PAR legislative bulletin

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MINERAL STABILIZATION FUND UPDATE

The importance of establishing a meaningful mineral stabilization fund for the future economic development of Louisiana has been stressed by PAR, the LSU/CABL tax study and the Governor's Economic Development Commission. PAR's recommendations include the following:

- establish the fund by constitutional amendment;
- set a base of $700 million if gas severance taxes are included or a $580 million base without this source;
- protect the principal in the trust fund from appropriation, especially for recurring purposes; and
- deposit interest earnings into the state general fund so that they become a predictable, recurring revenue source.

SB 36: Senate Version

SB 36 (Senate version) would establish a Mineral Endowment Fund in the constitution. However, significant alterations in PAR concepts discussed above are contained in SB 36 that would seriously impair the fund's ability to stabilize Louisiana's revenues and expenditures and thereby would have little impact. It should be noted that gas severance taxes would not be included in the proposed endowment fund and would continue to be deposited into the state general fund after dedications.

- Only oil severance taxes, royalties from state lands, and bonus and rental payments above $1 billion would be deposited into the fund. Deposits into the endowment fund would be unlikely for the next 10 years or until oil prices exceeded $28 per barrel. (See Table 1.)
- Up to 50% of the principal could be appropriated by a two-thirds vote for economic development, coastal erosion projects or, after five years from the initial deposit, to avoid deficits.
- No consideration is given to establishment of a separate fund for natural gas severance taxes. If gas taxes were changed from a volume to value base in the future and prices increased, these revenues could become a significant and erratic source of income as oil has been in the past.

HB 123 and House Version of SB 36

HB 123 and SB 36 (with House amendments) not only would establish a constitutionally protected mineral trust fund but also a revenue stabilization fund. (See Table 2.) Specific components include the following:

- All severance taxes, including gas, royalties from state lands, and bonus and rental payments above $800 million would be deposited to the mineral trust fund. No appropriations would be allowed from the principal.
- 25% of the interest earnings would be retained in the trust fund and 75% would go to a revenue stabilization fund.

NOTE: Status of Bills is Reported as of June 17, 1987

TABLE 1
SB 36 Impact (Senate Version)
Projected Deposits Into Mineral Endowment Fund[a]
(In Millions)

Fiscal Year	Oil Severance Tax[b]	Royalties	Bonuses and Rentals	Total	Annual Deposits to Mineral Endowment Fund	Interest Earnings
1987-88	$ 395	$ 275	$ 30	$ 701	$ 0	$ 0
1988-89	412	274	35	721	0	0
1989-90	425	279	40	743	0	0
1990-91	438	283	45	766	0	0
1991-92	451	287	50	789	0	0
1992-93	465	292	55	812	0	0
1993-94	480	297	60	836	0	0
1994-95	495	301	65	861	0	0
1995-96	510	306	70	886	0	0
1996-97	526	311	75	912	0	0
1997-98	542	317	80	938	0	0

a Based on assumptions of $19 to $28.12 price per barrel of oil and price of $1.70 to $2.42 per MCF for royalties paid on natural gas produced from state lands plus an average annual 1% decline in oil production, 1.2% decline in royalty oil, 4% increase in the price of oil, 3.5% decline in royalty gas, and 4% increase in the price of gas on which royalties are paid.

b Does not include gas severance taxes.

- The revenue stabilization fund would be composed not only of 75% of the interest earnings from the trust fund but also would keep its own interest earnings. Money could be transferred by the state treasurer from this fund to the general fund if revenues were projected to be 95% or less of the previous year.

Conclusion

Mineral Trust Fund

Enactment of a meaningful trust fund would mark the beginning of a new era for Louisiana finances.

