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In This Issue

UPDATE ON RECOMMENDED CHANGES IN THE MFP

The state Minimum Foundation Program (MFP), first initiated in 1930, is the major state aid program for local schools. The constitution requires an MFP; gives the State Board of Elementary and Secondary Education (BESE) exclusive authority to recommend changes; limits legislative authority to approving or rejecting BESE recommendations and prohibits legislative change; and stipulates that rejection by the Legislature means the last formula approved by BESE and the Legislature remains in effect, and requires 100% legislative funding. A governor can reduce MFP funding if the act appropriating the money allows it (HB 626, the general appropriations bill, does not) and if two thirds of the legislators give written consent.

The Governor originally proposed that the MFP be changed to include only direct classroom costs and that local school boards finance the other costs, beginning in fiscal 1988-89. (See PAR *Legislative Bulletin*, May 9, 1988.) This would have permitted the state to finance teacher pay raises and smaller classes in the early grades out of cuts in other programs. The Governor since has modified his recommendations by providing supplemental state aid to give local school boards a year to assume local financing of the cuts.

BESE, at its January 28, 1988 meeting, recommended few changes in the current MFP formula—mainly adding costs of teacher retirement and foreign language associate teachers. HCR 143 incorporated these recommendations for legislative approval, but the House Education Committee rejected the proposal. BESE was left with two alternatives: retain the current formula which dates back to 1984 because the Legislature has rejected previous BESE-recommended changes, or recommend a new formula.

At its June 1 special meeting, BESE deferred action until June 9 on recommending a new MFP based on the Governor's proposals. The Governor's

TABLE 1. Proposed MFP Cuts and State Supplemental Assistance, Fiscal 1988-89 (In Millions)

	Amount of Reduction
Transportation	$ 96.4
Utilities, Materials & Supplies, Upkeep	47.4
Salary Adjustments: Administrative, Clerical, Maintenance, Custodial	77.4
Group Insurance, Non-instructional	42.8
Retirement Systems, Non-instructional:	
Teachers'	8.5
School Employees'	17.5
School Lunch Employees'	8.7
School Nurses	2.5
Gifted & Talented	0.5
Special Education, Materials & Supplies	0.8
Workers' Comp., Non-instructional	5.9
Unemployment Comp., Non-instructional	1.4
Original Local Cost	$348.4
Block Grant, State Pays 75%	-310.2*
State Equalization for Cuts	-15.0
Net Local Cost	$ 23.2

* Includes $48.8 million chargeback of proposed new local tax (4.5 mills).

NOTE: Status of Bills is Reported as of June 1, 1988

recommended new formula has several stipulations which will cause a reversion to the 1984 formula if not implemented:

- Enact HCR 54, to suspend exemptions on two cents of the state sales tax (estimated to yield $320 million), or equivalent measures.
- Continue suspension of the education income tax credit (estimated to yield $16 million) or equivalent measures.
- Enact HB 1626 to give local school systems authority to levy an additional 4.5 mills on taxable property without voter approval, or equivalent measures.

Other stipulations require that local school boards (1) spend enough for school lunch salary supplements to assure $4.8 million to match federal funds, and (2) continue existing policies of transportation of students to private schools.

Table 1 shows the Governor's original recommended state cuts in the MFP which totaled $348.4 million. Subsequently, the Governor recommended the state pay for 75% of the non-

TABLE 2. Proposed Changes in MFP (In Millions)

