



legislative bulletin

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A 3-D Session: Disappointing, Deficit-Prone, Distracted

The 1990 regular session that ended July 9 had the opportunity to make significant progress in solving the state's pressing problems such as revamping the state and local tax structure, upgrading education at all levels, and polishing the state image to make it more attractive for economic development.

Instead, the session might be characterized as 3-D, but that does not mean it displayed in-depth, three-dimensional perception. Rather, it was short-sighted and thus disappointing because it ignored most recommended reforms. It was fiscally irresponsible in approving a deficit budget. It became distracted from dealing with the major state problems by lengthy debate on emotional and controversial issues: abortion, battering flag burners for a \$25 fine, nullifying affirmative action

programs for minorities, labeling records with warnings on some, and considering a variety of gambling activities including a lottery, riverboat and cruise ship gambling, casinos, video poker games, and Greyhound dog racing. What was said to be the strongest anti-abortion bill in the country was vetoed and the Senate failed to muster an override. Instead, the Senate quickly converted the flag burning bill into an anti-abortion bill with exceptions for incest and rape and the House swiftly concurred; the Governor may veto this bill also because of constitutional and other issues. All gambling proposals failed except for the lottery which awaits voter decision on a proposed constitutional amendment. Louisiana got attention from the national news media, but not the kind that will improve the state's image, create jobs and upgrade the education systems.

PAR Recommendations Adopted

- ✓ Budget reforms in a single proposed constitutional amendment are to:
 - Require a governor to propose a balanced budget within existing revenue sources, and propose increased taxes and other revenue separately and explain use.
 - Require the state end a fiscal year with a balanced budget but if a deficit occurs, eliminate it by the end of the next year.
 - Give constitutional protection to the Revenue Estimating Conference which has depoliticized revenue estimating.
 - Stabilize erratic mineral revenue by dedicating excess above \$750 million a year to a trust fund.
 - Establish a Rainy Day Fund to meet temporary setbacks.
 - Cap growth in state spending through a spending limit.
- ✓ Initiate school reforms scheduled for 1990-91, i. e., teacher evaluation and school progress profiles, by providing funding.
- ✓ If lottery is created:
 - Put proceeds and interest earnings in a trust fund.
 - Appropriate from collections already received.
 - Allow Legislature to decide best use through majority vote rather than dedicate proceeds.
- ✓ Straighten out inequities in minimum teacher salary schedule through an index, to be implemented in fiscal 1991-92 if funding provided.
- ✓ Increase funding to promote tourism.
- ✓ Study state's cash flow needs prior to establishing a legal policy.
- ✓ Establish forecasting teams to determine state's long-range spending needs.

Legislative Fiscal Irresponsibility

The Legislature ducked its constitutional responsibility to approve a balanced state budget and passed the buck to the Governor to use his item veto. To finance all approved spending, \$546 million in new and renewed taxes was needed but only \$422.5 million was enacted, leaving a \$123.5 million revenue gap. In addition, no funding was provided for a \$61 million "wish list." To compound the problem, the Governor recommended and the Legislature appropriated \$275 million in surplus funds to finance the operating budget, and the Governor indicated even more surplus may be used.

The scene is now set for an even greater financial crisis in 1991--hardly an opportune time since the constitution prohibits tax increases in odd-year regular sessions, and there is a gubernatorial election for public

officials including legislators. The revenue base will shrink due mainly to enactment of temporary sales taxes on food and utilities, declining mineral revenues and uncertainty of a general fund surplus to help finance the budget again. Pressures for increased spending will continue due to inflation, federal requirements, court mandates, state revenue dedications and other factors such as increased workloads. A special session will be called to deal with another financial crisis.

The approved budget includes a number of programs either financed for the first time or increases beyond pay raises. Some of these "enhancements" were mandated by federal or state law, or court orders. Such items exceed \$400 million. Since the approved budget is out of balance, the Governor will have to veto some items.

Pay Increases for Almost Everybody, Maybe

Most state and many local employees are to receive pay raises, but these are subject to the Governor's item veto in order to balance the budget. Teachers are to receive their promised third-year raise, assuring related school reforms can proceed. State employees and judges are to get their first raise since 1981, and college faculty are to receive a pay hike which may slow down the brain drain to other states.

Who Got the Pay Raises

1. Local school employees, instructional and non-instructional, 7%.
2. Vo-tech instructors, 7% and another 3%.

3. Higher education faculty, 4% minimum cost-of-living adjustment (COLA) plus merit raises for selected faculty.

4. Civil service state employees, 4% COLA with half dependent on agency economies.

5. Pay upgrades for certain classes of civil service employees--data processors, probation and parole officers, correctional supervisors, charity hospital house officers, nurses at New Orleans Charity, and supplements for certain Department of Revenue employees if funds available.

6. Retired state and school employees, 5% COLA approved but not funded by Legislature.

7. Judges, up to 26% phased in for two years and dependent on adoption of anti-nepotism rule by Louisiana Supreme Court for the second-year raise.

8. Assessors and clerks of court, 10% plus another 7% if they acquire professional certification; paid locally.

State Tax Increases

The Legislature approved a \$422.5 million package of new and renewed temporary taxes for fiscal 1990-91--\$252.6 million short of the Governor's initial recommendation and about \$184.5 million short of funding the appropriations and appended wish list.