TABLE 2
HB 123 and SB 36 (With House Amendments) Impact
Projected Deposits Into Mineral Revenue Trust and Stabilization Funds[a]
(In Millions)

Fiscal Year	Total Oil and Gas Collections	Annual Deposit to Mineral Revenue Trust Fund	Cumulative Mineral Revenue Trust Fund[b]	Interest Earnings[c]	Revenue Stabilization Fund (Cumulative)[d]
1988-89	$ 846	$ 46	$ 46	$ 0.0	$ 0.0
1989-90	865	65	112	3.5	2.6
1990-91	884	84	198	8.4	8.9
1991-92	903	103	305	14.9	20.1
1992-93	924	124	435	22.9	37.3
1993-94	945	145	588	32.6	61.8
1994-95	966	166	765	44.1	94.9
1995-96	989	189	968	57.4	137.9
1996-97	1,012	212	1,198	72.6	192.4
1997-98	1,036	236	1,456	89.9	259.8

a Based on assumptions of $19 to $28.12 price per barrel of oil and price of $1.70 to $2.42 per MCF for royalties paid on natural gas produced from state lands plus an average annual 1% decline in oil production, 1.2% decline in royalty oil, 4% increase in the price of oil, 3.5% decline in royalty gas, and 4% increase in the price of gas on which royalties are paid.

b No appropriation from this fund allowed. Includes revenues above $800 million and 25% of interest earnings.

c 25% of annual earnings are deposited in trust fund and 75% to stabilization fund. Assumes rate of 7.5%.

d Composed of 75% of trust fund interest earnings as well as interest earnings of the fund itself. If state revenues are projected to be 95% or less of the previous year, funds can be transferred to the general fund up to the deficient amount. This column assumes that no funds have been transferred to the general fund.

SB 36 (Senate version) would not provide the budget stability necessary for economic development as it would allow the state budget to be subjected to erratic oil prices that could easily range from $10-$28 per barrel. It also would allow future access to 50% of the fund balance, which could severely deplete the fund in a few years.

HB 123 and SB 36, with House amendments, would provide the budget stability required for economic development. The principal of the trust fund would not be available for appropriation and would reduce drastically the need for periodic revenue increases and/or expenditure cuts. As indicated in Table 2, the trust fund could grow to over a billion dollars in the next decade.

Stabilization Fund

The revenue stabilization fund easily could approach $300 million in the next decade. However, it should be noted that the removal of oil and gas revenues above $800 million from the state budget significantly reduces the need for this fund. These bills allow the state treasurer, without legislative approval, to transfer monies to the general fund when revenues are projected to be 95% or less of the prior year. In other words, if the projection was 95% of prior-year revenues, the treasurer could restore any percentage of the shortfall up to 100%. If the projection was 96%, no money could be transferred.

Finally, it is not valid to assume that the prior-year revenues are an appropriate measuring stick. For example, the state could receive a $500 million one-time windfall that it would not want to match in expenditures the next year.

Recommendations

- The provisions for a revenue stabilization fund should be deleted for the reasons discussed above.

- The mineral trust fund interest earnings should be deposited either into the state general fund or be utilized for nonrecurring expenditures such as coastal erosion. Otherwise, it is entirely possible that this fund could grow to many billions of dollars without any of the revenues being utilized.

If the Legislature determines that a stabilization fund is needed, the following should be accomplished:

- Delete the authority of the treasurer to decide how much should be transferred out of the fund and require any transfer to be subject to a legislative appropriation.

- Utilization of prior-year revenues as a measuring stick should exclude one-time revenues.

- Some restrictions, perhaps 50%, on the amount of the fund that could be transferred in one year is needed, but transfers from the fund should be limited to restoring "up to" 95% of prior-year revenues minus windfalls.

FISCAL STATUS: DEEP RED

Louisiana state government seems likely to have three successive years of deficit spending, based on past and present policies.

The state ended last fiscal year with a $202 million deficit; a plan was enacted in the December special session to pay it off in four years. Another deficit is assured for the current 1986-87 fiscal year which ends this June 30. The deficit may be $175 million or more, based on revenue collections below budgeted amounts, spending beyond budgeted estimates of some "open-end" appropriations such as group insurance for school employees, and payment of judgments against the state above the $30 million budgeted. Neither the Governor nor legislators are discussing ways to deal with this year's deficit.

