


PUBLIC AFFAIRS RESEARCH COUNCIL OF LOUISIANA, INC.



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Louisiana Fiscal Policies: There Are Choices

We hear almost daily that Louisiana government must either raise taxes or cut basic services. An all too familiar story unfolds . . .

The state budget is temporarily balanced with nonrecurring revenues; state agencies are ordered to prepare budgets at sharply reduced levels; higher education is to be decimated; layoffs and cuts to basic services are threatened; special legislative committees meet to consider alternatives; the Governor submits his proposed budget with harsh cuts and details taxes to be raised to restore deleted programs; and finally, the Legislature makes a few cuts and raises sales taxes.

At best, the crisis is over for another year. It does not have to be this way. There are other choices.

The real challenge is to adopt permanent solutions, as these recurring budget problems will not disappear with new taxes and simple cuts. The key to resolving the crisis is to change policies that have guided the state budget process for years--policies that have guaranteed mediocrity and intensified problems for future generations--policies that have cost Louisiana billions in taxes and will cost billions more unless different choices are made. New policies are needed to restore public confidence in government.

The following are policy options that would reduce budget pressures without hurting the state's economic base and yet allow essential services to be maintained. Unless these are pursued, the choices are higher taxes or cuts in basic services.

HIGHER EDUCATION

Higher education in Louisiana is woefully underfunded compared to levels of the other 14 southern states. Louisiana ranks last in state appropriations per student for colleges at both the master and doctoral levels, while tuition and fees have climbed to fifth highest.

Moreover, Louisiana has made a series of basic policy decisions that have diluted the impact of its limited resources. While 49% of freshmen nationally enter a less expensive two-year community college, only 12% do so in Louisiana. (The cost per student at Delgado Community College is only about 64% of the student cost at the University of New Orleans.) Half of the state's students are enrolled in remedial courses, indicating they are not fully prepared for college; only 33% entering college in 1982 had graduated six years later. (The national average is 45%.) Louisiana also offers duplicate degree programs to a greater extent than many other states.

Higher Education Policy Options

1. Expand Louisiana's community college system by converting existing four-year colleges. If Louisiana were at the southern per capita average, the state would have 11 more community colleges and four fewer four-year colleges; per student savings of up to 36% could be realized.
2. Phase out remedial education courses and save up to \$43 million annually.
3. Phase out subsidies for athletics for a savings of up to \$16 million annually.
4. Implement selective admission standards at all four-year colleges; this would significantly reduce spending pressures.
5. Reduce duplicate degree program offerings to allow a more concentrated expenditure of available funds.

STATE DEBT

Louisiana ranks first in the South in per capita levels of state and local interest on debt payments. Louisiana payments are over 200% of the southern-state average. While total state and local expenditures are fourth highest in the South, expenditures for education are among the lowest. If Louisiana's debt payments were at the southern average, another \$800 million could be allocated annually to higher education and K-12 education.

Debt Policy Options

1. Constitutionally limit the total amount of new tax-supported debt to either a percentage of debt retired in a year or to a specific dollar limit. For example, a phased reduction (5% less annually) beginning at 90% of the amount retired in a year could save over \$1.8 billion over the next 20 years at the state level alone.

2. Require all proposed capital outlay projects be approved in a public referendum.
3. Adopt a cash only capital program.
4. Require feasibility studies for all capital outlay projects prior to inclusion in the capital budget.
5. Require legislative approval of all capital outlay projects supported with state funds.

RETIREMENT SYSTEMS

Louisiana has four state-funded public employee retirement systems with constitutionally guaranteed benefits. Each system has a separate board and administrative structure, different benefits, contribution levels and investment policies. In addition, a 1987 constitutional amendment was approved requiring the \$6 billion unfunded liability of these systems be paid off over 40 years.

Retirement Policy Options

1. Eliminate the 20-year retirement for new teachers in public schools and colleges and for state police; establish a minimum retirement age of 62 for new employees.
2. Eliminate retirement benefits for part-time elected officials, including legislators and school board members.
3. Create a new retirement system for all new hires in state government and public schools, with redesigned benefits and contribution levels.
4. Limit sick and annual leave benefits and the ability to carry them forward from year to year.
5. Return to the payment schedule for the unfunded liability payments in existence prior to this year. This alone could provide a net savings of \$4.8 billion over the next 36 years. These savings could be realized by increasing payments \$50 million in each of the next 16 years.

MINIMUM FOUNDATION PROGRAM (MFP)

The MFP is the formula for distributing \$1.8 billion in state aid to the K-12 school

system in Louisiana. The formula includes not only the cost of teacher salaries, retirement benefits and textbooks, but also health insurance, transportation, sabbatical leave, lunch room workers and various other items.