If the Legislature had allowed the temporary taxes to lapse and not enacted new or expanded levies, the total taxes, licenses and fees would have been 3.4% lower in fiscal 1990-91 than in the year just ended. However, the tax package means collections will rise 5.8% above fiscal 1989-90 revenues.

The bulk of the added revenue (\$301 million) will come from temporary sales taxes on traditionally exempt items, such as food and utilities, raised from 2% to 3%.

Industry will pay \$41 million more in hazardous waste taxes and \$44 million more in natural gas severance tax (based on value rather than volume).

A continued suspension of the \$25 per child education tax credit adds \$15 million in income taxes.

A four-cent per pack increase in cigarette taxes will produce about \$14.5 million for 11 months of the fiscal year.

A new 3% tax on intrastate telephone calls, cellular phones and pagers will raise another \$12 million.

The individual taxpayer will feel only a minor increase in taxes over what he was paying last year--an added .5% on food and utilities (3% compared to 3% for six months and 2% for six months) and increases on telephone service and cigarettes.

Failure of Tax Reform

The basic tax reform proposals introduced this session failed. Tax reformers had called for reduced reliance on sales taxes, greater emphasis on the personal income tax, removal of economic development barriers (inventory taxation and corporate franchise tax on debt), and a reduction in the homestead exemption for new and renewed school millages. Instead, the session produced increased sales taxes, sin taxes and business taxes, while leaving income and property taxes unchanged.

State Tax Changes (In Millions)

	1989-90 Projected ^a	1990-91			Total Projected	Percent Change 1989-90 to 1990-91
		Projected Without Tax Change ^a	Governor's Proposed Changes	Changes Enacted		
Taxes, Licenses and Fees						
Alcoholic Beverage	\$ 15.5	\$ 15.7	\$ 28.4	--	\$ 15.7	1.3%
Beer	25.0	27.0	--	--	27.0	8.0
Corporate Franchise	253.2	264.0	--	--	264.0	4.3
Corporate Income	322.0	312.0	60.0	--	312.0	(3.1)
Gasoline	343.9	385.8	--	--	385.8	12.2
Hazardous Waste	8.6	8.8	50.0	\$ 41.0	49.8	479.1
Individual Income	729.8	776.0	53.0	15.0	791.0	8.4
Public Utilities	26.0	27.0	--	--	27.0	3.4
Sales	1,395.7	1,121.1	354.0	313.0 ^b	1,434.1	2.8
Motor Vehicles Sales	155.8	157.5	--	--	157.5	1.1
Severance	432.2	436.4	81.3	39.0	475.4	10.0
Soft Drinks	11.4	11.8	--	--	11.8	3.5
Special Fuels	65.3	73.2	--	--	73.2	12.1
Tobacco	68.0	66.0	48.4	14.5	80.5	18.4
Other	764.1	777.1	--	--	777.1	1.7
Total	\$4,616.5	\$4,459.4	\$675.1	\$422.5	\$4,881.9	5.8%

a Adopted by Revenue Estimating Conference, February 1990.

b Includes telecommunications.

Good Bills That Failed

The following are some of the more significant positive proposals which failed to pass this session:

- Give businesses state tax credits against local property taxes on inventories.
- Make the office of insurance commissioner appointive.
- Reduce the homestead exemption for new and renewed school millages.
- Limit each parish to a single local sales tax collector.
- Eliminate the 20-year early retirement option for teachers.
- Prohibit legislators from contracting for work with the state.
- Remove extra retirement benefits for legislators.
- Create a constitutional trust fund for settlements on underpaid mineral revenues to be used to retire debt.



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Voters Face 15 Proposed Constitutional Amendments

A record number of proposed amendments under the present constitution will appear on the October 6 ballot. PAR will publish an analysis of the proposed amendments in August.

- Provide for a balanced state budget, protect Revenue Estimating Conference, impose a state spending limit, create a Revenue Stabilization/Mineral Trust Fund.

- Authorize a state lottery and create a trust fund for lottery proceeds.

- Make constitutional the state's law providing for administrative determinations of workers' compensation claims.

- Start regular legislative session earlier and end before new budget year.

- Tighten 8 (g) spending for administrative costs and elementary and secondary funding.

- Allow New Orleans City Council to levy up to 10 mills without homestead exemption for police and fire.

- Prohibit local inheritance tax.

- Allow colleges/universities to acquire stock in exchange for intellectual property.

- Permit local option inventory tax exemptions for wholesale distributors.

- Authorize local governments to donate, loan or pledge the proceeds of taxes dedicated to industrial and economic development to encourage industrial location or expansion.

- Remove legislative authority to supplement pay for state police and Wildlife and Fisheries officers.

- Create separate civil service commission for state police.

- Allow additional five-year tax break for improvements in downtown, historic or economic development districts.

- Increase portion of lignite severance tax dedicated to producing parish.

- Provide tax exemption for properties leased to a nonprofit corporation to house the homeless.

NOTE: Order on ballot to be determined by Secretary of State.