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The 1996 fiscal session ended up being a pleasant surprise. When the governor submitted his budget this spring, the theme was "doom and gloom." However, with a federal reprieve on Medicaid funding, suspension of the exemptions for food and utilities from the 4% sales tax, upward revision of revenue estimates, use of funds slated for risk management and some creative financing, an additional $380 million in state funds became available to spend.

The major priorities selected for additional spending were commendable—pay raises for teachers and professors, maintenance on state-owned buildings and highway overlay. However, little thought was given to the future. The Legislature spent all the newfound money and more by promising pay raises contingent on additional funds becoming available.

Except in the health and Medicaid area, there were few substantial departmental or program cuts. However, most agencies were held to their current budget levels and will have to absorb inflation and merit pay increases.

The Legislature approved a $12 billion state operating budget (excluding ancillary, legislative and judicial expenses) for fiscal year 1996-97—a net increase in general fund spending of $178 million over the current year. Also, the $1.8 billion capital outlay budget is funded using $100 million in general fund cash, $322 million in other state cash, $310 million in federal money and the remainder with bonds. The Legislature held to its self-imposed limit of issuing no more than $200 million in bonds each year.

The state's tax structure remains basically unchanged next year. The "temporary" suspension of exemptions from the 4% state sales tax is continued for food and utilities but the suspension will apply to only 3% in 1997-98. The governor's proposed homestead exemption hike, a host of bills to alter the industrial tax exemption and a proposed $1.8 billion hydrocarbon processing tax all failed. Numerous exemptions and credits were granted but one of the most significant was a $30 million-plus sales tax exclusion for manufacturing byproducts. Taxpayers will receive a $25-per-child education income tax credit—suspended for a decade—and a new medical savings account deduction.

Although the end results were generally positive, certain aspects of the budget process—the use of the risk management money, the governor's slush funds, supplemental pay increases and contingency budgeting for pay raises—raise serious questions. In addition, a number of fiscal issues remain unaddressed—the need for a comprehensive revision of the state's tax structure and future uncertainties involving federal Medicaid funding, gambling revenues and the state's economic growth.

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1996-97 STATE BUDGET OVERVIEW

When the governor originally submitted his proposed budget to the Legislature in the spring, state policymakers faced two major uncertainties about revenues in the upcoming fiscal year:

- Whether the state would receive federal assistance and, as a result, be able to avoid drastic cuts to the Medicaid program, and
- Whether the Legislature would agree to continue to suspend food and utility exemptions from the 4% sales tax for the upcoming year.

Available Revenues

During the budgeting process, the state's fiscal outlook changed from gloomy at the start of the session to positive near the end, with $380 million more than originally anticipated available for spending. Several key events and decisions contributed to the change.

- The Legislature chose to continue to suspend the "temporary" sales tax exemptions on food and utilities for the upcoming year.
- The Revenue Estimating Conference (REC) certified that $74 million in additional revenues would be available in the current fiscal year as well as $107 million more than originally estimated for fiscal year 1996-97.
- Policymakers chose to pay off the Louisiana Recovery District (LRD) debt and renew the 1% LRD sales tax as a state tax to make recurring revenue available to spend two years early.
- Policymakers chose to spend $123 million for other purposes instead of setting it aside to pay off potential claims against the state (risk management program); an actuarial estimate of the potential claims against the state is about $1 billion.
- Policymakers made large cuts in the Department of Health and Hospitals (DHH) budget, most of which were in the Medicaid program.
- The federal government bailout materialized and helped eased the severity of Medicaid cuts.
- State agencies were asked to absorb inflation and merit pay increases that totaled $44 million.

NOTE
Bills covered in this analysis remain subject to veto or line-item veto by the governor.

Medicaid

The federal government helped the state avoid a larger crisis in the 1996-97 fiscal year by allowing it to maintain a flat level of federal Medicaid funding (about $2.6 billion) while putting up a 19% ($600 million) state match, rather than the 28% ($900 million) that would normally be required, for a total budget of $3.2 billion. The federal Medicaid relief legislation also included a plan for fiscal year 1997-98, but it has not yet been funded. Under that plan, Louisiana's match rate would increase to 22%, requiring $730 million in state funds to receive $2.6 billion in federal funds, for a total budget of $3.3 billion.

The Medicaid problem is not solved. There will be continued pressure in coming years to limit the costs of the program, a difficult task since the state must provide services to anyone who meets the eligibility criteria. DHH is now working on a proposed plan for pilot projects in managed care and vouchers to help control Medicaid growth. DHH expects to complete the proposal by the end of June and will then submit a waiver request to the federal Health Care Finance Agency (HCFA).