MFP Policy Options

1. Eliminate from the formula the cost of health insurance for local employees to save the state almost \$100 million annually.
2. Provide state funding for teacher salaries, retirement and textbooks only. This would reduce state costs by up to \$600 million annually. Local property tax bases should be expanded by lowering the homestead exemption to assist locals in financing additional costs.

OTHER POLICY OPTIONS (Dollar Impacts Shown When Possible)

Education

1. Eliminate state aid to nonpublic schools for administrative costs, school lunch employee salary supplements, and transportation; this could save up to \$15 million annually.
2. Privatize school lunch, janitorial and maintenance programs.

Reorganization

1. Eliminate the Office of Elections and merge functions with the Secretary of State.
2. Eliminate the Office of Lieutenant Governor and merge functions with the Secretary of State; make the Secretary of State successor to the Governor.
3. Eliminate the Office of Insurance Commissioner and merge functions with the Department of Commerce.
4. Eliminate the Office of Agriculture Commissioner and merge functions with the Department of Wildlife and Fisheries.
5. Eliminate the Department of Culture, Recreation and Tourism and merge functions with the Department of Economic Development.
6. Eliminate Deputy Secretary positions in all state departments.

Budgetary

1. Constitutionally prohibit the use of nonrecurring revenues for recurring expenses.
2. Constitutionally prohibit the creation of special districts (such as the Louisiana Recovery District) with the authority to tax, spend and issue debt for purposes denied the state.

Local Government

1. Eliminate state supplemental pay for local employees (municipal police and fire) and deputy sheriffs, thus producing savings of up to \$45 million annually.
2. Limit payments to sheriffs for housing state inmates to the actual incremental or marginal costs over and above that of keeping local prisoners; savings of up to \$15 million annually could be realized.

Corrections

1. Review and evaluate sentence procedures to determine if they are commensurate with those of other states.
2. Expand use of probation which costs \$1.50/day compared to \$30/day for incarceration.
3. Increase use of inmate labor for public works projects.
4. Review all provider contracts for care of youthful offenders to determine appropriateness.

Health Care

1. Eliminate and merge state hospitals, mental institutions and other medical facilities where appropriate.
2. Evaluate Louisiana's charity hospital system in anticipation of changes in national health care policies.
3. Review all contracts for state health care provider services to determine appropriateness.

General

1. Increase privatization of services throughout government--specifically, prisons, health care and forestry services.
2. Expand provisions allowing for performance audits of the state's executive branch, either through the Legislative Fiscal Office or the Legislative Auditor.
3. Review and evaluate the concept of civil service.

All of these policy issues should be addressed--not only to reduce financial demand but also to better utilize existing resources and return many basic decisions to the local level. Future generations will not be able to finance the choices of the past and present.

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A Decade of Taxes

<u>Year</u>	<u>New Taxes (In Millions)</u>
1984	\$ 146
1985	675
1987	177
1989	304
1991	<u>92</u>
TOTAL	\$ 1,394

PAR COMMENT: In the last decade, taxes have been raised \$1.4 billion. Each tax increase has been followed by another within two years. Taxes were avoided in 1993 by imposing a number of budget gimmicks, including the use of \$500 million in nonrecurring revenues.

Balancing the State Budget 1992-93

	<u>In Millions</u>
Self-Insurance Funds	\$ 140
Louisiana Recovery District: Reserve Funds	95
Louisiana Recovery District: Principal Payment Delay	77
Hazardous Waste Tax (Escrow)	19
Refinance Retirement Debt	46
Health Care Fees	167
Shreveport Medical Center: Over-Collections	147
Audit Settlements	54

PAR COMMENT: These are examples of the budget gimmicks used to balance this year's budget. There are strong reasons why each was inappropriate.

Interest on General Debt

<u>Rank</u>	<u>State</u>	<u>Per Capita</u>
1	Louisiana	\$ 369.85
2	Florida	246.49
3	Kentucky	225.07
4	West Virginia	209.54
5	Texas	203.72
6	Maryland	203.12
7	Virginia	159.82
8	Oklahoma	144.36
9	Tennessee	141.19
10	Alabama	134.56
11	Mississippi	120.06
12	Arkansas	117.66
13	South Carolina	116.32
14	Georgia	111.75
15	North Carolina	93.44
	Southern Region	182.89
	Louisiana as Percent of South	202.2%

PAR COMMENT: State and local governments in Louisiana spend far in excess of other states on interest on debt.

Louisiana: Per Capita Ranking (State and Local Combined)

	<u>Southern States</u>	<u>U. S.</u>
Total Spending	4	29
Debt (Interest)	1	4
Higher Education	13	40
K-12 Education	8	34

PAR COMMENT: Louisiana ranks first in the South in interest on debt payments. If Louisiana were at the North Carolina average, government could shift the "savings" to education and, without any new taxes, be Number One in funding both higher and K-12 education.

