legislative bulletin

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Impact of Transportation Trust Fund

The constitutional Transportation Trust Fund became effective January 1, 1990. Dedication of highway user taxes to it is accelerating financing of highway, bridge and public works projects, thereby creating more construction jobs, but it also has reduced discretionary general fund revenues. Table 1 shows the amount of state taxes dedicated to the trust fund this year and next.

The dedication of highway user taxes and the prohibition of a sales tax on gasoline/motor fuel purchases mean the state general fund will lose an estimated $204 million in fiscal 1990-91. (See Table 2.)

TABLE 1
Transportation Trust Fund Tax Dedications[a]
(In Millions)

	Fiscal Year 1989-90	Fiscal Year 1990-91
Gasoline/Motor Fuels	$ 159.1[b]	$ 321.3[c]
Private Auto Licenses	7.3	14.5
Subtotal	$ 166.4	$ 335.8
TIME	45.5[d]	91.8[d]
TOTAL	$ 211.9	$ 427.6

a Became effective January 1, 1990, with dedication of gasoline/motor fuels tax phased in: 12 cents in fiscal 1989-90; 14 cents in 1990-91 and 16 cents in 1991-92.
b Twelve cents a gallon dedication.
c Fourteen cents a gallon dedication.
d Four cents a gallon additional tax dedicated to specific projects, effective January 1, 1990.

TABLE 2
Impact of Transportation Trust Fund on General Fund, Fiscal 1990-91
(In Millions)

Dedicated Tax/Exemption	General Fund Loss
Gasoline/motor fuel tax dedication[a]	$ 84
Private auto license tax dedication[b]	3
Sales tax exemption, gasoline/motor fuel[c]	117
TOTAL	$ 204

a Difference between 14 cent tax dedicated to trust fund and equivalent 10.5 cent tax previously appropriated to DOTD.
b Based on previous $3 per car tax.
c Three percent sales tax; 1% sales tax dedicated to Louisiana Recovery District also exempts gasoline/motor fuel purchases.

Use of Trust Fund Money

Table 3 shows how trust fund money is being used and the extent to which it is replacing general fund appropriations.

The recommended spending from the trust fund for fiscal 1990-91 is $59.3 million more than the dedicated taxes are projected to yield, excluding the TIME dedication. (See Table 4.)

Most of the $59.3 million trust fund shortage will be financed from a $57 million loan from the TIME ac-

NOTE: As this went to press, the Governor announced he no longer will seek trust fund financing of $32 million in risk management payments for road injuries, thereby freeing this money for highway construction which could replace issuance of GO bonds.

TABLE 3
Impact of Transportation Trust Fund Dedications[a]
(In Millions)

Purpose	FY 1988-89 (Actual)	FY 1989-90 (Budgeted)	FY 1990-91 (Recommended)	Dollar Change: FY 1989-90 Over FY 1988-89	Dollar Change: FY 1990-91 Over FY 1989-90	Dollar Change: FY 1990-91 Over FY 1988-89
DOTD Operations						
General Fund	$ 151.8	$ 149.9	$ 0.0			
Trust Fund	0.0	7.0	189.9			
Total	$ 151.8	$ 156.9	$ 189.9	$ 5.1	$ 33.0	$ 38.1
Parish Transportation						
General Fund	$ 7.7	$ 7.7	$ 0.0			
Trust Fund	0.0	12.3	40.0			
Total	$ 7.7	$ 20.0	$ 40.0	$ 12.3	$ 20.0	$ 32.3
State Police						
General Fund	$ 17.4	$ 28.3	$ 17.7			
Trust Fund	0.0	0.0	15.0			
Total	$ 17.4	$ 28.3	$ 32.7	$ 10.9	$ 4.4	$ 15.3
DOTD Capital Outlay, Cash[b]						
General Fund[c]	$ 90.8	$ 4.0	$ 0.0			
Trust Fund	0.0	168.0	150.2			
Total	$ 90.8	$ 172.0	$ 150.2	$ 81.2	$ -21.8	$ 59.4
For Expenditures						
Highway construction	$ 36.6	$ 52.1	$ 41.4	$ 15.5	$ -10.7	$ 4.8
Overlay, maintenance	37.0	90.0	80.0	53.0	-10.0	43.0
State-funded construction	17.2	10.0	0.0	-7.2	-10.0	-17.2
Airports	0.0	2.4	3.8	2.4	1.4	3.8
Flood control	0.0	10.0	10.0	10.0	0.0	10.0
Ports	0.0	7.5	15.0	7.5	7.5	15.0
Total	$ 90.8	$ 172.0	$ 150.2	$ 81.2	$ -21.8	$ 59.4
GRAND TOTAL	$ 267.7	$ 377.2	$ 412.8	$ 109.5	$ 35.6	$ 145.1

a Excludes financing of the TIME program.
b Excludes payments from bond proceeds or "lines of credit" in anticipation of bond sales.
c Excludes $9 million a year for bridge damages, to be reimbursed through the general fund from insurance payments.