The Medicaid problem stemmed from past policymakers deciding to take advantage of federal provisions that allowed states like Louisiana, with a large indigent population, to collect more federal money than it actually cost to provide health care to those citizens. This higher reimbursement rate is referred to as disproportionate share or "dispro" money. Under disproportionate share, the state originally collected 300% of the normal Medicaid billing costs. In fiscal year 1994-95, the amount was reduced to 200% of unreimbursed costs and for the current fiscal year, it was reduced to 100%, thus precipitating the recent crisis. Louisiana greatly expanded its Medicaid program by using the federal disproportionate share money as the state match to generate still more federal dollars. Thus Medicaid spending increased from $1.1 billion in fiscal year 1988-89 to $4.5 billion in fiscal year 1993-94. With federal changes in the "dispro" policy, Medicaid spending fell to $4.2 billion in fiscal year 1994-95 and fell again to about $3.3 billion in the current fiscal year.

Louisiana Recovery District

To make more money available to spend in the upcoming fiscal year, the Legislature chose to enact a plan proposed by the Legislative Fiscal Office to defease the debt of the LRD, bonds totaling $248 million that mature in June 1998.

The LRD was created in 1988 as a statewide special taxing district authorized to levy and collect a 1%

sales tax and issue bonds. The purpose was to help the state through a fiscal crisis in which it faced a three-year accumulated operating budget deficit of $512 million and expected cash flow shortfalls. The LRD was to return to the state any sales tax revenues not used for debt service on its bonds.

Defeasing the LRD debt involved a complicated plan of shifting and appropriating money from three different fiscal years.

- First, the Legislature appropriated to the LRD $74 million that would have otherwise become a surplus at the end of 1995-96 fiscal year.
- Then, the Legislature appropriated the $145 million surplus from fiscal year 1994-95 for the early retirement of state debt maturing in 1996-97.
- Next, the Legislature appropriated to the LRD the $145 million in the 1996-97 state budget that was freed up because the state debt was paid off early.
- Then, the LRD will use these funds to defease its bonds.

Defeasance is a way in which bonds are essentially paid off early. Money is irrevocably set aside for the purpose, invested, and together with the interest earned, used to make the debt service payments on the bonds. An advantage of defeasance is the outstanding bonds are no longer considered a debt.

Retiring the LRD debt early, will give the state another $150 million to spend in fiscal year 1996-97 and $110 million the next year. The plan makes the money available to spend two years earlier than it otherwise would have been. It also allows for a net savings of $20 million in interest compared to if the bonds had been held to maturity.

Suspension of Sales Tax Exemptions

Continuing to temporarily suspend the exemptions from the 4% sales tax for the 1996-97 fiscal year added $430 million to the initial budget for fiscal year 1996-97. In fiscal year 1997-98, exemptions from only 3% are suspended, thereby granting taxpayers approximately $110 million in tax relief and reducing state revenues by the same amount. (See "Tax Issues in the 1996 Fiscal Session" section.)

Spending Cuts

The general fund spending net increase over the current year was $178 million, with $225 in increases and $47 million in cuts.

General fund spending cuts in agencies other than DHH totaled

TABLE 1
Spending Cuts of $3 Million or More Over Current Year

Program Description	Decrease From FY 95-96 Spending
Medicaid case management services	$ 8,400,000
Elimination of Medicaid Medically Needy eligibility category	79,321,189
Medicaid non-emergency medical transportation	3,900,000
Medicaid psychiatric rehabilitation services	3,400,000
Department of Health and Hospitals (DHH) personnel reductions	a
Medicaid uncompensated care funding to private hospitals	14,000,000
Louisiana Health Care Authority administration	12,000,000
Louisiana Health Care Authority medical centers (charity hospitals)	25,000,000
Grants to rural hospitals program	4,025,700
Elimination of Registered Nurse Capitation Program funding	4,130,625
Aid to Families with Dependent Children (AFDC)	24,870,811
Teacher Assessment Program[b]	4,323,529

a A reduction in spending due to layoffs in DHH is expected; exact number was not yet available.
b Partial funding of program ($2.8 million) restored in HB 161, Reg. Sess.
SOURCE: Legislative Fiscal Office.

about $27 million. In addition, $44 million was not provided to departments to fund merit pay and inflation increases.

DHH received the most substantial budget cuts, totaling $155 million (state and federal spending) over the current year, with a net reduction in spending of $126 million. (See Table 1.) The Medicaid program will bear about $109 million of the cuts including: the elimination of the Medically Needy eligibility category ($79 million) and reductions in uncompensated care funding to private hospitals ($14 million), non-emergency medical transportation ($3.9 million), and psychiatric rehabilitation ($3.4 million). The Louisiana Health Care Authority (LHCA) medical centers (charity hospitals) were cut by $25 million and LHCA administration was cut by $12 million.