	FY 1987-FY 1988 (Appropriated)	FY 1988-FY 1989 (Recommended)	Difference
Cost			
Regular Education:			
Teachers	$573.4	$ 589.7[a]	$ 16.3
Instructional Supervisors, Principals, Asst. Principals	53.7	53.8	0.1
Transportation	107.6	0.0	-107.6
Sabbatical Leave	4.9	4.7	-0.2
Sick Leave	3.3	3.3	0.0
Workers' Compensation	7.1	4.0[b]	-3.1
Unemployment Compensation	2.0	0.9[b]	-1.1
Utilities, Materials & Supplies, Upkeep	47.6	0.0	-47.6
Salary Adjustments: Administrative, Clerical, Maintenance, Custodial	77.4	0.0	-77.4
Textbooks, Supplies (public)	0.0	19.3	19.3
Teacher Group Insurance	0.0	52.3	52.3
Ag-Business Teachers—Extended Employment	0.0	1.7	1.7
Total, Regular Education	$877.1	$ 729.7	$-147.4
Special Education:			
Teachers & Therapists	114.8	119.6[c]	4.8
Supervisors	1.6	1.6	0.0
Teacher Aides	21.5	22.5[c]	1.0
Appraisal/Assessment	20.3	20.6	0.3
Bus Attendants	3.7	0.0	-3.7
Transportation	0.0	16.1	16.1
Total, Special Education	$161.8[d]	$ 180.3[d]	$ 18.5
Teacher Retirement	89.4	81.1	-8.3
Foreign Language Associates	0.0	3.4	3.4
Total Cost	$1,038.9	$ 994.6	$ -44.3
Less Local Support (5.5 mills)	-63.0	-57.0	-6.0
Difference to Equalize	$975.9	$ 937.6	$ -38.3
Pro Rata Additions	6.4	0.0	-6.4
Adjustments Due Locals	0.0	0.7	0.7
Total, State Aid to Equalize	$982.3	$ 938.7	$ -44.0
Cost-of-Living Teacher Pay Increase, 5%	0.0	52.8[e]	52.8
Teacher Step Increases, 15 Years	0.0	13.1[e]	13.1
Revised State Aid	$982.3	$1,004.2	$ 21.9
State Block Grant, Non-instructional	0.0	310.2[f]	310.2[f]
State Equalization for Cuts	0.0	15.0	15.0
Revised Recommended State Aid	$982.3	$1,329.4	$347.1
Local Support, New Tax (4.5 mills)	0.0	-48.8	-48.8
Net State Aid	$982.3	$1,280.6	$298.3

a Includes addition of second language specialists ($1.6 million) and reduction in the pupil-teacher ratio in grades K-3 from 22:1 to 20:1 ($16.1 million).
b Excludes non-instructional personnel.
c Includes new teachers and aides.
d Does not add exactly due to rounding.
e Includes related retirement cost.
f Includes chargeback of new local tax ($48.8 million based on 4.5 mills).

instructional cuts through a block grant ($310.2 million); finance a $15 million equalization fund, with a formula for distribution to be recommended by the state superintendent and approved by BESE by a two-thirds vote; and authorize local school systems to levy an additional 4.5-mill property tax with board but not voter approval. The additional state aid and local taxing authority would leave local school boards with $23.2 million out of the original $348.2 million in cuts to finance with local funds.

HB 1826 (in House committee) proposes the additional local taxing authority without voter approval. It is based on Article VI, Section 19, of the constitution which allows the Legislature to create special districts "of every type" and define their authority, including the power to tax, "not inconsistent with the constitution." HB 1826 proposes creation of special school districts incorporating the same boundaries as the local school systems, with authority to levy 6.55 mills. Tax proceeds could be used only for non-instructional MFP costs payable by the local school systems. Each local school board's members would be the governing authority of the special district. The Governor's recommendations would limit this taxing authority to 4.5 mills; it would be a local support factor in the MFP in addition to the present 5.5 mills. The 4.5 mills would yield an estimated $48.8 million.

Table 2 compares MFP components for the current 1987-88 fiscal year with those recommended for fiscal 1988-89. State financing of the MFP would increase by $298.3 million next year, despite cuts in non-instructional costs. The increase is due to the Governor's recommended teacher pay increases, smaller classes in grades K-3, and transferring state-funded programs into the MFP, i.e., textbooks, teacher retirement, foreign language teachers and extended employment for agri-business teachers.

Comment

The constitution requires that the MFP formula be used to determine the cost "of a minimum foundation program of education in all public elementary and secondary schools as well as to equitably allocate the funds to parish and city school systems."

The Governor's recommendations imply that a "minimum education program" involves only classroom instruction and not other costs such as busing and feeding children, maintaining buildings and grounds, and providing insurance.

If local taxpayers have to pay for non-instructional costs, they might insist on better management, or refuse to pay additional taxes for programs they find less attractive than classroom instruction. If the state turns these non-instructional costs over to local school boards, it should remove state mandates such as transporting children who live more than one mile from school and requiring minimum bus driver salaries and reimbursement of their operating expenses.

The constitution states the MFP is to finance public schools, yet the current formula has state aid to private schools for such purposes as transportation. The Governor's recommendations would remove state aid to private schools from the MFP.

