredictable natural resources as an investment in our future, and create a fair tax system that will stimulate economic development and job creation. Victory will guarantee that Louisiana will become a leader among the states. "Louisiana First" is an achievable goal!

Mark C. Drennen
PAR President

PAR continues to be involved in analyzing the operations of state government and will play a vital role in the "fiscal reform" special session. (See page 2 for a list of PAR recommendations adopted this session.)

PAR RECOMMENDATIONS ADOPTED — 1988 Regular Session

- **ENACTED A BALANCED STATE BUDGET** for the first time in four years.
- **REDUCED STATE SPENDING** through better management procedures. An anticipated reduction (6,000-7,000) in the number of state employees through an aggressive attrition program and closure of facilities with low utilization are contributing factors.
- **PROVIDED MAJOR REFORMS IN ELEMENTARY AND SECONDARY EDUCATION** to:
  — make education the top spending priority.
  — channel more money into direct classroom instruction.
  — increase teacher pay to attract and retain good teachers.
  — institute objective evaluation of teacher performance to reward the best and remediate or get rid of the worst.
  — provide career advancement for teachers through a differentiated pay plan.
  — replace lifetime teaching certificates with periodic recertification based on performance.
  — hold schools accountable for student achievement by monitoring results.
  — test students on at least three grade levels using nationally-normed tests and publish the results of these tests.
  — encourage more public participation in schools through school improvement councils, consisting of teachers, community leaders, parents and students.
- **STRENGTHENED TAX ENFORCEMENT** through additional auditors and other changes.
- **REDUCED STATE AID TO LOCAL GOVERNMENTS** . . . the special session is to consider increased local taxing authority.
- **PHASED OUT STATE SUPPLEMENTAL PAY** for local employees . . . "bridge" money will finance this aid at 75% for one year, giving local governments this responsibility in the future.
- **ABOLISHED THE GOVERNOR'S DISCRETIONARY PUBLIC IMPROVEMENTS FUND** ("slush fund") which over the past 10 years has doled out more than $215 million.
- **PLACED PUBLIC EMPLOYEES' RETIREMENT SYSTEMS' FUNDING ON A SOUND ACTUARIAL BASIS** and scheduled payment of their unfunded accrued liabilities over time.
- **REPEALED STATE PREVAILING WAGE LAW.**
- **ENACTED MAJOR CAMPAIGN FINANCE REFORMS** to include:
  — full disclosure of *all* contributions and expenditures instead of threshold amounts.
  — a cash contribution limit of $100 with a receipt and reporting required (PAR recommended $25).
  — limits on contributions by individuals, businesses, unions and small PACs to candidates and their campaigns to:
    - $5,000 for major offices
    - $2,500 for district offices
    - $1,000 for other offices
  — limits on contributions by political action committees (PACs) of more than 250 members to:
    - $10,000 for major offices
    - $5,000 for district offices
    - $2,000 for other offices
  — limits apply to loans as well as per election (PAR recommended per entire campaign).
  — restrict use of surplus campaign funds—personal use will be prohibited beginning in 1991.
  — establish a user fee to finance enforcement efforts.
- **REFORMED THE WORKERS' COMPENSATION LAWS** by changing from a judicial system to an administrative system and by establishing a medical reimbursement schedule to help curtail medical costs.
- **INSTITUTED NEW OR INCREASED FEES** for users of a variety of state services.
- **REPEALED THE ETHANOL SUBSIDY.**
- **INCREASED TOURISM PROMOTION** through more advertising.
- **REINSTATED TOLLS** on certain bridges.
- **AUTHORIZED GENERIC DRUGS** for Medicaid recipients.

Finance

STATE BUDGET BALANCED: REVENUE GROWTH EXCEEDS SPENDING

The imprudent fiscal policies of the past three years came to a halt with enactment of a balanced state budget for the current 1988-89 fiscal year. To achieve this, significant cuts were enacted, taxes and user fees were increased, and additional funding was provided in areas deemed to be a high priority. The budget that evolved represents a restructuring of state fiscal policies. Consumers—individuals and businesses—will pay higher sales taxes on certain purchases; users of some state services will pay the cost where appropriate; the number of persons on the state payroll will drop significantly; some state offices and facilities with low utilization will close or be turned over to local governments; teachers, nurses and other medical personnel will receive higher pay; and functions that portend economic expansion such as tourism and assistance to small business will receive an infusion of more money.

Revenues

State revenues estimated for fiscal 1988-89 total $7.4 billion—an increase of $443 million, or 6.3%. (See Table 1.) A variety of factors contributed to this increase. As shown in Table 2, tax changes total $326.4 million, although $182.8 million of this amount is a continuation of suspended exemptions on 1% of the sales tax and the personal income tax education credit. Table 3 shows the impact of the changes in sales tax exemptions on specific items. Other contributing factors are increased user fees and other self-generated money ($116.4 million) and $77.1 million more in federal funds.