Among other cuts (state and federal spending) was a $24 million reduction in the Aid to Families With Dependent Children (AFDC) due to an expected caseload reduction of 10,000. A total of $5.2 million was eliminated for the Teacher Assessment Program, $2.8 million of which was later restored in another House bill due to statutory requirements. Lawmakers also cut the Urban Development Fund (cut by $1.5 million), the Nursing Supply and Demand Commission ($2.8 million), Title IV-A At Risk Child Care ($1.5 million), Grants to Rural Hospitals Program ($4 million), and the Registered Nurse Capitation Program Funding ($4.1 million).

Spending Increases

Pay raises to teachers ($60.2 million) and college professors ($48.3 million) were the largest general fund spending increases over the current budget year. (See Table 2.) Funding of $650,000 was included for pay raises for selected gubernatorial appointees, subject to Civil Service and the Joint Legislative Committee on the Budget review.

Judges also will receive 4% raises in the upcoming year and 4% the following year. The budget also included $22 million for pay raises for non-teaching support personnel contingent upon the REC certifying that additional revenues are available.

Other substantial increases (state and federal spending) over the current year included $15 million for road

TABLE 2
Spending Increases of $3 Million or More Over Current Year

Program Description	Increase Over FY 95-96 Spending
New funding for Economic Development Award Program	$ 5,000,000
New funding for customized training as an incentive for businesses expanding or locating in Louisiana	6,500,000
Additional funding for road resealing to extend road life	15,000,000
Increase for housing state inmates in parish jails	10,360,940
Additional Riverboat Enforcement funds from Riverboat Gaming Enforcement Fund if REC recognizes such monies	4,400,000
Funding for operation of Gaming Control Board	4,125,949
Medicaid Mentally Retarded/Developmentally Disabled waiver services	15,700,000
Medicaid reimbursement to small, non-state local government hospitals and small private rural hospitals for uncompensated care costs	5,000,000
Medicaid elderly waiver program	3,700,000
Foster care program (formerly funded with federal money)	4,375,000
Salary increase for higher education faculty	48,300,000
Salary increase for K-12 teachers	60,200,000
Increase in supplemental pay for municipal police, firefighters and deputy sheriffs	5,000,000
Maintenance and repair of parish roads	8,000,000
Pay raise for non-teaching school support personnel if REC certifies funding	22,000,000
Coastal restoration	7,800,000

SOURCE: Legislative Fiscal Office.

resealing and maintenance; $15.7 million for Medicaid Mentally Retarded/Developmentally Disabled waiver services; $7.8 million for Coastal Restoration; $5 million for Medicaid reimbursement to small, non-state local government and small private rural hospitals for uncompensated care costs; $12 million for three economic development programs; a $10.3 million increase for housing state inmates at parish jails; $8 million for parish roads through the Parish Transportation Program; $5 million to increase supplemental pay for municipal police, firefighters and deputy sheriffs; and $3.8 million for the Louisiana Honors Scholarship Program and Tuition Assistance Plan. The budget also increased funding by $1.5 million for the Rural Development Fund.

Comment

Except for the Department of Health and Hospitals, the budget included few major cuts. Spending was essentially held in place for most departments, although they were forced to absorb inflation and the cost of merit pay increases, which is essentially a cut. Policymakers found additional revenues and used them to fund a few major priorities. HB 1 also included $22 million for a raise for non-teaching school support personnel contingent on additional money becoming available. The spending plan did include a number of laudable priorities—pay raises for teachers and college professors, a plan to fully fund the MFP in four years, increased spending on maintaining state-owned buildings and increased spending on overlaying state highways. In addition, the Legislature chose not to take full advantage of the constitutional limit on issuing bonds for capital outlay and remained within the $200 million self-imposed limit of recent years. Although much good was accomplished, the cuts in Medicaid, particularly in the Medically Needy eligibility category, will severely impact the lives of its recipients.

Within the spending plan some questionable practices were continued, and some uncertainties about the future were not addressed including:

- The state may not receive the anticipated federal Medicaid assistance next year meaning policymakers will have to come up with at least $900 million rather than $730 million.
- The state must contain the growth of Medicaid; while plans are under way to do this through managed care and vouchers, it will be extremely difficult in the upcoming year because Medicaid is an entitlement program; little consideration was given by lawmakers to the possibility of cost overruns in the upcoming year that the state would have to cover.
- Pressure for pay raises will continue, particularly from those constituencies that did not receive them this year.
- Growth in the cost of sheriffs' housing of state inmates is expected to increase substantially over the next four years; state budget analysts have estimated it will increase by $12 million in fiscal year 1997-98 and by an additional $38 million in fiscal year 1999-2000.
- Some gambling revenues may not continue depending on voters' choices this fall.
- State officials are expecting healthy economic growth in the next several years; if it fails to materialize, policymakers could face still more difficult budget choices.
- In two years, lawmakers will again face the choice of whether to continue to suspend exemptions to the sales tax.
- Continued reliance on "temporary" suspension of sales tax exemptions and the $1 billion in actuarially estimated potential claims against the state could negatively impact the state's bond rating. Bond rating agencies look favorably upon stability and growth in a jurisdiction's tax base. The suspended exemptions continue the instability of the state's tax base.