Despite cuts in non-instructional costs, the Governor's recommendations would retain the basic components of the MFP—to guarantee teaching and instructional supervisory positions. Most states allocate state money on a per pupil basis to allow more local flexibility. In addition, the Governor would continue to base the local support factor on a stipulated property tax millage calculated on taxable assessed value of property—not a good measure of local wealth and ability.

Attention has focused on revamping the MFP this year; future scrutiny is in order to assure this $1 billion plus state school aid program encourages quality education and is equitable.

PUBLIC EMPLOYMENT

Cutting the number of state employees has been used as a way to reduce state spending. Over the past five years, Louisiana's total state government employment has dropped, although it increased for a one-year period in 1985. (See Table 3.) The number of classified employees, which make up the bulk of the state workforce, went from 68,294 in 1983 to 59,962 in 1988. The number of unclassified employees dropped in 1986 but increased every other year. From 1983 to 1988, the source of the reduction in total state employment was the drop in the number of classified employees.

The general appropriations bill recommends 1,175 fewer authorized positions for fiscal 1988-89 than were budgeted in fiscal 1987-88 and 4,187 fewer than the actual number for fiscal 1986-87. (See Table 4.) In addition, the number of positions would be reduced during the year by several thousand more through "aggressive attrition."

June 88 59,177 20,722c 79,899 → ex 3,000 exc
June 89 56,788 21,298a 78,086 → " " " (a)

TABLE 3. Trend in Total State Employment[a]

Year[b]	Classified	Unclassified[c]	Total	Annual Change
1983	68,294	19,733	88,027	-2.0%
1984	67,940	19,960	87,900	-0.1
1985	69,415	20,574	89,989	2.4
1986	65,068	20,357	85,425	-5.1
1987	60,926	20,807[d]	81,733	-4.3
April — 1988	59,962	21,379[d]	81,341	-0.5

a Excludes judicial employees and about 3,000 grant-funded employees in the LSU system.
b As of June 30 each year except for 1988 which is as of April 30, 1988.
c Includes regular employees plus about 2,500 students and board members and about 350 local employees.
d Does not include staff of the Louisiana House of Representatives.
SOURCE: Louisiana Department of Civil Service.

Over half of the difference between the number of positions for fiscal 1988-89 and fiscal 1987-88 is from a decrease of 837 positions in the health and hospitals department. Substantial cuts also are recommended for the agriculture and forestry department, 179, transportation and development department, 162, and state vo-tech schools, 156. Seven departments would have more positions: state, insurance, commerce, public safety and corrections, natural resources, environmental quality, and wildlife and fisheries. The largest increases would be in public safety and corrections, 342, and environmental quality, 181.

Louisiana Compared to Other States

Louisiana has long had a high number of state and local employees per capita compared to other states. The gap between Louisiana and the averages for the nation and the 12 other southern states narrowed in 1986 due to a Louisiana decrease and increases in the national and southern averages. (See Figure 1.)

In October 1986, Louisiana had 519 full-time equivalent (FTE) employees in state and local government per 10,000 people according to a recent report of the U.S. Bureau of the Census. State and local government in Louisiana had roughly 233,550 FTE employees. The state ranked second in per capita FTE employees among the 13-state southern region, topped only by Georgia. Louisiana and Georgia both ranked well above the U.S. average of 474.

TABLE 4. Number of Authorized FTE Positions (excluding university positions)[a]

Department or Major Function	Actual 1986-87	Budgeted 1987-88	Proposed 1988-89[b]	Change FY 87 to FY 88	Change FY 88 to FY 89
Executive	1,158	1,124	1,061	-34	-63
State	146	138	143	-8	5
Attorney General	194	203	196	9	-7
Elections	108	107	88	-1	-19
Lieutenant Governor	8	7	6	-1	-1
Treasury	41	39	36	-2	-3
Public Service	110	82	81	-28	-1
Agriculture & Forestry	1,026	963	784	-63	-179
Insurance	148	139	150	-9	11
Commerce	218	219	225	1	6
Culture, Recreation & Tourism	394	593	495	199	-98
Transportation & Development	5,847	5,550	5,388	-297	-162
Public Safety & Corrections	8,235	7,675	8,017	-560	342
Health & Hospitals	27,515	25,578	24,741	-1,937	-837
Natural Resources	426	376	393	-50	17
Revenue & Taxation	1,083	1,044	1,011	-39	-33
Environmental Quality	384	395	576	11	181
Labor	1,951	1,961	1,954	10	-7
Urban & Community Affairs	59	9	0	-50	-9
Wildlife & Fisheries	838	839	862	1	23
Civil Service	177	151	150	-26	-1
Retirement systems	111	116	116	5	0
Education (department)	1,235	1,133	1,097	-102	-36
Special schools, commissions	900	863	810	-37	-53
Vo-tech schools	1,303	1,306	1,150	3	-156
Higher education[c]	152	145	50	-7	-95
Total	53,767	50,755	49,580	-3,012	-1,175