Expenditures

While revenues from taxes are up by $214 million over last year, actual expenditures from these state tax dollars are down considerably. One reason is that last year the state spent about $350 million more than its revenues would support.

Expenditures for fiscal 1988-89 are estimated to total $7.5 billion. This includes spending from all sources, except from bond financing. This also includes $0.7 million in general fund items vetoed by the Governor.

PAR estimates that from a standstill budget concept, i. e., continuation of all programs with adjustments for inflation and workloads, over $400 million was cut.

Cuts

Budget cuts were made both across-the-board and selectively. Some major reductions include the following:

1. HB 626, the General Appropriation Act, authorizes a 1.5% cut with certain enumerated exceptions, a reduction of $17 million in state funding and considerably more in federal funds.
2. The budget anticipates a significant reduction in the number of state employees by reduced amounts for payroll and related benefits, no pro

TABLE 1. Revenue Growth (In Millions)

Source	Fiscal 1987-88	Fiscal 1988-89	Change Amount	Change Percent
I. State Budget				
Taxes, Licenses and Fees	$3,962.9[a]	$4,020.1[b]		
Louisiana Recovery District, Excess	0.0	156.7		
Subtotal	$3,962.9	$4,176.8[b]	$213.9	5.4%
Self-Generated and User Fees[c]	518.5	634.9	116.4	22.4
Interagency Transfers	407.3	442.9	35.6	8.7
Federal Funds[c]	2,108.5	2,185.6	77.1	3.7
Total	$6,997.2	$7,440.2[d]	$443.0	6.3%
II. Louisiana Recovery District[e]	0.0	129.0	129.0	—
Grand Total	$6,997.2	$7,569.2	$572.0	8.2%

a As shown in Executive Budget, 1988-89, with $46 million in 8 (g) education support and bond reimbursement funds added for comparability. Includes dedications.
b As shown in Executive Budget, 1988-89, based on estimates adopted by the Revenue Estimating Conference on April 25, 1988 and adjusted to reflect changes enacted in the 1988 regular session shown in Table 2. Includes dedications.
c As reported by Senate fiscal staff.
d Does not include $16.1 million appropriated from bond proceeds of the Louisiana Recovery District and $0.5 million from increased attendance fees at racetracks and offtrack betting facilities.
e Dedicated 1% sales tax for debt service.

TABLE 2. State Tax Changes, Fiscal 1988-89 (In Millions)

		Amount
Sales Tax		
SB 664	Transfer 1% tax to Louisiana Recovery District ($285.7 million) and transfer excess after debt service back to state ($156.7 million).[a] Net loss for district debt service	$-129.0
HCR 163	1% tax; continue one-year suspension of all exemptions	168.0
HB 1299	2% tax; suspend certain exemptions for 11 months	267.6[b]
Other Taxes		
HCR 52	Personal income tax; continue one-year suspension of education credit	14.8[b]
HB 1373	Severance tax and royalties; repeal Louisiana Economic Acceleration Program (LEAP) which suspended oil and gas severance taxes and royalties on wildcat wells	0.9
HB 1722	Hazardous waste tax; increase rates based on disposal site and degree of danger	3.0
HB 1860	Telephone tax; impose five cents a month tax on telephone access lines; dedicate proceeds to telecommunications for deaf	1.1
	Total	$326.4

a Will replace general fund appropriations for local governments.
b Bridge money for state school aid in MFP.

vision for step increases, reduced beds in charity hospitals and closure of designated offices and facilities such as parks, tourist centers, and motor vehicle offices which may be turned over to local governments. Inmate labor is replacing custodial workers at the capitol and some other state office buildings.

The enacted budget authorizes 71,835 positions—1,622 fewer than the 73,457 positions authorized October 29, 1987 when the proposed 1988-89 budget was being developed. Another 5,326 positions are to be eliminated by the end of the fiscal year through attrition, layoffs and cancellation of vacant positions. As a result, the state would have 66,509 positions by the end of fiscal 1988-89 which is 6,948 fewer than last October 29.

3. In some cases, funds were not budgeted for inflation and increased workload, forcing agencies to economize during the year.

4. The amount to be spent on prescription drugs for Medicaid recipients was reduced by $21.9 million—$6.5 million in state general funds and $15.4 million in federal funds. HB 1701 authorizes use of generic drugs through a formulary.

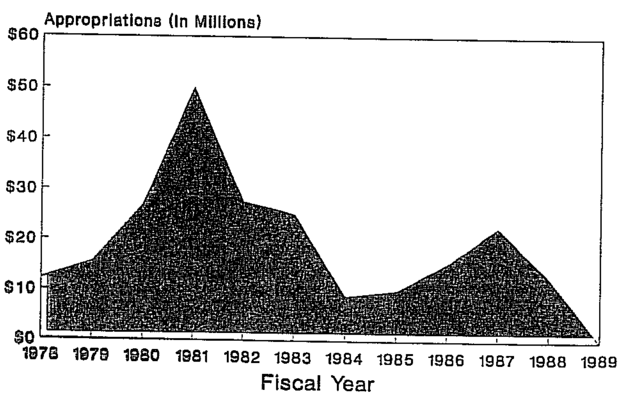
5. The new MFP reduces state aid to local schools by $21.7 million in non-instructional costs.