The budget also continues three practices that PAR has long considered questionable: supplemental pay to local employees, slush funds (urban development and rural development) for the governor, and contingency budgeting.

PAR has advocated replacing the supplemental pay program with a general state aid program that would allow localities to decide how to allocate the money. The fiscal 1996-97 budget not only retained supplemental pay but increased it by $5 million for municipal police officers, firefighters and deputy sheriffs.

PAR has recommended that any state funding of local capital improvements be done through priority-based statewide programs and not at the governor's discretion.

The slush funds total $17.9 million in the upcoming year. Although the new administration says that the rules and regulations guiding the program will be stricter than they have been in the past, the funds will still represent taxpayer dollars that do not go through the legislative appropriation process.

Pay raises for non-teaching school support personnel were promised if the REC certifies that money is available. Such contingency budgeting has become a common practice in recent years. It is not sound fiscal policy for the state to decide how to spend money it does not have yet.

THE MFP AND TEACHER PAY RAISES

Louisiana schools will get an additional $276 million from the state over the next four years under the Minimum Foundation Program (MFP) funding formula developed by the state Board of Elementary and Secondary Education (BESE) and approved by the Legislature. About $60 million of that amount is earmarked for teacher pay raises in 1996-97 and $15 million in 1997-98.

With the additional funding, the state appropriation for the MFP will go over the $2 billion mark by the 1997-98 year. Table 3 shows the projected amount of new state dollars that will go into the MFP over the next four years, along with the estimated total state MFP appropriation in each year.

In addition, a change in the MFP will *require* each local school system, by the year 1999-2000, to come up with a local match based on its relative wealth or have its state aid proportionately reduced. Currently state aid to a district is based on its potential ability to generate tax revenue. However, the district does not actually have to raise the local dollars to qualify for state aid through the MFP. This change is an attempt to move not only to full state funding of the MFP, but also to full local funding.

The new money is designed to complete the phase-in of the new MFP formula which was first initiated in 1992. To reach this goal, the per pupil amount in the formula which is used to allocate state funds will be frozen through 1999-2000, after which it will be increased at least 3% a year for inflation. The freeze was instituted because the per pupil amount had been based on prior year spending. The result was that the amount needed to fully fund the formula became a moving target. It should be noted that if the per pupil amount had not been frozen, the schools would have automatically gotten approximately $212 million in new money over the next four years as opposed to the $276 million they will get as a result of changes in the MFP approved by the Legislature this session.

The governor, to his credit, insisted that dollars committed to teacher pay raises be distributed through the MFP to help Louisiana move toward a more equitable distribution of state aid dollars. The latter is particularly important because Louisiana's system of school finance is currently being challenged in state court on the basis that state funds are not being distributed in a fair and equitable manner and that state funds appropriated for education are not sufficient.

TABLE 3
Estimated State MFP Appropriation

Year	Additional Money	Total
1996-1997	$109,447,799	$1,974,895,665
1997-1998	52,077,699	2,026,973,364
1998-1999	46,564,554	2,073,537,918
1999-2000	68,562,548	2,142,100,466

The major overhaul of the MFP in 1992 attempted to address the equity issue by taking into consideration the relative wealth (i.e., potential ability to generate tax revenue) of a district when allocating state funds, with poorer districts getting more state aid and wealthier districts getting less.

Funding teacher pay raises outside the MFP would have only exacerbated the equity issue.

The governor, Legislature and BESE did succumb to pressure from teacher groups and created a new mechanism in the MFP to narrow the range of raises among the parishes and ensure that every teacher will get at least $750 and up to a maximum of $1,200. (See Table 4.) The state funds for these raises cannot be used to supplant raises already granted or authorized by local school boards, including annual step increases.

The pay raises to be granted in 1996-97 should average about $954 and should increase the average teacher salary in Louisiana to $27,754 which will move Louisiana closer to the southern average which stood at $31,622 in 1994-95 according to the Southern Regional Education Board (SREB).