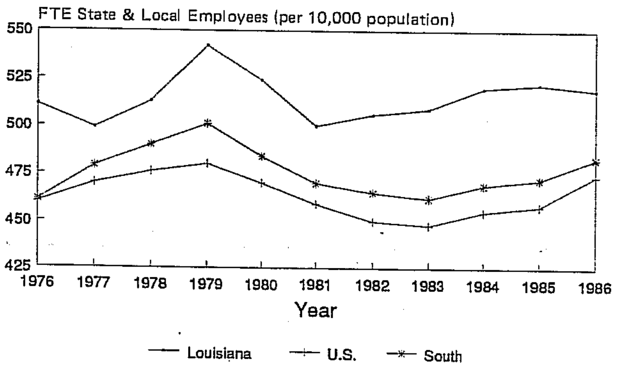
a Does not include positions funded by agency ancillary funds.
b According to engrossed general appropriations bill, HB 626 (up for floor vote). Includes several thousand positions which the proposed executive budget would reduce through "aggressive attrition."
c Excluding university positions.

Louisiana's state government employees accounted for 37% of the total employees in state and local governments. Nationally, the proportion was about 29%.

In 1986, Louisiana ranked at or above the national average in all but three out of nine functional areas. (See Table 5.) Louisiana was higher than the average for the other southern states in all but one category—higher education. Louisiana employed more people per capita in two areas than any of the other southern states—governmental administration and environment/housing (composed of natural resources, parks and recreation, sanitation, and housing and urban renewal).

Despite Louisiana's higher number of state and local employees per capita, its percentage distribution of employees by function is similar to the South and nation as a whole.

FIGURE 1. Employment Trends: Louisiana, U.S. and South



SOURCE: U.S. Bureau of the Census, Public Employment in 1986, and PAR calculations.

Generally, earnings and employees are traded off, i.e., the more people a state employs, the lower the average pay. Louisiana fits this pattern. In 1986, the state's per capita state and local government employment was 109% of the national average, while the average monthly earnings of employees were only 78% of the national average.

The average monthly earnings in Louisiana were considerably lower than in other states. Louisiana ranked 11th out of the 13 southern states and 47th nationally in average monthly earnings for all full-time state and local employees. The figures for education and non-education employees in Louisiana also are well below the U.S. and southern averages. Louisiana's average monthly earnings for all state and local employees was $1,558 as of October 1986—$451 below the U.S. average and $286 below the leading southern state, Florida. However, none of the southern states had average monthly earnings above the U.S. average of $2,009.

