



legislative bulletin

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SETTING ASIDE EXCESS MINERAL REVENUES

Past reliance on mineral revenues as a major revenue source has contributed significantly to the state's fiscal problems. The temporary increase in mineral revenues in late 1979 and the early 1980s led to new state programs and increased spending on existing programs. Mineral revenues have now dropped, both in actual dollars and as a percentage of state revenues. The result has been major tax increases and spending cuts in recent years. To forestall the recurrence of this scenario, several bills seek to remove from the state budget mineral revenues in excess of a set amount. All of the bills discussed are proposed constitutional amendments and are in committee in their house of origin.

Determining the Excess Mineral Revenues

Bills which would set aside excess mineral revenues are outlined in Table 1. They use one of two approaches to compute a base above which "excess" mineral revenues would be set aside and unavailable to fund the state operating budget. Most of the bills use a base tied to the price of oil, ranging from \$17 to \$22 per barrel. Five of the bills would use a flat dollar amount, \$700 million; HB 114 would allow this dollar amount to inflate annually beginning in fiscal 1992-93.

Several of the bills would apply only to oil severance taxes and/or royalties. Only SBs 41 and 50 and HBs 123 and 125 would apply to all mineral revenues (oil and gas severance taxes, royalties, rentals and bonuses).

Comment

PAR has recommended setting aside all mineral revenues in excess of \$700 million, which is slightly less than the amount estimated to be received this fiscal year. Using price as the trigger for the base does not consider the effect of production or tax rate changes, allowing mineral revenues to continue to be erratic. A flat dollar amount eliminates the impact of these changes and would be simpler to administer and understand. Unless all mineral revenues are covered in the base, the budget will continue to be affected by their fluctuations.

Use of Excess

All of the bills would set up a special fund in which the excess mineral revenue would be placed. Most of the bills would then use this fund as a rainy day fund or to generate interest earnings to finance a rainy day fund. ("Rainy day funds" are contingency funds set aside during times of strong economic growth to be spent during periods of weak economic growth or economic decline.) The remaining bills would use the fund itself, or a second fund financed through the mineral revenue fund, for a variety of purposes including to generate interest earnings for the general fund, retire state debt, reduce the unfunded accrued liability (UAL) of state retirement systems, reduce the debt of the unemployment insurance trust fund, or finance economic development projects.

NOTE: Status of Bills is Reported as of May 6, 1987

TABLE 1. Proposed Mineral Revenue Trust Funds

<u>Bill Number</u>	<u>Fund</u>	<u>Source</u>	<u>Primary Purpose</u>
SB 36	Mineral Endowment Fund	Oil severance taxes and royalties derived from \$18+ oil	Generate interest earnings for general fund; reduce debt of state retirement systems, the unemployment compensation debt, and other large liabilities
SB 40	Louisiana Investment Fund for Enhancement	Oil severance taxes derived from \$17+ oil	Generate interest earnings for economic development projects
SB 41, 50 and HB 123, 125	Mineral Revenue Trust Fund	All mineral revenues in excess of \$700 million	Generate interest earnings to fund a rainy day fund
SB 46	Revenue Stabilization Fund	Oil severance taxes derived from \$17+ oil	Provide a rainy day fund
HB 9	Revenue Stabilization Fund	Oil severance taxes and royalties derived from \$20+ oil, and other nonrecurring funds	Provide a rainy day fund
HB 101	Enhanced Mineral Income Trust Fund	Oil severance taxes derived from \$22+ oil	Generate interest earnings for general fund
HB 108	Budget Stabilization Fund	Oil severance taxes derived from \$22+ oil	Generate interest earnings for the general fund; provide for a rainy day fund
HB 112	Revenue Stabilization Fund	Oil severance taxes and royalties derived from \$18+ oil	Provide a rainy day fund
HB 113	Mineral Trust Fund	Oil severance taxes and royalties derived from \$20+ oil and natural gas royalties derived from \$3+ per MCF	Generate interest earnings for general fund
HB 114	Enhanced Mineral Income Trust Fund	Oil and gas severance taxes, royalties and bonuses in excess of \$700 million	Retire state debt, reduce debt of state retirement systems, generate interest earnings to fund a rainy day fund

Many of the bills would require a super-majority to appropriate money for the purposes allowed. In several proposals (SBs 41 and 50 and HBs 101, 113, 123 and 125), the mineral revenue fund would serve as principal to generate interest earnings, which could be appropriated, while the principal would remain untouched.