Although originally intended as a pay raise for classroom teachers only, in the end, the raises were also extended to about 4,500 other certified personnel such as guidance counselors, librarians and speech therapists. However, school administrators, principals and support personnel were not included, and BESE resisted the temptation to include a false promise of raises for these groups based on unforeseen revenues. (The Senate, however, later amended the General Appropriations Bill to allocate $22 million for raises for school support personnel contingent upon revenue becoming available;

TABLE 4
State Teacher Pay Raises For 1996-97, By School District

District	Estimated Annual Increase Per Teacher	Estimated Average Classroom Teacher Salary After Increase Amount	Rank
Acadia	$1,200	$24,223	52
Allen	1,115	24,343	50
Ascension	1,042	29,938	8
Assumption	1,200	26,185	29
Avoyelles	1,151	23,274	59
Beauregard	1,008	26,924	21
Bienville	940	25,813	35
Bossier	1,114	26,270	28
Caddo	826	28,832	11
Calcasieu	750	26,049	31
Caldwell	1,200	23,489	55
Cameron	750	31,015	3
Catahoula	1,082	23,323	58
Claiborne	1,100	25,278	40
Concordia	1,046	26,098	30
DeSoto	1,200	26,645	24
East Baton Rouge	750	29,327	9
East Carroll	1,037	24,631	46
East Feliciana	1,200	25,909	32
Evangeline	1,165	24,376	49
Franklin	1,009	23,137	62
Grant	1,200	24,734	45
Iberia	1,200	25,053	43
Iberville	750	30,654	4
Jackson	1,200	22,276	65
Jefferson	750	30,065	7
Jefferson Davis	1,200	24,939	44
Lafayette	882	28,317	13
Lafourche	1,086	27,924	15
LaSalle	1,031	23,245	60
Lincoln	860	23,418	57
Livingston	1,200	27,463	17
Madison	1,176	25,238	42
Morehouse	972	23,064	64
Natchitoches	792	25,505	38
Orleans	842	32,584	2
Ouachita	882	24,438	48
Plaquemines	750	29,313	10
Pointe Coupee	750	25,657	36
Rapides	1,088	26,758	22
Red River	1,200	23,160	61
Richland	1,146	24,571	47
Sabine	956	25,644	37
St. Bernard	786	26,741	23
St. Charles	750	33,081	1
St. Helena	1,200	23,483	56
St. James	750	30,400	5
St. John	1,152	27,413	18
St. Landry	1,047	27,008	20
St. Martin	1,200	26,547	26
St. Mary	1,127	28,015	14
St. Tammany	1,200	30,269	6
Tangipahoa	1,200	26,449	27
Tensas	1,200	22,204	66
Terrebonne	1,056	25,906	33
Union	1,149	24,048	54
Vermilion	808	27,199	19
Vernon	1,156	25,837	34
Washington	1,200	26,548	25
Webster	920	23,084	63
West Baton Rouge	750	27,740	16
West Carroll	1,118	24,121	53
West Feliciana	750	28,613	12
Winn	1,099	24,243	51
City of Monroe	750	25,406	39
City of Bogalusa	1,114	25,264	41
State	954	27,754	

SOURCE: Louisiana Department of Education, June 1996.

this provision is not included in the MFP and is subject to gubernatorial veto.)

Under the MFP approved this session, not only will the MFP formula be fully phased in and funded by the year 1999-2000, but it also includes several other significant provisions or changes:

- The average ratio of state to local funding in the MFP will change from 67% state and 33% local to 65% state and 35% local. The formula currently computes a statewide average per pupil amount required for a minimum program of education including state and local funds, and then a school system gets state aid based on that average per pupil amount minus its local share. Although the average local share is set at 35%, it varies by school system depending upon the school system's relative wealth (potential ability to generate tax revenues). Currently local school systems do not have to actually levy taxes equal to their local share to qualify for state aid, and some do not raise their full local share, which results in further inequities for the students in those districts.

- In 1999-2000, when the MFP is to be fully funded, the new formula states that "local school systems should be accountable for improving the performance of students in accordance with state goals" and "teams of state and local administrators, teachers, and business and industry representatives shall be charged by the State Board of Elementary and Secondary Education with assisting local school systems."

- Additionally, any school system failing to spend at least 70% of its state and local current operating funds on instruction by 1997-98 must explain in a report to the Legislature why it has failed to meet this standard and how it plans to get in full compliance by the 1999-2000 school year.

• Systems wishing to take advantage of additional state aid available in "Level 2" of the formula must demonstrate that they have raised more local revenues for education than the minimum required. Previously only operating revenues above the minimum could be used to qualify for the additional "Level 2" state aid, but this has been changed to also allow systems to include revenues dedicated to debt service.

Comment

Since a major revision of the MFP in 1992, funds have been allocated on a per pupil basis with local school systems given considerable flexibility about how to spend the money. Previously the MFP allocated funds based on specific programs and was tied to the minimum state teacher salary schedule. This is no longer the case, and that is why a special one-time mechanism had to be created this year to guarantee pay raises for all teachers in a specific dollar range.