count, discussed below. The remainder would be financed from the state sales tax on aviation fuel if it is decided to place these collections in the trust fund. The constitution requires that the trust fund finance airport construction at an amount equal to the estimated state tax on aviation fuel but does not dedicate the aviation fuel tax proceeds to the trust fund.

Loans from TIME

The TIME account is part of the trust fund. State law allows TIME money to be loaned to finance other trust fund projects, up to $160 million. For the current 1989-90 fiscal year, $103 million has been borrowed from the TIME account, and the remaining $57 million is to be borrowed in fiscal 1990-91. The TIME loans must be repaid by June 30, 2010.

20% Cap for Certain Purposes

The constitution specifies that no more than 20% of the "state generated tax revenues in the trust fund" can be appropriated annually for ports, the Parish Transportation Fund, statewide flood control, and "state police for traffic control."

The dedicated taxes are estimated to yield $442.1 million for fiscal 1990-91, including $91.8 million dedicated to the TIME program. Recommended 1990-91 appropriations from the trust fund for the four programs are:

Purpose	Millions
Ports	$15
Parish Transportation	40
Flood Control	10
State Police	15
Total	$80

The $80 million is within the 20% maximum but would have exceeded it by $1.6 million if the trust fund appropriation for state police had not been reduced from $25 million in the *Executive Budget* to $15 million in the proposed general appropriation bill.

The TIME tax proceeds must be used to finance designated highway and bridge construction projects. By including TIME money to calculate the 20% maximum for four purposes not in the TIME program, money available for highways and bridges from other dedicated taxes is reduced by $18.4 million a year.

TABLE 4
Recommended Trust Fund Spending Compared to Financing,*
Fiscal 1990-91

	In Millions
DOTD Operations	$ 189.9
Parish Transportation Fund	40.0
State Police	15.0
Capital Outlay, Cash	150.2
Total Recommended Trust Fund Spending	$ 395.1
Trust Fund Estimated Dedicated Taxes	-335.8
Difference, SpendingAbove Revenue	$ 59.3

* Excludes TIME.

One-Cent Minimum Tax to Parish Transportation Fund

The constitution requires that the Parish Transportation Fund receive "no less" than one cent of the gasoline/motor fuel tax. The one-cent tax is estimated to yield $23 million for fiscal 1990-91--$17 million less than the $40 million recommended by the Parish Transportation Fund.

Risk Management Insurance

The constitution restricts use of trust fund money to "costs for and associated with construction and maintenance of the roads and bridges of the state and federal highway system" as well as for statewide flood control, ports, airports, transit, state police for "traffic control," the Parish Transportation Fund, and repayment of debt of the trust fund.

The Governor proposed use of trust fund money to pay judgments against the state for highway injuries occurring prior to creation of the trust fund but withdrew that proposal. The state has replaced appropriations to pay court-ordered judgments with a "risk management" program which includes self-insurance and commercial coverage.

The proposed 1990-91 Department of Transportation and Development (DOTD) budget includes $51.3 million for payments to risk management, with $47.1 million payable from the trust fund. The risk management payments are divided among DOTD offices of secretary, management and finance, and engineering, and include coverage not only for tort claims on roads and bridges, but also for insurance purposes such as workers' compensation, general and auto liability, auto physical damage, boiler and machines, property, aviation, airport liability, wet marine, and miscellaneous excess torts. Table 5 shows the amount recommended for risk management in fiscal 1990-91 compared to prior years. The $25.7 million increase in risk management payments for fiscal 1990-91 represents most of the $33 million increase recommended for DOTD operations.

A recent attorney general's opinion held that it is unconstitutional to pay judgments and risk management liability insurance premiums from the trust fund because such payments are not "associated with" construction and maintenance of roads and bridges. The AG opinion held that trust fund money may be used for "normal costs of highway construction and maintenance" including salaries and related benefits of DOTD employees whose work is directly related to highway and other programs financed out of the trust fund.