TABLE 5. State and Local Government FTE Employment Per Capita,[a] By Function

State	Local Schools	(Rank)[b]	Higher Education	(Rank)[b]	Public Welfare	(Rank)[b]	Health & Hospitals	(Rank)[b]	Transportation	(Rank)[b]	Public Safety	(Rank)[b]	Environment & Housing	(Rank)[b]	Governmental Administration	(Rank)[b]	Miscellaneous	(Rank)[b]	Total[c]	(Rank)
LOUISIANA	191	(7)	54	(8)	15	(4)	80	(4)	30	(3)	54	(2)	34	(1)	33	(1)	28	(4)	519	(2)
Alabama	175	(11)	62	(6)	12	(8)	75	(5)	30	(4)	44	(10)	33	(2)	25	(7)	27	(5)	483	(7)
Arkansas	188	(9)	51	(10)	13	(7)	56	(9)	30	(1)	37	(13)	29	(8)	25	(9)	25	(10)	454	(10)
Florida	164	(13)	40	(13)	11	(10)	51	(11)	21	(13)	61	(1)	33	(4)	32	(2)	27	(6)	440	(12)
Georgia	198	(5)	43	(12)	11	(11)	113	(1)	24	(10)	54	(3)	33	(3)	25	(10)	25	(11)	527	(1)
Kentucky	179	(10)	50	(11)	12	(9)	38	(13)	28	(6)	42	(11)	29	(9)	28	(4)	29	(3)	435	(13)
Mississippi	199	(4)	66	(4)	10	(12)	96	(2)	30	(2)	39	(12)	29	(7)	22	(13)	26	(8)	517	(3)
North Carolina	189	(8)	68	(2)	16	(3)	57	(7)	24	(9)	46	(9)	27	(11)	25	(11)	29	(2)	482	(8)
Oklahoma	195	(6)	74	(1)	21	(1)	57	(8)	29	(5)	49	(6)	32	(5)	29	(3)	26	(9)	512	(5)
South Carolina	202	(3)	67	(3)	14	(5)	83	(3)	22	(12)	48	(7)	26	(13)	26	(6)	26	(7)	514	(4)
Tennessee	169	(12)	53	(9)	18	(2)	60	(6)	26	(7)	49	(5)	28	(10)	24	(12)	22	(12)	449	(11)
Texas	219	(1)	57	(7)	9	(13)	50	(12)	23	(11)	50	(8)	26	(12)	25	(8)	20	(13)	479	(9)
Virginia	206	(2)	63	(5)	14	(6)	51	(10)	25	(8)	54	(4)	30	(6)	28	(5)	32	(1)	503	(6)
12-State Southern Average	190		58		13		66		26		48		30		26		26		483	
U.S. Average	183		56		17		54		24		52		28		31		29		474	

a Per 10,000 population.
b Where states had the same rate of employment, the calculations were extended for ranking.
c May not add due to rounding.
SOURCE: U. S. Bureau of the Census, Public Employment in 1986, and PAR calculations.

PENSION REFORM

The four present state-funded retirement systems—for state employees, teachers, school employees and state police—as well as the nine statewide systems all are independently managed. The duplication of directors, personnel, computer and other equipment for each system creates a large administrative cost. In addition, each system has separate costs for accountants, actuaries, attorneys, investment advisors and custodians. Some systems use the same actuary or investment consultants but contract separately for those services.

Even among the state-funded systems, there is no uniformity in investment policies, strategies or procedures. The boards have evidenced quite different views toward the funding adequacy of their systems.

The member-dominated boards may have ex officio members such as the state treasurer, but there are no members from outside state government and all are members of one of the public employee retirement systems themselves. There is no assurance that anyone on a board has any background or expertise in pension management or investment, yet these boards manage billions of dollars in employee and taxpayer contributions.

Until two years ago, the Legislature reviewed and approved the operating budgets of the state retirement systems. However, an attorney general's opinion gave the systems autonomous control over their own budgets.

At present, much of the actuarial work done for the several systems by their contract actuaries is duplicated by the legislative actuary. The legislative actuary has limited authority to effect changes in actuarial practice which he deems necessary.

The 13 state-funded and statewide public employee retirement systems have a combined unfunded accrued liability (UAL) expected to reach $7 billion in 1988. This tremendous unfunded obligation of the state has resulted, in large part, from a continual granting of ever more liberal and costly benefits over the years without providing additional contributions to fund them. Multiple systems led to "leapfrogging" where one system got extra benefits and others then demanded parity. Until passage of a 1987 constitutional amendment, there was nothing to prevent increasing benefits and passing the costs on to future taxpayers.

Legislated special benefits for certain classes of officials or employees have added to the costs. Particularly in the case of the state employees' retirement system, board authority to grant cost-of-living increases has been used in spite of the system's worsening funding situation.

While the new constitutional provision requiring actuarial funding should end unfunded benefit increases in the future, a reduction in retirement costs would require a downward revision in the level of benefits.

Comparison of retirement plan benefits is complicated by the diversity among public and private sector plans. Louisiana's public plans differ widely in age and service requirements, benefit formulas, employee contributions, retirement options and other features. The major difference between Louisiana public plans and other public and private plans is that most Louisiana public employees are not covered by social security.