Increases

Additional funding is budgeted for designated employees and departments including increased pay for teachers, nurses, resident doctors, psychiatrists and security guards at correctional facilities. Approximately $45 million is authorized to expand eligibility for Medicaid to pregnant women and children up to age five whose family income is at or below the poverty level. The increased federal funds for charity hospitals could save the general fund about $5 million.

The Department of Environmental Quality received $3.4 million in additional funding. The

Slush Fund:
Growing, Going, Gone



The governor's "slush fund," a discretionary public improvements program used in the past to curry local favor by funding pet projects such as rodeo stands and boat ramps, was not given any money this year.

TABLE 3. State Sales and Use Tax Rates on Various Items
(Includes Louisiana Recovery District)

	1985-86	1986-87	1987-88	1988-89
A. Most Items Purchased	4%	4%	4%	4%[a]
B. Other Items[b]				
Gasoline	0	1	1	3
Natural Gas	0	1	1	3
Food	0	1	1	3
Water (non-containers)	0	1	1	3
Electric Power	0	1	1	3
Property for Use Outside State (offshore)	0	1	1	3
Farm Equipment	0	1	1	3
Butane and Propane for Residences	0	1	1	3
Articles Traded In	0	1	1	3
Drugs (Prescription)	0	1	1	1
Pesticides to Farmers	0	1	1	1
Sales of Farm Products	0	1	1	1
Vessels (50-ton)	0	1	1	1
Commercial Fishermen Purchases	0	1	1	1
Insulin	0	1	1	1
Diesel Fuel & Butane for Farms	0	1	1	1
Fertilizer to Farmers	0	0	0	0
Seeds for Crops	0	0	0	0
Purchases with Food Stamps and WIC Vouchers	0	0	0	0

a One percent of this amount is for the newly-created Louisiana Recovery District. Includes such items as autos and furniture.
b Exemptions removed pursuant to HCR 55 of the 1986 regular session, Act 20 of the 1986 extraordinary session, and HCR 163 and HB 1299 of the 1988 regular session. Taxes on these items will cease on June 30, 1989.

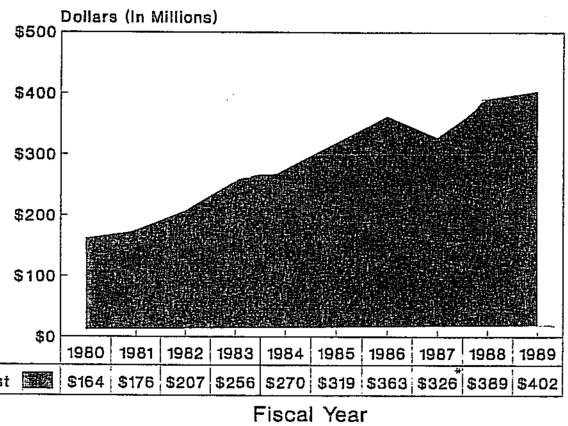
amount for scheduled payments on state debt continues to rise, by $13 million in fiscal 1988-89, because the state often issued more bonds than it retired in the past. (See Figure 1.)

Governor's Authority to Keep Budget Balanced

Act 6 of the 1988 special session gave the Governor extensive and broad authority to cut last year's spending in order to reduce the amount of the year-end operating deficit. HB 626, the General Appropriation Act, grants similar authority for fiscal 1988-89 to assure the budget remains in balance should revenues fail to meet projections.

Budgeted revenues are those adopted by the Revenue Estimating Conference on April 25, 1988 and are pegged to $16-a-barrel oil. The next scheduled meeting of the Conference is August 15. If revenue estimates are lowered at this or a future meeting and a cash deficit is likely, the Governor and the Joint Legislative Committee on the Budget may declare a fiscal emergency. In that event, the Governor is authorized to reduce spending, direct across-the-board cuts and issue freeze orders prohibiting expenditures for specified items. The Governor has broad authority to cut spending of departments or "schedules" by 10%, or more than 10% if approved by a majority of legislators through mail ballot. A schedule may include several departments. For example, Schedule 19 includes all of education—higher education, the state special and vo-tech schools, the State Department of Education and state aid to local schools. A 10% cut in funds of this magnitude would allow closure of a campus or several vo-tech schools.

FIGURE 1.
Trend in General Fund Debt Service



* Reflects savings due to refinancing of outstanding debt.
SOURCE: Legislative Fiscal Office for fiscal years 1980-88 and enacted general appropriation bill (HB 626) for fiscal year 1989.

Impact of Louisiana Recovery District on State Budget

Act 15 of the 1988 special session created the Louisiana Recovery District as a way to pay off the state's prior three-year cumulative operating deficit of approximately $800 million, and also to eliminate the state's cash flow shortage so that the state could pay its obligations to state employees, vendors and other recipients. The Louisiana Supreme Court on June 24, 1988 found the district and its authority to be constitutional, and the district on July 12 issued $979 million in bonds which mature over a 10-year period, to 1998.