TABLE 5
DOTD Risk Management Payments
(In Millions)

Funding Source	FY 1988-89 (Actual)	FY 1989-90 (Estimated)	FY 1990-91 (Recommended)
General Fund	$ 30.8	$ 27.2	$ 0.0
Tolls: Bridges, Ferries	0.0	3.6	4.2
Trust Fund	0.0	0.0	47.1
Total	$ 30.8	$ 30.8*	$ 51.3

* Amount paid which is $11 million below the amount billed by risk management. The additional $11 million billed is part of the supplemental appropriation bill to be financed from the general fund surplus.

Other DOTD Operational Costs

The recommended 1990-91 DOTD operating budget includes no general fund financing (except $50,000 for a levee board), resulting in trust fund financing of most costs. One such trust fund cost is $5 million proposed as the state match for group health and hospital insurance for retired DOTD employees.

DOTD Staffing

The 1990-91 budget recommends nine fewer DOTD authorized positions than this year. However, DOTD has been exceeding its number of authorized positions. (See Table 6.)

TABLE 6
DOTD Staffing

	FY 1988-89	FY 1989-90	FY 1990-91
Authorized positions	5,295	5,218	5,209
Filled positions	5,326	5,327	—

DOTD Bonds

The constitution authorizes excess money in the trust fund and the four-cent TIME tax to be pledged to bonds, "without the need for legislative appropriation," or need to meet other requirements of the constitution or law such as inclusion in the state comprehensive capital budget. The state's "full faith and credit" may, but need not be, pledged to such bonds.

General Obligation (GO) Bonds: The state's full faith and credit--GO bonds--are paid from the Bond Security and Redemption Fund (BSRF) which consists of most revenue that flows through the state treasury. In actuality, the impact of BSRF debt payments falls on the state general fund.

About three fourths of GO bonds sold previously were for highway and bridge construction, but the state has not sold GO bonds for several years.

The 1990-91 recommended capital outlay bill includes $106.4 million in GO bonds for DOTD, according to the following priorities for bond sales:

1 and 2--$23.4 million, likely to be sold.

3--$23.1 million, may be sold.

4--$8.5 million, questionable sale; lines of credit.

5--$51.5 million, no sale but authority to award conracts from other revenues.

DOTD is requesting continuation of GO bond financing rather than bonds payable from the trust fund during this transition period. It has $31 million in lines of credit authorized and reauthorized since 1987 in anticipation of sale of GO bonds, plus another $28 million in lines of credit authorized in 1989. Some GO bonds are recommended to continue projects initiated prior to creation of the trust fund.

TIME Bonds: For the TIME program, $139.9 million in bonds were authorized in fiscal 1989-90, and another $185.5 million is recommended for fiscal 1990-91. As noted, however, TIME bonds do not have to be in the capital budget nor do they require legislative approval. This May the first issue of TIME bonds, $263.9 million, is to be sold; a portion will go for various costs of issuing them plus establishment of a reserve account.

TIME Projects

There are 98 TIME projects scheduled for construction--the last in December 1997, excluding the designated local projects in New Orleans. At least 80% of those employed on TIME projects must be Louisiana residents.

Four TIME projects are being started this year and 10 more are scheduled for start-up next year. All were moved from the long-range highway priority program.

The four TIME projects to be started this year are:

1. Relocate U.S. 90, Terrebonne Parish (contract let, $73 million).
2. U.S. 165, Woodworth to Alexandria, clear land, utilities ($1 million).
3. Relocate U.S. 90, Terrebonne-Assumption parish lines ($19.2 million).
4. Westbank Expressway, New Orleans, 1.03 miles for six-lane high-rise structure ($34 million).

The 10 TIME projects scheduled for letting of contracts next year are:

1. Relocate U.S. 90, Roderick Street, Morgan City to Bayou Boeuf Bridge ($20 million).
2. U.S. 171, Anacoco to Hornbeck ($10.6 million).
3. Relocate U.S. 90, Amelia to LA 662 juncture ($10 million).
4. U.S. 165, four-lane, Woodworth to LA 488 ($14.8 million).
5. U.S. 165-U.S. 71, Pineville Expressway ($4.6 million).
6. U.S. 167-LA 3061 juncture, Ruston ($5.2 million).
7. LA 15, Gilbert to Chase ($9.7 million).
8. U.S. 90 main span, Morgan City-Bayou Boeuf Bridge ($15 million).
9. LA 3241, new location, I-12 to LA 36, Bogalusa to Bush ($8 million).
10. LA 3216, Mansfield bypass of U.S. 71 ($1.2 million).