Next year promises more of the same. The Governor proposed an unbalanced budget when he lowered his revenue estimates by $120 million without compensating cuts. Although House action cut spending in the general appropriations bill by $153 million in certain areas, spending was increased by $66 million for other purposes, a net reduction of $87 million. As shown in Table 3, the deficit problem is being compounded by various legislative proposals not included in the proposed budget which would dedicate more taxes, expand tax exemptions and subsidize business, at an estimated negative impact on the general fund of $81.5 million. Some of these proposals already have been enacted and others are close to final passage. If all of these proposals are enacted, the 1987-88 deficit could range from $110 million to $325 million, depending on whose revenue estimates are used. The House increased the estimated price of oil, thereby lowering the projected deficit to a range of $86 million up to $265 million—with the difference due to different revenue estimates.

TABLE 3
1987-88 Fiscal Status of State General Fund, Following House Action
(In Millions)

	Administration	Legislative Fiscal Office	Senate Fiscal Staff
Taxes, Licenses and Fees	$4,332.6	$3,970.8	$4,069.9
Revisions: Reduction	-120.0	—	—
Revised Estimate	$4,212.6	$3,970.8	$4,069.9
Less Dedications:			
Revenue Sharing	$ 90.0	$ 90.0	$ 90.0
Interim Emergency Board	6.0	6.0	6.0
Debt Service	388.6	388.6	388.6
Other	383.9	356.9	370.7
Total Dedications	$ 868.5	$ 841.5	$ 855.3
Net Available to General Fund	$3,344.1	$3,129.3	$3,214.6
Expenditures			
General Appropriations (HB 325) as Introduced	$3,347.1	$3,347.1	$3,347.1
House Action, General Appropriations (HB 325)			
Specific Reductions	-46.9	-46.9	-46.9
Category Priority Reductions	-106.4	-106.4	-106.4
Unmet Needs Additions	38.4	38.4	38.4
Other Additions - Net	18.2	18.2	18.2
Additions with Category Cuts	9.5	9.5	9.5
Pending Adjustment Cuts:			
Interim Emergency Board	-3.2	-3.2	-3.2
Special Appropriations:			
Legislature (HB 1660)	28.5	28.5	28.5
Judiciary (HB 452)	39.6	39.6	39.6
Group Insurance	29.0	29.0	29.0
Judgments[a]	18.5	30.0	18.5
Capital Outlay	0.0	0.0	0.0
Total Expenditures	$3,372.3	$3,383.8	$3,372.3
Estimated Ending General Fund Deficit	$ -28.2	$ -254.5	$ -157.7
Other Proposals Enacted or Which Passed at Least One House with Negative Impact on General Fund			
Sales Tax Exemption, Food Stamps & WIC (Act 4)	$ 3.4	$ 3.4	$ 3.4
Judgments above $18.5 million budgeted[a]	22.0	10.5	22.0
Subsidy to business (HB 1534)	2.0	2.0	2.0
Dedicate additional three-cent gasoline tax to Highway Priority Fund (SB 267)	47.5	47.5	47.5
Hazardous Waste Cleanup & Research (SB 247)	0.1	0.1	0.1
Severance Tax Exemption for New Wells - Extend (SB 274)	2.7	2.7	2.7
Dedicate Alcoholic Beverage Permit Fees & Penalties (Act 3)	1.3	1.3	1.3
Shorten from 90 to 60 Days When State Pays Interest on Individual Income Tax Refunds (HB 135)	0.6	0.6	0.6
Sales Tax Exemption - Electricity for Chlor-alkali Manufacturing (HB 1234)	1.5	1.5	1.5
Sales Tax Exemption - Items for Producing or Harvesting Crawfish (HB 1682)	0.4	0.4	0.4
Total Other Impact Proposals	$ 81.5	$ 70.0	$ 81.5
Potential Ending General Fund Deficit	$ -109.7	$ -324.5	$ -239.2
House Increase in Oil Price to $19.60 a barrel	$ 24.0[b]	$ 60.0[c]	$ 64.0[c]
Deficit With House Oil Price Increase	$ -85.7	$ -264.5	$ -175.2

a Amount budgeted for special appropriations to pay judgments against the state exceeding $100,000. Appropriations by the 1988 legislative session will be charged to fiscal 1987-88. Appropriations by the 1987 session, charged to fiscal 1986-87, are likely to total $40.6 million in principal plus $12 million estimated interest, or $52.6 million compared to $30 million budgeted. PAR estimates judgments will be at least $40.5 million for 1987-88.

b Increase from $19 a barrel.

c Increase from $18 a barrel.