As the state moves toward requiring greater accountability from local school systems in exchange for greater flexibility, the Governor and Legislature should also get out of the old mind set of granting specific state-funded teacher pay raises. Instead, the state's role should be to ensure an MFP formula that equitably distributes state funds and then fully fund that formula. The state should then hold the school systems accountable for results and for spending a high proportion of total funding on classroom instruction—most of which would be for teacher salaries. The argument that this could result in 66 different salary schedules is bogus. Louisiana already has 66 different salary schedules and has had for some time. Currently, the average teacher salary ranges from a low of $21,004 in Tensas Parish to a high of $32,331 in St. Charles Parish. Distributing state aid through the formula should help to close this gap.

By moving toward full funding of the MFP, by making some of the changes in the MFP noted and by requiring money for teacher pay raises to go through the MFP rather than through a separate appropriation, Louisiana has likely improved its chances of withstanding legal challenges to its school finance system. However, still greater equity could have been achieved if BESE, the Legislature and governor had not created a new, one-time, mechanism in the MFP to allocate salary funds to school systems.

Generally, however, the overall efforts of BESE, the Legislature and the governor to move toward full funding of the MFP and toward greater equity are in line with prior PAR recommendations. These efforts provide a direction that helps ensure that the education of Louisiana children will be funded at least at a minimum level regardless of whether they live in a rich district or a poor one.

TAX ISSUES IN THE 1996 FISCAL SESSION

In spite of the passage of several dozen tax bills this session, the state's tax structure will remain largely unchanged next year. This was assured by the continued suspension of the sales tax exemptions. Consumers will still pay a 4% tax on food and utilities next year, but they will get a one penny break on those items the following year. Parents will receive a $25-per-child education income tax credit next year. The credit has been suspended since 1985. Not suspending the credit next year will cost the state about $15 million. Also, a new medical savings account deduction could save the typical family up to $140 in income taxes.

The biggest tax stories of the session involved proposals that failed. An impassioned plea for a hydrocarbon processing tax was rebuffed in both House and Senate committees. The tax would have replaced the severance tax and would have applied to petroleum products handled by refineries and to oil and gas moving through the state in pipelines. The tax would have netted an estimated $1.5 billion or more in new revenues and was sold as a solution to the state's education problems. Industry spokesmen countered, painting a bleak picture of the impact the tax would have on the state's economy.

Legislators introduced many bills dealing with the homestead exemption, the industrial tax exemption and other property tax issues. While some were hotly debated, all failed except for a proposed new exemption for intangible property.

Likewise a number of efforts to levy or increase various "sin" taxes on alcohol, tobacco, gambling and even lottery tickets all failed.

However, a large number of tax exemptions, credits and exclusions were enacted. (See Table 5.) Many of these were authorized only for the next two years to allow a review in the next fiscal session. Most of these changes will have minimal revenue impacts. One exception is a sales and use tax exclusion for byproducts of raw materials used as a fuel in the manufacturing process.

TABLE 5
Significant Tax Changes in the 1996 Regular Session

SALES TAX

HB 104 Shaw	Exempts bibles, song books and some literature for churches and synagogues.
HB 113 Montgomery	Exempts in-state sales of large trucks and trailers used in interstate commerce.
HB 116 Ackal	Excludes manufacturing by-products used but not sold as fuel.
HB 160 Hammett	Excludes from the price of goods sold any manufacturer's rebates and cash discounts paid to dealers.
HB 191 Brun	Exempts rail rolling stock manufactured in-state for use in interstate commerce.
HB 196 Alario	Suspends exemptions of food and utilities from 4% sales tax for 1996-97 and from 3% for 1997-98; levies 1% state sales tax to replace Louisiana Recovery District tax when it expires.
SB 30 Jordan	Exempts private school educational and fund-raising materials.
SB 48 Smith	Exempts from local sales tax the sales of motor vehicles to be leased. (State already exempts.)
SB 55 Bean	Exempts the sale of certain services to free hospitals.
SB 63 Dardenne	Exempts purchases and rentals by Boys State and Girls State.
HB 147 Forster	Allows credit to vendor for sales tax remitted in error.

INCOME TAX

HB 58 Forster	Allows deduction for drug testing expenses.
HB 84 Forster	Gives credit for care of a mentally or physically disabled dependent in home.
HB 139 Downer	Provides relief for military personnel serving in Bosnia.
HB 166 Montgomery	Gives credit equal to half the appraised value of historical items donated to the state.
HB 200 McMains	Allows deduction for contributions to a medical savings account. (Limit: individual—$2,500; with dependents—$3,500.)
HB 211 Daniel	Clarifies refund due to net operating loss deduction carry-back election.
HB 226 Daniel	"Piggybacks" state income tax on estates and trusts on the federal fiduciary income tax.
HB 230 Thompson	Allows a corporation distributing appreciated property to an affiliate to defer the gain.
SB 76 Hollis	Extends time for tax credits for capital company investors.

CORPORATE INCOME AND FRANCHISE TAXES

SB 44 Ellington	Double weights sales factor in calculating income and franchise taxes of multistate manufacturing or merchandising firms.
HB 69 Thornhill	Extends credit on recycling equipment purchases for two years.