Comment

PAR has recommended that the principal in a mineral revenue trust fund not be spent, but interest earnings on the fund be used to help finance the operating budget. As the fund grows, these annual interest earnings would become sizable and replace an erratic revenue source (the mineral revenues) with a predictable, continuing revenue source. By preserving the principal, future generations would benefit from the state's mineral resources even after their depletion.

Some of the proposals would substitute excess mineral revenues for state funds to finance what have become recurring expenditures, such as payment of the unemployment compensation debt or retirement of state debt. This would remove some of the pressure for needed reforms in these areas.

Several bills would set up rainy day funds with the excess revenues themselves or the interest earnings on them. PAR has opposed establishment of a rainy day fund because it would not address the primary cause of the state's financial problems and could delay tackling these problems. PAR's recommendation would set up a mineral revenue stabilization trust fund rather than a rainy day fund.

Conclusion

All of the legislative proposals would address the problem of the unpredictability of mineral

revenues and the state's inability to respond appropriately to their ups and downs. However, they would remedy the problem in varying degrees depending on the price of oil set, which mineral revenues would be covered and ability to raid the fund. SBs 41 and 50 and HBs 123 and 125 are the most similar to PAR's recommendations, although they would set up a rainy day fund from interest earnings. A mineral revenue stabilization fund also would act as an indirect limit on state spending by restricting the amount of mineral revenues available to finance the state budget.

While the bills discussed above would give the fund constitutional status, a few others would statutorily establish the fund. Unless the mineral revenue fund is given constitutional status and the principal protected, it would be an easy target for legislative and gubernatorial attempts to find extra money for the state budget.

(For a further discussion of mineral stabilization and rainy day funds, see PAR's recent special report, "Stabilizing State Mineral Revenues Critical.")

CONSTITUTIONAL BUDGET REFORMS

A recent special PAR report, "Budget Reform Essential to Fiscal Sanity," detailed recommendations on budget reforms made by PAR in December 1986 and earlier. These include:

- establishing a system for an official estimate of revenues, determined by unanimous vote of the estimating team, at critical points when funding decisions are made;
- requiring that the governor propose a balanced budget based on existing revenue sources;
- prohibiting the governor and Legislature from authorizing expenditures in excess of this estimate;
- requiring the state to appropriate sufficient funds to cover a general fund deficit out of funds in the immediately succeeding fiscal year, and
- placing the above requirements in the constitution to ensure adherence to them.

Several proposals would enact PAR's recommended budget reforms. One group of bills (SBs 41 and 42, and HBs 124 and 125), which closely track the PAR recommendations, are discussed below. There are other proposals which have the same goals of improving revenue estimates or state budgeting, but vary in the details. The four bills discussed are proposed constitutional amendments and are in committee of their house of origin.

Proposed Legislation

The proposals would provide for a revenue estimating conference to determine an official state revenue estimate for a fiscal year. The initial estimate would be provided December 15 of the preceding fiscal year and revised on the following 15th of March, June and September, and as necessary. There also would be an official estimate of revenues for the succeeding fiscal year, thus providing some long-range forecasting. The revenue estimates would be based only on existing revenue

sources and would not include proposals for revenue increases.

The revenue estimating conference would consist of the governor, the independently elected state treasurer, and a person selected by the Legislature, or their designees. This membership would provide representation of both the executive and legislative branches on the committee. The revenue estimate would be determined by majority vote of the members.

The proposals would mandate that the proposed and enacted state budgets not exceed the official revenue estimate. Also, the governor's proposed budget would have to be balanced within existing revenue sources. The official revenue estimate would be used throughout the year to determine if the budget remained in balance, and the governor would be required to take action to keep the budget balanced.

The proposed constitutional amendments also would require that if the state's annual financial statement indicated that a deficit was incurred, the Legislature would have to allocate funds to eliminate it in the fiscal year following publication of the statement. (For example, if the annual financial statement for fiscal 1986-87, published in fiscal 1987-88, showed a deficit, funds to eliminate it would have to be allocated in fiscal 1988-89.) The appropriation could not be vetoed or altered.

Comment

For the last three years, the governor has proposed a budget that either exceeded the executive's revenue estimates presented to the House Appropriations Committee or which was based on proposed new revenues rather than existing revenues. While the governor is not specifically mandated to propose a balanced budget under

existing law, the Legislature must adopt a balanced budget, with the result that the governor can propose a budget the Legislature cannot legally adopt. Neither the constitution nor state law specifies whose revenue estimate is to be used and when it is to be determined. Without an official revenue estimate against which to compare authorized expenditures, ensuring that the adopted budget is balanced obviously is difficult.