Act 15 authorized the district to levy up to a 1% sales tax; SB 664 of the 1988 regular session transferred 1% of the state 4% sales tax to the district. The state will continue to collect the tax but proceeds will not be deposited in the state treasury. First priority on the tax proceeds is to pay annual debt service on the district's bonds—$129 million in fiscal 1988-89. The 1% tax which does not have suspended exemptions is estimated to yield $285.7 million this year.

Act 15 allows any excess of the sales tax proceeds to be used for stipulated purposes: helping the state or local governments reduce their deficits or cash flow shortages, paying state obligations related to such shortfalls, or paying off state or the district's bonds. The district is to determine use of the excess sales tax money, subject to a cooperative agreement between it and the state.

HB 626, the general appropriation bill, provides for use of the $156.7 million excess sales tax money for fiscal 1988-89 by replacing general fund appropriations to local governments for "educational, health, safety, and social welfare purposes, revenue equalization, and for police and fire protection and to provide funds for the operation of parish and local jails, roads, drainage and flood control projects, port projects, and economic development projects." The excess money is transferred to a special fund in the state treasury—the Deficit and Shortfall Fund to finance the enumerated items in lieu of state general fund appropriations.

CAPITAL BUDGET

This year's capital outlay bill, HB 575 (Act 769), contains $739 million in cash and new bonds for financing capital outlay in fiscal 1988-89. An additional $52 million in previously authorized bonds were reauthorized.

The largest share of funding comes from federal funds, as shown in Figure 2. Revenue bonds also will be a major funding source with $125 million of the $162 million in revenue bonds budgeted to be used to finance construction on the Greater New Orleans Mississippi River Bridge. Three fourths of the funds in the capital outlay bill are designated for highway and bridge construction or repair.

Compared to the just-completed and previous fiscal years, the capital budget for fiscal 1988-89 is more realistic in the amount of bonds authorized. The state expects to sell $100 million-$130 million of the $202 million in general obligation bonds authorized. Although $884 million in new bonds were authorized for fiscal 1987-88, none were sold.

The cash portion of the fiscal 1988-89 budget also is lower than that budgeted for fiscal 1987-88:

	Fiscal 1987-88	Fiscal 1988-89
State cash	$257 million	$105 million
Federal funds	$309 million	$270 million
Total	$566 million	$375 million

NON-SCHOOL AID TO LOCAL GOVERNMENT

Parishes, municipalities and local entities other than schools will have their state aid allotments pared back this fiscal year. The cuts would have been much deeper without the one-year "bridge" funding and last-minute amendments. The total appropriated for the major aid programs shown in Table 4 is about $196 million, or $21 million below the estimate for 1987-88, and about $106 million lower than five years earlier.

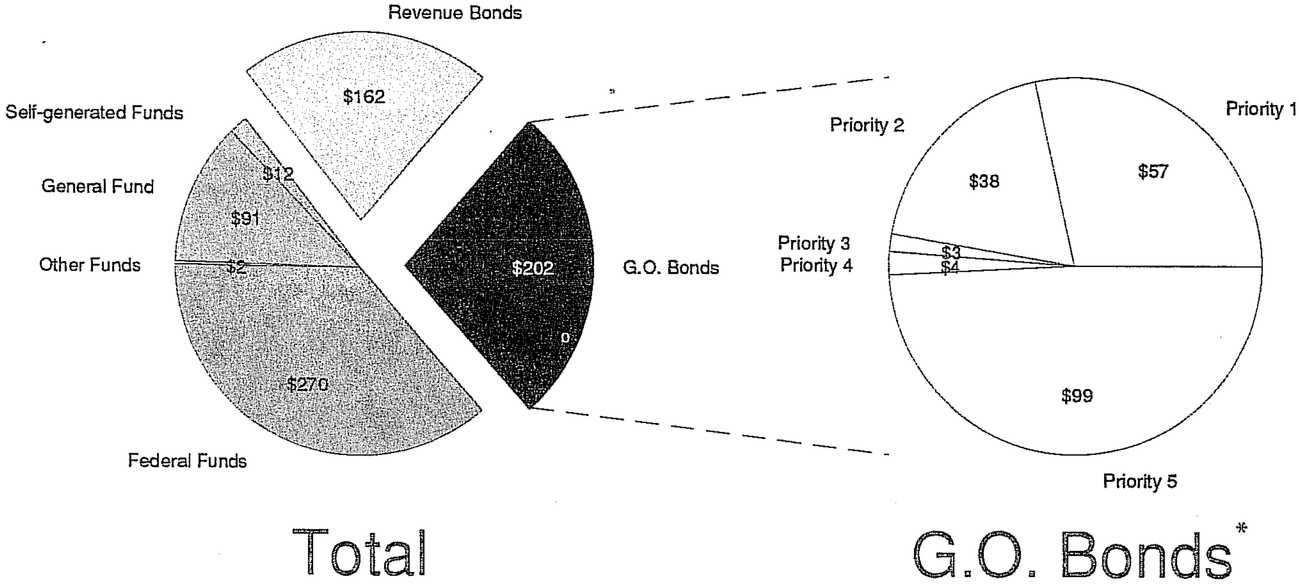
Constitutionally-protected aid (state revenue sharing, severance tax and parish royalty fund) is not affected except that revenue sharing is held to the legal minimum.