OTHER TAXES

SB 42 Landry	Repeals Transportation and Communications gross receipts tax on motor carriers except those hauling household goods and waste.
HB 97 Montgomery	Extends automobile rental tax to year 2000; reduces state rate from 3% to 2.5% of gross proceeds and adds local rate of 0.5%; excludes from local sales tax the sale of automobiles to be rented.
SB 32 Ullo	Extends for two years the suspension of severance taxes on inactive and new discovery wells.

Homestead Exemption

True to his campaign promise, the governor strongly backed an increase in the homestead exemption to cover the first $100,000 of a home's value. In spite of his support, the bill failed on the House floor, even after two tries and an amendment lowering it to $85,000. The proposed constitutional amendment needed 70 House votes but received only 49. House members showed a new level of legislative statesmanship in stopping a proposal that likely would have had little trouble passing in a popular referendum.

Currently, the first $7,500 in assessed value of an owner-occupied home is exempt from all property taxes except some municipal levies which are generally quite low. Because homes are assessed at 10% of their market value, the exemption fully covers a $75,000 home. Statewide, 80% of all homes are now fully covered by the exemption.

HB 15 (Alario) initially would have raised the exemption to $10,000 of assessed value. In its final amended form, the bill would have exempted $8,500 in assessed value ($85,000 of a home's market value). The bill also would have required a millage rollup to keep total tax collections the same after the exemption increase.

The bill would have shifted the taxes from homeowners to business property, rental property and home values not covered by the exemption. Renters, many of whom are lower income families, likely would have seen some increase in rents as a result. On a statewide average, the owner of an $85,000 home would have saved $110 a year.

Estimates of the amount of taxes to be shifted ranged from $35 million up to $47 million for the $10,000 exemption. The taxes shifted by the $8,500 exemption likely would have been two-thirds less.

Proponents argued the need for a middle class tax break to offset the effects of inflation since 1980 when the exemption was last increased. Another argument cited the need to help people buy and keep homes.

Opponents argued that increasing the exemption would further erode an already weak local tax base, make it more difficult to fund schools and other local services and increase the tax burden on the remaining taxable property. The relatively small tax savings, it was argued, would not be the deciding factor in buying or keeping a home.

PAR has long advocated either reducing the homestead exemption, particularly for school millages, or replacing it with a "circuit breaker"—an exemption triggered at a certain income level.

Louisiana now has, by far, the most liberal homestead exemption in the nation—nearly double the value of the closest runner up. Most states do not provide general exemptions but some have limited exemptions for low income families, seniors or the disabled.

Inflation has affected the homestead exemption, but it also has affected the cost of government services. Homeowner income, even social security, has risen with inflation. A tax base that does not keep pace with inflation is generally considered inadequate. By leaving the exemption alone, more homeowners will continue to gradually begin paying property taxes to help support schools and other local services which directly benefit their families and property values.

Tax Veto for Owners of Expensive Homes

A bill to give a few owners of expensive homes a veto over property tax propositions received serious consideration but died on the House floor. HB 31 (Windhorst) would have required that, in addition to a majority vote of the electorate, a property tax increase be approved by a majority of the owners of homes with assessed values exceeding the homestead exemption. This would have allowed about 10% of the homeowners, on a statewide average, to stop a tax. However, the percentage would have ranged from as low as 0.5% to 27% of homeowners depending on the parish.

Industrial Tax Exemption

The industrial tax exemption (ITE) came under attack from an unsuccessful barrage of bills variously attempting to limit the amount per job created, provide legislative oversight, set conditions by law, exempt school taxes, phase out application to school taxes, require approval by school boards and other local taxing bodies, give local taxing bodies sole granting authority and replace it with a new incentive contract system.

The telling vote came in the House Ways and Means Committee on a proposed five-year phase-out of the ITE as it applies to school millages. The committee deferred HB 24 (Holden) by a ten to five vote. The committee did send one ITE-related bill on to the House floor where it was killed. HB 25 (Holden) would have required a firm that closes before its ITE contract is up to pay the previously exempted taxes. Opponents argued that a failed firm would likely be unable to pay.

Based on its recent comparison of corporate tax burdens in the South, PAR concluded that the industrial exemption serves to offset other uncompetitive aspects of Louisiana's tax structure. PAR suggested that in the absence of a thorough revision of the state's tax structure, removing the exemption program would place

Louisiana at a disadvantage in attracting and keeping industrial investment.

Intangibles Exemption

The Legislature approved SB 6 (Greene), a proposed constitutional amendment, to exempt all intangible and incorporeal movable property, with exceptions, from the property tax. The proposal would exempt a business's client list, "reputation" and "goodwill" from property tax. While these intangibles are not specifically exempted by the constitution, they have not been taxed in the past as the property tax is considered to apply to tangible, physical property.