The proposed legislation would remedy these problems and make major changes in how the state develops its budget, makes appropriation decisions and monitors implementation of the budget. The procedures outlined in the bills would discourage political "guesstimates" of revenue;

reduce the issues in formulating, enacting and implementing the budget; result in more accurate and realistic proposed budgets; provide a monitoring system that would alert officials and the public on whether the state will end a year in the red, and require the Legislature to act to eliminate a deficit. Enacting these reforms by amending the constitution will insure that the reforms could not be easily dismantled or disregarded.

One major difference between the bills and PAR's recommendations is the vote required to determine the official estimate. Unless a unanimous vote is required, as PAR recommends, the same situation as exists now could occur, with more than one revenue estimate.

PUBLIC RETIREMENT FUNDING REFORM

The four state-funded public employee retirement systems and the nine statewide systems together had unfunded accrued liabilities (UAL) of \$5.5 billion in 1986—up from \$3.2 billion in 1980. Of the total UAL, \$3 billion was in the teachers' system.

Chronic underfunding of three of the four state-funded systems has allowed the unfunded liabilities to grow. This rising UAL has contributed to the state's lower bond rating and poses a long-term threat to the state's fiscal health.

Recent legislative sessions have seen growing efforts to shore up funding of individual systems or of certain aspects of the retirement programs. In spite of some improvements, the state still remains without a strong policy for properly funding the retirement systems on an actuarially sound basis.

Proposed Constitutional Amendments

Except as otherwise noted, the following bills are in committee in their house of origin.

SB 35 (up for Senate vote) would require that the actuarial soundness of the state and statewide public retirement systems be attained and maintained. It would require the Legislature to provide by law for the actuarial valuation of each system, the method of actuarial valuation to be used, and the contributions to be made to maintain actuarial soundness and eliminate any unfunded accrued liability within 40 years beginning in fiscal year 1988-89.

The bill would prohibit the Legislature or system boards from taking any action which would cause future liabilities to exceed future benefits.

Exceptions to this prohibition would be normal operating costs, capital outlays, investment management and cost-of-living increases (COLAs) for systems other than those for state employees, teachers and school employees when the system is approaching actuarial soundness.

The bill would prohibit diverting system assets to purposes other than retirement and would protect accrued benefits from being diminished. Future benefit provisions could only be altered by law.

SB 57 and HB 48 (identical bills) would prohibit the Legislature or a public retirement system board from taking any action, with specified exceptions, which would cause a net increase in the UAL. The exceptions are normal operating costs, system mergers, transfers, compensation increases, new hires and COLAs when the system is approaching actuarial soundness.

HB 111 would prohibit actions by the Legislature or any public retirement system board causing a net increase in the UAL of the system. Exceptions would be system mergers and percentage-of-payroll methods of meeting normal costs and amortizing the UAL over a 30-year period.

HB 49 would increase the minimum age and service eligibility requirements for public employee retirement. Age 65 and 10 years' service would be required for new employees and current employees with less than five years' service. Current employees with five to 10 years' service could retire at age 60 with 10 years' service. Those under the new requirements could retire at age 55 but with an actuarial reduction in benefits.

HB 50 would prohibit the purchase of prior service credit unless the actuarial cost was paid to the system.

HB 51 would prohibit the Legislature or a public retirement system board from granting a cost-of-living increase if the result was a net increase in the system's UAL.

Comment

The need to place the public retirement systems on a sound funding basis is generally recognized, but little action has been forthcoming. Eliminating the huge unfunded liabilities of the systems requires a long-term commitment to increase state funding at the same time the state is facing a serious fiscal squeeze. The cost of shoring up the system's finances could, of course, be reduced by cutting some of the overly generous benefits, but the liabilities for benefits already accrued must still be funded.

The Major Proposal

SB 35 would put a strong retirement funding policy in the constitution which would require the Legislature to act responsibly. The funding problems of the systems could easily be dealt with by statute if there were sufficient legislative will. Unfortunately past performance, even in times of revenue surpluses, indicates a lack of the necessary self-discipline.

A major recommendation in PAR's recent special report, "Public Retirement: The Check Is in the Mail?", was that the constitution be amended to ensure that the systems are maintained on a sound actuarial basis. PAR recommended that the constitution require that: a uniform actuarial method be selected, annual contributions be sufficient to cover normal costs, unfunded liabilities be amortized over time, and no action be taken that would impair the actuarial funding condition of the system.