(continued on page 7)

VO-TECH FUNDING CUT

The general fund appropriation for vo-tech schools was cut 7.4% for fiscal 1988-89. Authorized positions were reduced by 131 with 23 additional positions slated for attrition. The recommended budget would have closed nine small branch or satellite schools and downgraded eight area schools to branch status. However, amendments reinstated three of the proposed closures and prevented two of the area schools from being downgraded. Two of the reinstated branches will have only two positions each and funding for the third is substantially cut.

FIGURE 2.
Sources of Funding for Capital Budget (In Millions)



* Priorities represent the quarter of the fiscal year in which the bonds for a project are expected to be issued, except for Priority 5 for which "lines of credit" may be issued prior to the actual bond sale.
SOURCE: HB 575 (Act 769).

Non-School Aid (continued)

The other major local aid programs, eliminated at one point in the budget process, ended up funded at roughly 75% of their 1987-88 appropriations. The one-year bridge funding will continue supplemental pay for police, firemen and sheriffs' deputies; parish transportation fund allocations; tobacco tax distributions to municipalities; and fire insurance allocations, all at reduced levels. Local governments have been put on notice by the Governor that they may have to provide their own substitute for this funding next year.

A number of dedicated revenues initially cut were restored, including $4 million in horse racing funds to several cities and parishes, $3 million to the New Orleans Exhibition Hall, and $1.4 million to the Greater New Orleans Tourism Commission.

In addition, the initial budget proposal would have required local governments to reimburse the state for state costs related to voter registration, elections, municipal fire and police civil service testing, and tax commission services. For the most part, amendments provided state general funds to cover these costs.

TABLE 4. Major Non-education Programs of State Aid to Local Governments (In Millions)

Aid Program	Actual 1984-85	Actual 1986-87	Estimated[a] 1987-88	Appropriated 1988-89
State Revenue Sharing	$ 90.1	$ 90.0	$ 90.0	$ 90.0[b]
Severance Tax	28.2	26.5	25.2	26.0[b]
Parish Royalty Fund	40.6	23.4	26.3	22.9[b]
Supplemental Pay	46.7	51.7	43.9	32.7[c]
Parish Transportation Fund	52.1	18.4	11.0	7.7[c]
Tobacco Tax	32.0	13.4	11.4	9.1[c]
Horse Racing Dedications[d]	6.7	5.9	4.5	4.0
Fire Insurance Premium Tax	5.3	6.6	4.8	3.5[c]
Total Selected Programs	$301.7	$235.8	$217.1	$195.9

a As projected by Legislative Fiscal Office (January 15, 1988) less cuts by Executive Orders BR 88-1 through 11.
b Constitutional dedications.
c Appropriations (total $53 million) from one-year "bridge" funding revenues.
d Not all funds dedicated to local governments.

Campaign Finance Reform

HB 762 enacted many of PAR's recommendations on campaign finance but does not solve all of the problems. The major reforms are discussed below.

Full disclosure of all contributions and expenditures is now required, resulting in greater disclosure and less possibility for abuse and subterfuge.

HB 762 reduced the limit on cash contributions from $300 to $100. Without rigid restrictions on cash, a large loophole will exist for avoiding limits and reporting requirements.

Contribution and loan limits have been established for the first time in Louisiana. Limits blunt the influence of special interests and large contributors and encourage reliance on broad-based financial support. Recognized political parties and their committees will be exempt.

Annual contributions by an individual to a PAC will be limited to $25,000—contributions to PACs from other sources are not limited. The legislation also limits the total combined contributions a candidate can accept from PACs for both the primary and general elections as follows:

- $ major office candidates—$50,000
- $ district office candidates—$35,000
- $ other office candidates—$10,000

Beginning in 1991, conversion of a campaign surplus to personal use will be prohibited. The only permitted uses of excess campaign funds will be to return the money to contributors on a pro rata basis, give the excess to charity, use it to support or oppose a proposition, political party or other political campaign, or maintain it in a fund for use in a future political campaign.

The act requires special reports on election day expenditures to be filed just prior to and after the election.

To help finance enforcement of the law, the act authorizes the state to impose a user fee of up to $100 for each annual statement of organization filed by a political committee (i.e., PACs and candidate campaign committees).

Education

THE CHILDREN FIRST ACT: A GIANT STEP

HB 1747, the Children First Act, will fill two critical gaps in Louisiana's education reform laws by evaluating teacher performance objectively and by periodically recertifying teachers on the basis of their performance.