Because the civil code defines "property" to include "incorporeal moveables," a state court of appeals recently ruled that incorporeals could be taxed if a uniform assessment procedure were applied to all businesses. The court case and this proposal stem from recent attempts by some assessors to put intangibles of some cable companies on the tax rolls.

The exemption would not apply to intangibles currently taxed as part of public service property or to bank stocks and credit assessments on insurance premiums. The exemption would not affect local revenues because other intangibles are not now taxed.

"Temporary" Sales Tax Exemptions

State spending plans next year will rely once again on the "temporary" suspension of sales tax exemptions on food, utilities and other items. The only real question this session was what to do in the following years. Initially, the governor suggested permanently removing the exemptions to provide a predictable revenue source, but no bill was introduced. Instead, a variety of proposals were offered to phase out the taxation of traditionally exempt items.

The Legislature approved HB 196 (Alario) which continues to suspend the exemptions from the full 4% state sales tax for 1996-97 to provide $430 million. The bill suspends exemptions from only 3% in the following year which will lower the take by $110 million.

This bill also levies a 1% state sales tax to replace the 1% tax levied by the Louisiana Recovery District (LRD) when it ceases to exist. The state had turned the 1% tax over to the LRD in 1988; the revenues from it were returned to the general fund each year less the amount needed to pay the annual LRD debt service.

Late in the session, the House Ways and Means Committee favorably reported a bill (HB 19) which, as amended, would have ended the state tax on food and residential utilities as of July 1, 1998. However, the bill was killed on the House floor. Many legislators thought it was too early to make that commitment given future uncertainties.

The major argument of those seeking to end the taxation of food and utilities is that it is a regressive tax that more heavily affects lower income persons. Louisiana families have one of the highest sales tax burdens in the nation; however, their total tax burdens are still among the lowest.

Byproducts Exclusion

HB 116 (Ackal) excludes from the sales tax manufacturing byproducts and residues not sold but used as fuel in the manufacturing process. Major beneficiaries are the oil refineries which produce coke-on-catalyst as a byproduct. In refining oil, coke forms on a catalyst. The catalyst is cleaned by burning the coke. This in turn produces energy that can be used. The exclusion would also apply to wastes in other industries such as wood chips and sugar cane bagasse. The bill is a response to a 1994 Supreme Court ruling that coke-on-catalyst was taxable.

The bill also clarifies the value to be used in taxing refinery gas, also a byproduct of oil refining. Refinery gas used as a boiler fuel has long been taxed on a value set by a formula in the law. A district court ruled that the formula had been suspended along with various exemptions. The bill reaffirms the formula and prevents the use of a higher value.

The governor strongly supported the bill as an incentive for firms to use waste products and noted that no other state taxes these byproducts. Opponents argued these products should be taxed at the value of the alternative energy source.

The bill is not retroactive and will not affect the settlement in pending litigation seeking back taxes on coke-on-catalyst and refinery gas. While estimates vary widely, industry spokesmen claimed the exclusion would save them about $30 million a year in state and local taxes. This issue will not affect the state's budget plan for next year since the official revenue estimates did not include the taxes in question.

Exemption Procedure

Another proposed constitutional amendment, SB 25 (Hainkel), would allow the Legislature to decide whether a sales tax exemption is in force at the state level, the local level or both. The state constitution presently allows the Legislature to uniformly exempt items from sales taxes levied by local government, school boards and the state. The proposal clarifies that when a state sales tax exemption on an item is repealed or suspended, the item does not automatically become taxable at the local level.

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PROPOSITIONS TO BE VOTED ON THIS FALL

Proposed Constitutional Amendments

On September 21, 1996 ballot:

• To exempt incorporeal movables (intangible business property such as "goodwill") from the property tax, with exceptions (SB 6, Reg. Sess.)

• To require a local vote to approve any new gambling in a parish (HB2, 1st Ex. Sess.)

On November 5, 1996 ballot:

• To prohibit public retirement for part-time public officials such as legislators, school board members and others. (HB 15, 1st Ex. Sess.)

• To allow the Legislature to prohibit or limit the sale to and the purchase, possession or consumption of alcoholic beverages by persons under the age of 21 (SB 125, 1st Ex. Sess.)*

• To authorize municipalities and parishes to donate abandoned or blighted housing to nonprofit organizations (SB 175, 1st Ex Sess.)

• To allow the Legislature to enact sales tax exemptions that apply at the local level, the state level or both (SB 25, Reg. Sess.)

Statewide Referendum

On November 5, 1996 ballot:

• Local option referendum to continue forms of gambling now authorized for parish. (HB 7, 1st Ex. Sess.)

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* Will not appear on the ballot if the Louisiana Supreme Court upholds the validity of Act 639 of 1995.