Comment

The constitutional Transportation Trust Fund assures that state highway user taxes (gasoline/motor fuels and private auto licenses) are used to construct and maintain highways, bridges, and related transportation and public works purposes. The trust fund guarantees continuous financing (including federal funds which were in jeopardy) to implement priority long-range plans. The Legislature, on its own initiative, cannot undedicate the taxes, reduce the rates nor convert the gasoline tax from a volume to value basis. These dedications also mean that the state general fund is losing considerable revenue--an estimated $204 million for fiscal 1990-91.

The trust fund is having an impact by increasing funding for a variety of purposes. Recommended trust fund expenditures for fiscal 1990-91 show $145.1 million in increased spending compared to fiscal 1988-89 which preceded creation of the trust fund. For the two-year period, the Parish Transportation Fund is to receive a $32.3 million increase and state police, a $15.3 million increase, including general fund financing. Operating costs of DOTD would increase by $38.1 million, but $25.7 million of the increase is for risk management insurance payments. Cash for capital outlay shows a

$59.4 million increase, with $43 million of the increase for highway and road overlay.

The TIME four-cent dedicated tax also is having an impact by accelerating construction of projects formerly in the long-range highway priority program.

It is important that trust fund money be spent prudently and according to constitutional requirements. There are questions as to use of trust fund money for some operating costs of DOTD, such as "risk management" insurance, not *directly* related to trust fund designated purposes. Such use reduces the amount of money available to finance projects. Unfortunately, the alternative is to finance these indirect DOTD operating costs from the state general fund which needs additional sources of revenue or budget cuts to avoid a large deficit.

SB 15, a proposed constitutional amendment, and SB 24 (passed Senate) would prohibit appropriations from the trust fund to pay tort claims, legal services or other expenses related to insurance. The bills do not address other trust fund financing of DOTD operating costs, such as the state match for group insurance for retired DOTD employees.

HCR 71 would place more restrictions on use of trust fund money than the Senate bills. The concurrent resolution would express legislative intent that no trust money could be spent to pay for insurance premiums, lawsuit settlements, "or for other items inconsistent with highway and infrastructure construction, operations and maintenance."

To avoid continuing uncertainty on use of trust fund money, particularly the various components of DOTD's operating costs, the Legislature should detail, by law, the specific purposes for which trust fund money can and cannot be used. Also, legislation should clarify whether the state tax on aviation fuel is dedicated to the trust fund for aviation projects.

Scenario 1991: Another Big Budget Crunch

The big issue of the current session is how to carry out the constitutional requirement that the Legislature enact a balanced budget. PAR's "Legislative Bulletin" of May 8, 1990 discussed the Governor's revenue proposals which again are mainly "quick fixes"--continuation of "temporary" suspensions of sales tax exemptions and the income tax education credit, as well as use of $160 million in year-end surplus. The Governor's proposed new tax increases would fill in the remaining money needed to have a balanced budget, including enhancements, for fiscal 1990-91.

It is important that next year's state budget be balanced. It is equally important that the Governor and Legislature not have to wrestle with the same old budget-balancing act in 1991, but this seems in-

TABLE 7
Projected FY 1991-92 State Revenues*
(In Thousands)

	FY 1989-90	FY 1990-91	FY 1991-92
1. Small or No Growth Revenues Alcoholic beverage, beer, gasoline, inheritance, public utilities, soft drink, tobacco, special fuels, hazardous waste, excise license, vehicle license, interest earnings and miscellaneous	$ 1,059	$ 1,246	$ 1,263
2. Economy Responsive Revenues Corporate franchise, corporate income, sales, individual income	2,857	3,055	3,195
3. Mineral Revenues Severance, royalties, rentals, bonuses	701	782	782
TOTAL	$ 4,617	$ 5,083	$ 5,240

Percent Increase:	
FY 1991 over FY 1990	10.1%
FY 1992 over FY 1991	3.1%

* Assumes all administration-proposed tax increases are approved (except increase in personal income tax which has been dropped), to become effective for fiscal 1990-91. Also assumes no additional tax increases for fiscal 1991-92.