SOURCE: Information presented to Senate Finance Committee; fiscal notes for other proposals with negative impact on general fund status.

The state's cumulative three-year deficit could be as follows:

Fiscal Year Deficit	Millions
1985-86	$201.6
Less amount to be repaid in 1987-88	-57.8
Net	$143.8
1986-87 estimate	175.0
1987-88 estimate (Legislative Fiscal Office)	324.5
Total	$643.3

It is important that the Governor and Legislature take steps to match authorized spending with realistic revenue estimates for fiscal 1987-88 before this legislative session adjourns. A balanced budget for next year will not solve prior year deficits, but it would be a very important step in the right direction.

EXPANDING THE PROPERTY TAX

The following proposals attempt to make the property tax a more usable and productive source of local revenue. Except as noted, the bills are in committee in their house of origin.

Proposed Constitutional Amendments

HB 102 (returned to House calendar) would permit local property taxes to be levied without being subject to the homestead exemption if approved by the voters.

SB 59 would allow voters to reduce or eliminate the homestead exemption on taxes in their parish. Millages would not be rolled back, and taxing bodies would be protected from losing state school aid or revenue sharing money as a result of increased tax collections. The state's property tax authority would be repealed.

SB 60 would require the Legislature to create a circuitbreaker tax relief program for low income homeowners by 1990. The Revenue Sharing Fund would be converted to cover losses due to the circuitbreaker with any remainder allocated by law. The state's authority to tax property would be repealed.

HB 75 would decrease the homestead exemption for school taxes from the current $7,500 to $5,000 of assessed value.

HB 94 (returned to House calendar) would increase the maximum maintenance property tax which school boards may levy without voter approval, Orleans excepted, from five mills (adjusted) to five and one-half mills. Higher existing levies in six districts would be continued.

Statutory Proposals

SB 348 would require the State Tax Commission to prepare, by March 31, 1988 and each two years, a report relating homeowner family income and home values by parish to determine the effect of a circuitbreaker program.

SB 187 (passed Senate; up for House vote) and HB 848 would extend the maximum duration of school board taxes from 10 to 20 years.

Comment

Most of the property tax reform proposals introduced this session are dead or stalled. Two of these suffered unfavorable floor votes but remain on the calendar and technically are still alive. Some of the bills are flawed, but all reflect important attempts to free the property tax from present limits and exemptions.

The target of several bills is the homestead exemption which removes more than one quarter of the assessed value of property from taxation. One offers a tax-by-tax option while another makes the option parishwide for all taxes with or without millage rollback. With full repeal of the exemption and no millage rollback, the statewide average property tax increase for a $75,000 home would be only about $550 (based on 1985 data).

PAR's 1984 *Analysis*, "Louisiana's Homestead Exemption," recommended repeal of the exemption and adoption of a circuitbreaker program, funded with the money now used for revenue sharing, to give tax relief to low income homeowners. The circuitbreaker approach normally limits tax payments relative to income or sets an income floor below which taxes are reduced or forgiven.

The current circuitbreaker proposal fails to repeal the existing homestead exemption. This essential step must be taken to make the proposal meaningful.

SB 348 would require reports with the data needed to design a circuitbreaker. The data would also be quite useful in analyzing the fiscal impact of other homestead exemption proposals.

The proposal to decrease the homestead exemption to $5,000 for school taxes (HB 75) would immediately provide significant revenue increases for many school districts; allowing school boards to levy an unadjusted five and one-half mills without voter approval (HB 94) basically would be returning revenue authority lost under the new constitution. Boards in parishes where property was underassessed prior to the mandated statewide reassessment in 1978 were unfairly deprived of revenue authority when millages and limits were rolled back. Because many school boards currently have constitutional millages rolled well below five mills, the amendment could increase their authority by more than the additional one-half mill.

Doubling the maximum duration of school board taxes to 20 years (SB 187) may permit these revenues to be more easily bonded. The advantage of avoiding frequent renewal elections might be offset by greater difficulty in achieving initial and subsequent voter approvals.

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