The act has six basic components:

✓Provides an across-the-board teacher pay increase for the current year of 5%, and 7% increases for each of the next two years. Longevity pay steps for experience (previously 10 to 12 years depending on college degrees) are extended for all teachers—to 25 years by 1990-91. HB 626, the General Appropriation Act, funds five sixths of this year's pay increase which is to begin September 1.

✓Establishes a uniform statewide procedure, beginning in 1990-91, to observe and evaluate teachers, and remediate those who need it. Teachers judged unsatisfactory after two years of remediation will lose their certificates, the state will no longer pay their salaries and benefits, and they cannot apply for another certificate to re-enter the profession for two years. Local school boards must hold a tenure hearing before they can dismiss a tenured teacher—a requirement also in the state tenure law.

✓Provides renewable teacher certificates for those entering the profession who complete a satisfactory internship or probationary period. All teachers with lifetime certificates will retain them. Teachers rated superior with at least seven years' experience and a master's degree who choose to enter a career option program will receive renewable professional certificates.

✓Beginning in 1991-92, provides additional pay—10% to 20% above the state minimum salary—for those who enter a career option plan and remain in it. Career options include additional responsibilities such as serving as a mentor teacher to beginning teachers, providing in-service training to other teachers and developing curricula materials. Teachers in the program will have to spend at least 60% of regular classroom hours on their regular teaching assignments, but the normal work day or year could be extended.

✓Establishes a report card on performance of schools regarding student and faculty achievement by a variety of statistical measurements.

✓Establishes a school incentive program, beginning in the fall of 1991, which will identify at least 100 schools which make the most significant progress among similar schools, and are eligible for cash awards.

Comment

Previously enacted education reforms should help assure successful implementation of the Children First Act. These include the constitutional education quality trust and support funds established from 8 (g) windfall money which will finance research and pilot projects for components of the Children First Act; the appointed state superintendent to provide professional leadership; repeal of tenure for school principals and replacement with performance contracts; an administrative academy to assure principals, supervisors and administrators have necessary expertise; and an internship for beginning teachers to assure they have the necessary support and demonstrated skills to enter the profession.

There remains a constitutional question of whether BESE can revoke a certificate from a tenured teacher, if a tenured teacher can retain permanent status without a certificate (certification is necessary to acquire tenure), and whether a school board can employ a person as a teacher who lacks a certificate of any type. These questions must be resolved successfully if an objective of the Children First Act, to assure competent teachers, is to be achieved.

A NEW MFP AFTER FOUR YEARS

HCR 187 embodies a new Minimum Foundation Program (MFP) which replaces the last one approved—HCR 74 of 1984. The Governor originally recommended that state school aid be limited to classroom instruction and that local school boards finance $348.5 million in non-instructional costs which the state had financed. Subsequently, the Governor proposed state "bridge" funding for one year to ease the transition from state to local funding of non-instructional costs. Approval of the new MFP was contingent on passage of the bridge money— increased state and local taxes or "equivalent measures." The two state tax increases for the "bridge money" passed, but the local school tax increase failed and the state will assume this cost.

The new state school aid formula totals $1,324.8 million—$89.3 million more than the $1,235.5 million state cost for similar programs (in or out of the previous MFP) in fiscal 1987-88. Most ($82 million) of the increase is to finance a 5% teacher pay increase, extend teacher longevity pay steps to 15 years of experience, and lower the pupil-teacher ratio in grades K-3 from 22 to 1 to 20 to 1. The local school boards will have to copy with a $21.7 million cut in non-instructional state aid.

The Revamped MFP, Fiscal 1988-89

	In Millions[a]
PART I. Instructional Costs	
Regular Education	
Teachers	$ 589.7
Supervisors, principals	53.8
Sabbatical/sick leave/severance pay	8.0
Workers' and unemployment compensation	4.9
Textbooks, supplies	19.3
Group insurance	52.3
Agri-business teachers extended employment	1.7
Total, Regular Education	$ 729.7
Special Education	
Teachers	$ 119.6
Supervisors	1.6
Teacher aides	22.5
Assessment, appraisal	20.6
Transportation	16.1
Total, Special Education	$ 180.3
Retirement	81.1
Foreign associate teachers	$ 3.4
Subtotal	$ 994.6
Less local support (5.5 mills)	-57.0
Difference, state aid to equalize	$ 937.6
Local adjustments	0.7
Subtotal	$ 938.3
Teacher salary and step increases	65.9
Total, Part I	$1,004.2
PART II. Non-instructional Support Services	
Group insurance	$ 42.8
School nurses	2.5
Retirement	32.7
Workers' and unemployment compensation	7.3
Transportation	90.3
Salary adjustments and supplements	118.1
Utilities, insurance, repairs	47.4
Special education materials and supplies	0.8
Gifted/talented enhancements	0.5
Subtotal	$ 342.4
Total, Part II state-funded portion	$ 305.6[b]
PART III. Parish Equalization	$ 15.0
GRAND TOTAL, STATE MFP COSTS	$1,324.8

a May not add exactly due to rounding.
b Proposal to provide increased 4.5-mill local school tax totaling $48.9 million failed; the state will provide this funding. In the future the state must fund at least 83.9% of Part II adjusted costs.