The typical private pension plan is integrated with social security and designed to provide a retiree a combined benefit equal to 60% of final salary at age 65. Early retirement, if permitted, requires a heavy reduction in benefits and the retiree cannot obtain social security benefits until age 65 or on a reduced basis at age 62. Public employees in most other states are covered by social security which often is integrated into the public retirement plan.

The concept of a normal retirement age, which is imposed on most other plans by integration with social security, has been lost in many of the Louisiana plans which attempt to serve as a substitute for social security. The state employees' system allows retirement with unreduced benefits equal to 75% of final average compensation (2.5% per year of service) at any age with 30 years' service, or a 62.5% benefit with 25 years' service at age 55. The teachers' plan also allows an unreduced benefit of 62.5% at age 55 with 25 years' service (2.5% per year) and allows a reduced retirement benefit (2% per year) equal to 40% at any age after 20 years.

The old pension plan for state police (which covers most active members) provides full benefits after 20 years (including purchased military service) at any age. The newer safety officer plans set a normal retirement age of 50 (55 or higher is more common in other states). Corrections officers have a 20-years-and-out provision in the state employees' plan; elected officials in various plans have special early retirement provisions and typically receive an extra 1% per year in their benefit formula.

The benefits accrued to date by pension plan members are protected by constitutional and contractual law. Thus, any change in benefit provisions may only apply to the future accrual of benefits by active members or to new employees. A benefit reduction applying only to new employees would, of course, have little impact on costs initially but would become more important over time in helping offset the continuing burden of paying off the existing UAL.

Proposed Legislation

HB 954, a major legislative proposal, would create a superboard to administer existing state-funded retirement systems and a new system for all new state-funded employees. A less comprehensive version (HB 956) would create the new system and board but would not transfer existing systems to the board.

HB 954 (in House committee) would create a 12-member Louisiana Board of Pension Administration to assume the administrative and policy-making functions for the four state-funded systems. These retirement plans would retain their separate identities, membership, benefit provisions, liabilities and assets within the consolidated system.

The new board would include the governor, treasurer, chairmen of the House and Senate retirement committees, two elected representatives of the active education employees, two from the non-educational personnel, a member each from a non-profit and a for-profit business concern, and one member each from a private and a public university. The private and university members would be elected by the other members and would have to be knowledgeable in finance, investment or pensions.

The board would appoint a director, actuary, legal counsel, and investment advisory committee. The director would administer the new plan and all of the old plans. The actuary would assume the functions of the current boards' private actuaries and the legislative actuary. Financial audits would be performed by the legislative auditor.

HB 954 would create the Public Employees' Retirement System of Louisiana with one division for the existing plans transferred to it and a second division as a new plan for all new employees in the "state service."

The major benefit provisions of the new pension plan would include:

- normal retirement age of 65 with five years' service; early retirement at age 60 with 10 years' service, or age 55 with 20 years, but with actuarially reduced benefits;
- normal retirement at age 55 with five years' service for hazardous duty personnel; early retirement at age 50 and 10 years' service with actuarially reduced benefits;
- benefits computed at 2% of average compensation (based on the 60 highest successive months) per year of creditable service;
- COLAs provided either by the Legislature or board if properly funded, and
- purchase of service credit at the actuarial value.

Comment

HB 954 would end the costly fragmentation, duplication and lack of uniformity by consolidating the administration of the state pension plans and setting up a new plan for new employees. The proposal contains numerous provisions recommended by various PAR research reports over the years. One criticism of the bill is that it only includes the state-funded systems and not the statewide systems. At least six other states now have single administrative structures to manage the retirement plans for all or most public employees, both state and local.

The bill would grandfather current employees in under the existing plans. However, they could opt to enter the new plan. One incentive would be a lower contribution rate (4% of payroll). As a further incentive, the author intends to amend both HBs 954 and 956 to offer an additional voluntary defined contribution benefit. The employee could contribute up to 3% of salary, with employer matching, and upon leaving take his contributions and up to 100% of the employer contributions depending on years of service.

PAR's analysis of the state's major retirement plans concludes that benefits are relatively high, particularly as compared to private sector plans. The proposed new plan would provide a more realistic benefit package more in line with private sector practice. The savings resulting from the new plan's lower cost would become important in future years and would help the state to meet the burden of paying off the actuarial liabilities of the current systems.

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