SB 35 would implement PAR's recommendations. However, it would not apply to separate local retirement systems. One argument is that the state should not burden the local governments with funding requirements they might be unable to meet. Conversely, it may be argued that local systems should be required to maintain fiscal soundness.

The proposal would add constitutional protection for the retirement system assets and the accrued benefits of members.

The advantages of a constitutional funding policy are that it would:

- ensure actuarially sound legislative action;
- restrain the system boards;
- require recognition of the full cost of retirement as a part of employee compensation;

- serve as an incentive to reduce unjustifiably liberal benefits, and
- protect both future retirees and future taxpayers.

The major disadvantage of the proposed policy is the additional immediate cost of meeting the funding requirements imposed. This added cost, depending on the actuarial method selected, could range as high as \$140 million a year for the four state-funded systems. However, in amortizing the UAL, the more money put up in the early years, the greater the overall savings due to investment income. The state might find it difficult to come up with the extra money needed, but the only alternative is to pass the cost on to the next generation which may be even less able to pay it.

UAL Limit Proposals

The proposed alternatives to SB 35 would set a minimum funding policy by prohibiting actions, by the Legislature or a system board, causing a net increase in the UAL of a system. These proposals (SB 57, HB 48 and HB 111) would not require an actuarial method to be selected nor would they explicitly require amortization of the UAL. However, if the Legislature could not take an action which increased the UAL, an appropriation for employer contributions would by definition have to be sufficient to cover at least normal costs plus the interest on the UAL. Thus, the UAL would not grow but would not have to be decreased. HB 111 adds an exception allowing an increase in the UAL if a percentage-of-payroll method is used to amortize the UAL over 30 years. In using this method, the UAL would increase in the initial years of the amortization period and then decrease in the later years.

The proposals to prohibit UAL increases do not go as far as SB 35 in assuring sound funding of the systems and could create some problems by using the term UAL. SB 35 does not refer to the UAL but rather to an actuarial balance between assets and liabilities which is somewhat more flexible. For example, SB 35 would permit a COLA to be granted if properly amortized over time whereas HB 111 would, in effect, require the full cost of a COLA to be paid up front to avoid creating an increase in the UAL.

Another proposal, HB 51, would prohibit increases in the UAL resulting from the granting of COLAs. HB 50 would prevent certain UAL increases by stopping the purchase of prior service credit for less than the actuarial cost. The problems addressed by these bills would be remedied by SB 35 without the need for specific prohibitions.

Eligibility Reform

A number of PAR reports have recommended that:

- The normal retirement age for public employees and officials be set at 65 with a minimum of 10 years' service or at any age with 40 years service.

- Early retirement be permitted at age 55 with 10 years' service but with the retiree's benefits actuarially reduced.

- The normal retirement age for hazardous duty employees might be set lower than 65 but not less than 55 with 10 years' service and with no benefits paid prior to reaching age 55.

HB 49 would fix the normal retirement age at 65 and require actuarial benefit reductions for early retirement; however, it makes no special allowance for hazardous duty employees. An important element of the proposal would be the phasing in of the new normal retirement age. By applying this reform to the shorter-service current employees instead of just to employees hired in the future, the cost savings would be significant.

The overly generous early retirement provisions in a number of the public retirement systems have contributed greatly to the cost of this employee benefit and to the growth in the UAL. These provisions undermine the basic purpose of retirement programs.

ADMINISTRATION PROPOSAL WOULD GUT HIGHWAY PRIORITY PROGRAM

About 10 years ago highway projects were determined by political tradeoffs and favoritism between a governor and legislators. There was no long-range planning of multiyear projects nor determination of need in order to assign priorities.

A November 1967 PAR study, "Long-Range Highway Construction Budgeting," recommended a long-range highway construction program based on planning, not politics. Professional engineers were to collect data on use (traffic count) and the deficiencies in road conditions as a start for determining priorities.

A 1974 law followed PAR's recommendations and the program was ready for implementation in 1976. Under the current law, the 16,000 miles which comprise the state highway system are divided into four classifications: urban arterial, urban collector, rural arterial and rural collector, and standards are established for each classification. There is continuing study of needs related to the standards, and a priority listing is prepared annually. Public hearings are held in each highway district to review the priorities. The Department of Transportation and Development (DOTD) then prepares a final program for submission to the Legislature. The law allows the Legislature to delete projects from the priority listing but prohibits it from adding or substituting projects. The amount of available money determines how many of the priority projects can be financed each year. The law prohibits DOTD from undertaking a

project unless it is included in the priority listing for the fiscal year. The only exceptions are projects in the secretary's "emergency" fund or projects which require state matching of federal funds.