The new MFP includes items not previously in the formula—textbooks, library books and supplies, group health and hospital insurance, foreign language associates, retirement, extended employment for agri-business teachers, school nurses, school lunch employees' salary supplements, and materials and supplies for gifted and handicapped students. These items added to the MFP total $272.5 million. State aid to private schools no longer is in the MFP to comply with a state constitutional requirement that the MFP is for public schools.

There are three categories in the new MFP: Part I, instructional costs, which is the Governor's original proposal; Part II, non-instructional costs which are financed in fiscal 1988-89 from one-year bridge funding; and Part III, a new parish equalization fund to help offset the impact of state cuts, also financed from one-year bridge funding. A formula to distribute Part III equalization money among the local school systems is to be recommended by the state superintendent and must be approved by two thirds of BESE members.

Comment

The Governor's original proposal was to limit the MFP to instructional costs and let local school boards finance non-instructional costs. The MFP finally approved includes all components—instructional and non-instructional state aid.

Although one-year "bridge money" finances non-instructional costs, the state will continue to be obligated to fund these items at a minimum of 83.9% in future years unless the MFP is changed again. BESE and the Legislature must agree to future changes in the MFP—not an easy task. Should the new MFP remain as now devised, the governor and Legislature will have practically no discretion in determining the level of all components of state aid to public schools.

The basic concept of the MFP remains the same under the new formula—to guarantee positions for teachers and other educators. Most states with an MFP have a per pupil basis for determining cost and distribution.

The local support factor in the MFP also remains unchanged—5.5 mills on taxable assessed property in each local school system. This is not a good measure of local wealth and ability to support schools.

SUPERBOARD FOR HIGHER EDUCATION FAILS TO GAIN SUPER MAJORITY

SB 45, a proposed constitutional amendment to establish a single board for higher education, failed to receive the required two-thirds approval in its house of origin. The single board would have replaced the present four boards—Regents, which is to plan and coordinate higher education and eliminate weak and duplicating programs, and the three management boards—LSU, Southern and Trustees. There is general agreement that changes are needed. The Governor stated he will recommend again the single board in the 1989 legislative session.

Pensions Funded, Not Reformed

The funding of retirement systems for most state and local employees was put on a sound basis this session, but major proposals to reduce future costs by reforming retirement benefits and administration failed.

A landmark 1987 constitutional amendment requires the four state-funded and nine statewide public retirement systems to attain and maintain actuarially sound funding. It also mandates the amortization of the systems' estimated $6 billion in unfunded accrued liabilities (UAL) within 40 years beginning fiscal year 1989-90. If allowed to continue rising at the rate it has since 1980, the UAL would become immense in a few years. (See Figure 3.)

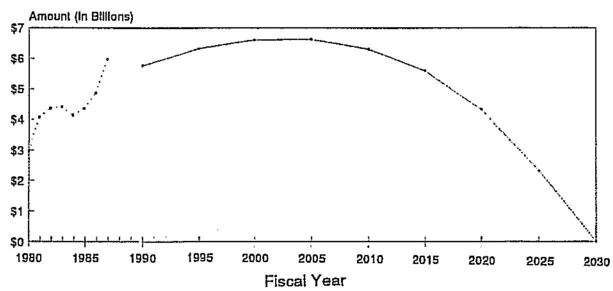
SB 368 (Act 81) implements the constitutional amendment. The new law establishes an actuarially sound procedure for the Legislature to determine the employers' contributions to the state and statewide retirement systems.

The added cost to begin amortizing the UAL is estimated at about $151 million in fiscal year 1989-90. Increased employee contributions will account for $26.6 million and federal and local funds another $37.5 million, leaving $87.6 million to come from the state general fund.

While the law assures sound funding for the public systems, it does not address the obvious disparities in benefits and contributions among them. Significant reform proposals which died included: a reorganization of the state systems under a single board, a less liberal retirement plan for new employees, a prohibition on board-granted cost-of-living increases, and a number of bills to reduce various benefits for new employees.

Other positive retirement legislation which passed includes:

FIGURE 3.
Unfunded Accrued Liability (UAL) of State-Funded Retirement Systems, 1980-87, and Projected under SB 368



···UAL 1980-1987 determined by current actuarial method. Includes systems for state employees, teachers, state police and school employees.
—·Projected UAL based on new actuarial method. School employees' system has negative UAL under this method and is not included.

SB 869 (Act 414), which creates a 17-member State Retirement Systems' Task Force to conduct a two-year study;

SB 649 (Act 63), which reinstitutes state budgetary control over the operating budgets of the state retirement systems; and

HB 808 (Act 483), which restores the legislative auditor's authority to audit public retirement systems.