TABLE 8
Factors Affecting Increased General Fund Spending, Fiscal 1991-92

	Amount (Millions)
1. Replacement of state surplus used to balance FY 1990-91 budget	$ 160
2. Dedication of additional two-cent gasoline/ motor fuel tax to Transportation Trust Fund	46
3. Initiation of Chapter "S" corporations income tax treatment	22
4. Annualization of teacher pay raise	12
5. Increased costs for group health insurance, payment on UAL retirement, gubernatorial election costs, inflation, and a variety of other "normal" growth factors	100
TOTAL	$ 340

evitable--even if the Legislature approves all of the Governor's current tax proposals.

Next year, 1991, will be critical. Not only will the Governor and Legislature be up for re-election in the fall of 1991, but the Legislature cannot consider tax increases during the 1991 regular session. Hence, it is important that decisions made during the current session be evaluated as to their impact on the 1991-92 budget.

Table 7 shows the impact of the Governor's proposed tax increases for fiscal 1990-91 and PAR projections for fiscal 1991-92. State revenues are divided into three groups: (1) those that show minimal or no growth, mainly because they rely on volume of consumer consumption; (2) those that relate to Louisiana's economy which is expected to continue a moderate growth; and (3) mineral revenues which are determined by events outside of Louisiana's control regarding the price of oil and gas, and also are subject to continuing decline in Louisiana's taxable units of production. As shown in Table 7, Louisiana's revenues would show a healthy 10.1% growth in fiscal 1990-91, but this is attributable to tax increases, not to a tax base that encourages and reflects economic growth. PAR projects only a 3.1% growth in state revenue for fiscal 1991-92. State revenues would increase by $465 million in fiscal 1990-91 but by only $158 million in fiscal 1991-92.

Table 8 lists a variety of factors related to expenditures in fiscal 1991-92 that will more than offset the $158 million revenue growth.

Table 8 does not include other additional costs that might result from mandates by the federal courts or federal law which could cause expenditures for prisons, welfare reform and Medicaid to continue to rise.

Also, there are no additional enhancements to increase salaries for teachers, higher education faculty and state employees. If Louisiana wishes to improve its ranking among states in these categories, it cannot put such funding on hold after making some progress in fiscal 1990-91.

Comment

PAR's analysis indicates the state will be at least $183 million short to finance a "continuation" budget in fiscal 1991-92, with no money for new education and other enhancements.

It is equally obvious that Louisiana's image to potential investors will continue to be tarnished by financial crises and temporary solutions.

PAR has recommended that the state institute permanent solutions through fiscal reforms including revamping the state and local tax structure, and that the state formulate a three- to five-year operating budget so it can avoid or prepare for future funding problems.

Constitutional Budget Reforms

Several proposed constitutional amendments for budget reforms have been introduced.

These include placing the current Revenue Estimating Conference process (REC) in the constitution, requiring the governor to submit a balanced budget, prohibiting the Legislature from authorizing expenditures in excess of official forecasts, providing a method for adjusting appropriations to eliminate projected year-end deficits, creating a Mineral Trust Fund for excess mineral windfalls, and establishing a limit on state spending.

Revenue Estimating Conference

HBs 139, 148, 173 and SB 8 would place the current statutory provisions for the REC in the constitution. The conference would continue to be composed of the governor or designee, President of the Senate or designee, Speaker of the House or designee, and a faculty member of a Louisiana college with revenue forecasting expertise. The conference would continue to prepare and publish official revenue estimates for the current and subsequent fiscal years. Any decisions of the conference would require a unanimous vote. The constitutional amendment would allow the Legislature to change the membership of the conference with a two-thirds favorable vote of both houses.

Comment

The consensus forecasting procedure has been effective since its creation in fiscal 1987-88 and has eliminated annual controversies over which forecast should be used. The current procedure is by statutory provision which could be repealed or changed by a simple majority vote to make it ineffective. Placement of the REC in the constitution would ensure continuation of the present revenue estimating procedure.

Balanced Budget

HBs 139, 146, 148, 160 and SB 8 would require that a balanced state budget be proposed and enacted. HBs 139, 146, 148 and 160 would prohibit appropriations from the general and dedicated funds from exceeding the official forecast in effect when appropriations were made, and also provide a method to determine if the Legislature enacted a balanced budget. HB 146 further requires that the Legislature establish official revenue forecasts during the legislative process of enacting the budget.

SB 8 would require the governor to submit an annual budget and related general appropriation bill, not exceeding the official forecast established by the Revenue Estimating Conference. This means the governor could not propose a balanced budget which includes his proposed tax and other revenue increases. If a governor has a proposed tax package, he would have to indicate how he would spend the additional money in a supplemental budget. If a year-end deficit occurs, it would have to be eliminated by the end of the next fiscal year.