The highway priority program involves \$169.5 million in state funds (the eight-cent dedicated gasoline tax) plus \$300 million in matching federal funds, according to the 1987-88 capital outlay bill. Money from sale of bonds for highway and bridge construction projects is not included in the priority program because bond money must be designated for specific projects.

Administration Super Slush Fund

SB 268 (an administration proposal in Senate committee) would authorize the secretary of DOTD, who is a gubernatorial appointee, to select highway projects to be funded at his discretion "in order to insure the safety of the motoring public." The secretary could "alter or reallocate in his discretion" funds appropriated from "another source" for projects he selects. The bill sets no limit on the number of discretionary projects in lieu of those in the priority listings.

SB 268 also would establish a five-category classification system which would set priorities for a master plan based on need for highway maintenance and reconstruction. This new classification would address the problem of deteriorating highways; the rule of thumb is that it

costs seven times the amount to rebuild a highway than to maintain and rehabilitate it. However, the proposed new classification system could redirect money from highway construction to maintenance.

Comment

Louisiana has extensive highway needs and limited money to meet them. It is important that available funds be used for the top priority needs. A good highway system is not only important to

citizens of the state, but also to attract tourists and spur economic development.

SB 268 would be a throwback to political roads—a step the state can ill afford—particularly now when dollars are scarce and the state’s image nationally needs improvement. State government has few success stories of programs that are well planned and based on rational and objective priorities. Rather than gut the long-range highway program, it should be a model for restructuring other state spending programs into multiyear plans with objective and realistic funding priorities.

When Senate and House Standing Committees Meet During Current Session

Senate and House standing committees meet in the state capitol during the legislative session to consider and report on proposed legislation. No bill can be finally passed in either house without a committee report. Bills are assigned to a committee on the basis of subject matter. Committee meetings afford citizens an opportunity to express their views on proposed changes in the law. Both the Senate and House have established the day of the week their standing committees are scheduled to meet during the current legislative session.

SENATE COMMITTEE SCHEDULE

Monday	
Finance	Room E
Health & Welfare	Room C
Retirement	Room F
Revenue & Fiscal Affairs	Room A
Tuesday	
Agriculture	Room C
Judiciary A	Room E
Judiciary B	Room F
Judiciary C	Room A
Wednesday	
Commerce	Room E
Labor & Industrial Relations	Room C
Senate & Governmental Affairs	Room A
Transportation, Highways	Room F
Thursday	
Education	Room E
Local & Municipal Affairs	Room C
Natural Resources	Room A

NOTE: Senate committees usually meet in the morning about 9:00 a.m. or 10:00 a.m. Committees do not meet when the Senate is in session unless granted special permission.

HOUSE COMMITTEE SCHEDULE

Monday-Tuesday	
Appropriations	Room 1
Civil Law & Procedure	Room 3
Judiciary	Room 6
Transportation, Highways	Room 4
Ways & Means	Room 2
Wednesday-Thursday	
Administration Criminal Justice	Room 5
Commerce	Room 1
Education	Room 3
House & Governmental Affairs	Room 4
Natural Resources	Room 2
Municipal, Parochial Affairs	Room 6
Friday	
Agriculture	Room 4
Health & Welfare	Room 3
Labor & Industrial Relations	Room 1
Retirement	Room 2

NOTE: All House committees meet in the morning, usually about 9:00 a.m. or 10:00 a.m. at the morning recess. Committees do not meet when the House is in session unless granted special permission.



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Mona J. Davis Appointed PAR Vice President, Development

Mark Drennen, President of the Public Affairs Research Council of Louisiana, announced that Mona J. Davis has been appointed PAR Vice President for Development, effective May 1, 1987.

Davis comes to PAR with a wealth of related education and work experience, Drennen said, and will be responsible for public relations and fundraising activities.

“Mona Davis brings a new dimension to PAR activities, with innovative concepts to inform citizens, leaders and public officials of PAR research findings and recommendations. Her talents will enhance PAR’s basic purpose of achieving political progress through deep-rooted public understanding and support of vital issues and solutions,” Drennen said.