Business Climate

STATE PREVAILING WAGE LAW REPEALED

HB 406 (Act 90) repeals the state prevailing wage law. Prior law had required that prevailing wages be paid for each state construction project over $25,000 which was funded 90% or more by state and federal funds. The Legislative Fiscal Office estimates that 17% of labor costs of state-funded projects are due to the state's prevailing wage, so repeal of this law should result in significant savings to the state. The repeal of the state law will have no effect on projects financed with any federal funds (including the majority of highway projects in the state).

WORKERS' COMPENSATION

SB 943 makes numerous changes in the state's workers' compensation law. A major provision of the bill changes the system for settlement of disputed claims from a judicial system to an administrative system. A staff of nine hearing officers is created within the Office of Worker's Compensation Administration. The bill also provides for an internal panel consisting of three of the hearing officers, to which an initial hearing officer's decision can be appealed. Further appeals could be made to a court of appeal. This shift of responsibilities from the district courts to the administrative hearing officers may result in more consistent compensation decisions, more timely resolution of claims, and a reduction in the courts' workload.

The bill also requires establishment of a medical reimbursement schedule for all workers' compensation cases and provides that fees in excess of the reimbursement schedule are not recoverable. This change will provide needed controls to ensure that health care providers are not charging more than the average of the usual and customary charge for medical care and services rendered in workers' compensation cases.

Workers' Compensation Cash and Medical Payments—1985

State	Workers' Compensation Payments Per Labor Force Participant
Louisiana	$234.51
Texas	194.19
Oklahoma	185.02
Florida	152.59
Arkansas	135.27
Kentucky	132.91
Georgia	125.66
Alabama	112.36
South Carolina	99.71
Virginia	93.65
Tennessee	90.98
Mississippi	87.06
North Carolina	77.82

SOURCE: National Foundation for Unemployment Compensation and Workers' Compensation (most recent data available), U.S. Department of Labor, and PAR calculations.

In other provisions of the bill, duties of the Office of Worker's Compensation are expanded, an annual report of claims and workload data is required, employers are required to secure payment for workers' compensation and will face penalties if they fail to do so, and temporary total disability is redefined to ensure that those benefits are not provided for an unlimited period.

UNEMPLOYMENT INSURANCE REFORM

HB 1291 (Act 192) provides for several changes to reduce benefits and costs of the state's unemployment insurance program. In 1987, the average weekly unemployment benefit in Louisiana was 21% above the average of the other southern states. The following changes provided in HB 1291 will bring Louisiana benefits more in line with the other southern states:

1. The minimum qualifying amount of base period wages will be increased from $300 to $1,200.
2. Weekly benefit amounts will be based on 1/25th of the average of the four quarters of insured wages paid in the base period, instead of the highest two quarters in the base period.
3. Weekly benefit amounts for new claims filed after January 1, 1989 will be reduced by 5%, and the maximum weekly benefit will be $181. This reduction in benefits is in addition to a 7% cut in weekly benefits that took place in January 1988.
4. Weekly benefit amounts will be rounded to the next lowest dollar, rather than rounding up as had been the case previously.

5. Weekly benefit amounts will be reduced 50% for individuals who requalify after previously voluntarily quitting without good cause attributable to the employer or who were discharged for misconduct.

6. If the balance in the unemployment compensation fund exceeds $400 million, contribution rates for all employers will be reduced by 10%.

ECONOMIC DEVELOPMENT

SB 794 (Act 888) creates the Louisiana Economic Development Corporation, a nine-member body with at least three minority and two women members, as the single review board for financial assistance programs (other than tax incentives) in the renamed Department of Economic Development. The new board has broad development powers and replaces four bodies created to administer or coordinate small business and minority business programs.

The corporation is responsible for several new and existing programs: small business innovative research matching grant program (new), venture capital incentive program (three new investment subprograms), minority and women's business development program (women added), small business equity program, and any future small business financial aid programs under the department.

The corporation's budget for fiscal 1988-89 gives it $11 million to use for programs. It is expected that the emphasis will be on the venture capital programs ($8.4 million)—a departure from the approach last year when $20.7 million in loan guarantees was budgeted for specified firms.

Other significant legislation adopts a chapter of the Uniform Commercial Code, limits product liability, and authorizes tax increment financing for parish and municipal development.

FIRST IN NATION

SB 955 authorizes a unique tax-free shopping program to make sales tax refunds to foreign travelers. Local governments may participate voluntarily and in New Orleans this could mean a 9% savings on large purchases. Designed to spur tourism, the program is the first of its kind in the U.S. and already has received national attention.

Primary authors of this report are Emogene Pliner, Vice President, Research, and Senior Research Associates, Ty Keller, Suzette DuBois Meiske and Robin Hunn.

Public Affairs Research Council of Louisiana, Inc.
4664 Jamestown Avenue, No. 300 · P.O. Box 14776
Baton Rouge, LA 70898-4776 · (504) 926-8414

RETURN POSTAGE GUARANTEED

Non-Profit Org.
U.S. Postage
PAID
Baton Rouge, La.
Permit No. 330