Comment

HB 146 would require the Legislature, by constitutional authority, to establish official revenue estimates. In the absence of constitutional protection for the REC, the Legislature could use this authority unilaterally without inclusion of the governor or anyone else with expertise. HBs 139, 148 and 160 would require the same balanced budget provisions while giving the REC constitutional protection.

SB 8 would give priority status to eliminating a year-end deficit. The first priority on discretionary general funds for the following fiscal year should be to pay off the prior year's deficit before the situation worsens. The existing constitutional and statutory provisions are not sufficient to ensure that the state ends each year with a balanced state budget. Some of the proposals require the Legislature to establish a procedure to adjust appropriations to eliminate projected deficits, but none require a year-end balanced budget.

These proposals do not indicate whether the Legislature or governor would be responsible for making the appropriation adjustments to achieve a year-end balanced budget.

Mineral Trust Fund

HBs 164 and 165 and SB 8 would create a Mineral Trust Fund with all revenues from the severance tax, royalties, rentals and bonuses in excess of $750 million placed in the fund. HBs 164 and 165 would permit appropriation of a maximum of one third of the principal and interest earnings in the trust fund in any fiscal year, with approval by a two-thirds favorable vote of the Legislature, under the following conditions: (1) if revenue forecasts for the next fiscal year are less than the previous year, up to one half of the difference could be appropriated, and (2) if a forecast is lowered from the original one, the difference in the revised downward estimate could be appropriated.

HBs 164 and 165 would put a $400 million cap on the fund. Revenue in excess of $400 million could be appropriated: (1) to reduce the unfunded accrued liability of state retirement systems, or (2) retirement of state bonded debt in advance of maturity.

SB 8 uses the same $750 million base as HBs 164 and 165, but would allow the base to be increased every 10 years, limited to one half of the increase in the Consumer Price Index for the past 10 years. However, it would allow only interest earnings to be appropriated, not principal, thus letting the principal in the fund accumulate. In addition, interest earnings could be appropriated annually but only to provide for (1) the annual amortization of the unfunded accrued liability of the state retirement system, and (2) early retirement of state bonded debt.

Comment

Past reliance on mineral revenues as a major revenue source has contributed significantly to the state's fiscal problems. A mineral trust fund would help to preserve excess windfall revenue over the years from a diminishing resource as well as remove wide fluctuations in financing the operating budget. A mineral trust fund also would act as an indirect limit on state spending by limiting the amount of mineral revenues available to finance the state budget. Finally, by limiting the size of the fund, the state could have excess revenues to reduce its debt liabilities.

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Spending Limit and Revenue Stabilization Fund

SB 8 would require the Legislature to determine an expenditure limit which could be amended only by a two-thirds approved vote of both houses. The limit for fiscal year 1991-92 would be the actual appropriations for that year. In following years, the limit could not exceed the limit for the current fiscal year plus an amount equal to the average annual percentage change in Louisiana personal income for the previous three calendar years.

Additionally, SB 8 would create a Revenue Stabilization Fund from excess general and dedicated funds above the expenditure limit. Revenue from the fund could be appropriated only under the following conditions: (1) if forecasts for the next fiscal year are lower than the previous year, one half of the difference could be included in the forecast of available revenue for the next fiscal year, not to exceed one third of the fund, or (2) if a deficit for a current year is projected due to a downward revision of a forecast, one third of the fund could be appropriated, not to exceed the deficit.

Comment

A spending limit places an artificial limit on the Legislature without regard to need. In addition, other proposals (e. g., a Mineral Trust Fund) would help limit state spending by placing excess mineral revenue in a trust fund when windfalls occur.

PAR Lottery Recommendations

PAR takes no position on the creation of a lottery but recommends the following if a lottery is implemented:

- *The state's portion of the lottery proceeds, plus interest earnings, should be placed in a lottery trust fund.*
- *The proceeds should be appropriated from the collections during the calender year.*
- *The Legislature should determine use of the proceeds annually rather than dedicate them to specific purposes.*
- *Prizes should be subject to the state income tax to offset the loss of sales tax revenue. The first $5,000 should be exempt, with prizes above $5,000 being considered normal personal income subject to taxation.*

PAR estimates the state could receive between $46 million and $65 million in lottery proceeds in the first year of operation.

Following PAR's recommendations, FY 1992-93 would be the earliest that lottery revenue would be available for appropriation. This includes a six-month start-up period and the first calendar year accumulation of revenue.