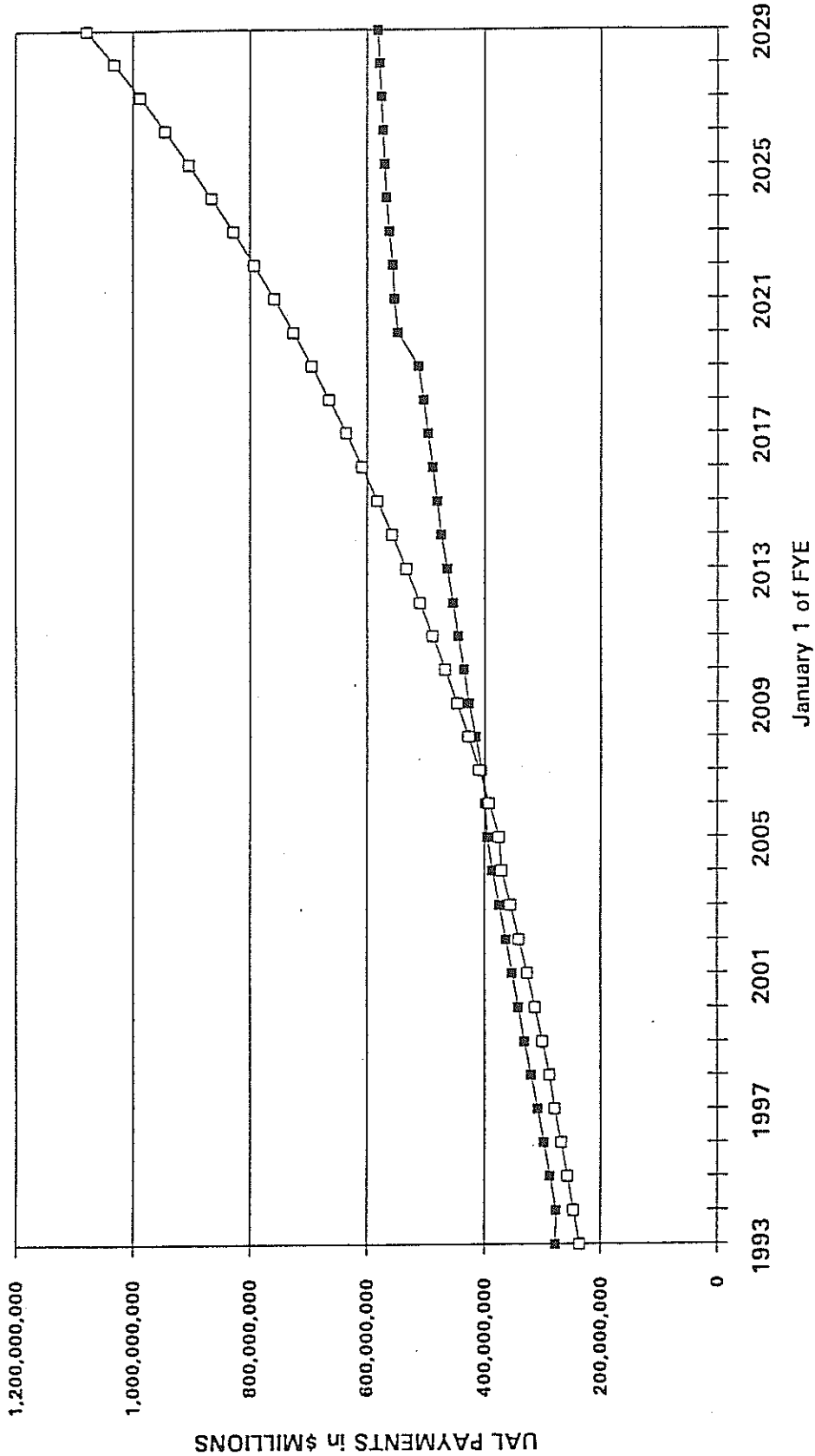
**Spending Impact (State and Local Combined)
If at Southern and U.S. Per Capita Levels
(In Millions of Dollars)**

	<u>Amount Spent</u>	<u>Amount + or -</u>	
		<u>If at South</u>	<u>If at U. S.</u>
Total General Expenditure	\$12,926	\$ -715	\$ +1,238
Higher Education	1,012	+182	+234
Elementary/Secondary	2,895	+213	+534
Welfare	1,352	-91	+523
Hospitals	1,293	-356	-438
Health	270	+83	+141
Highways	1,034	-20	+2
Corrections	291	+71	+127
Debt Interest	1,561	-788	-717

PAR COMMENT: State and local governments in Louisiana raise and spend significantly more than other southern states (\$715 million more annually). The state's priorities also are different, with an emphasis on debt rather than education.

TEACHERS' RETIREMENT SYSTEM OF LOUISIANA

MID-YEAR AMORTIZATION PAYMENT COMPARISONS



ACT 81; 1988 Regular Session
 Act 257; 1992 Regular Session

PAR COMMENT: The financial impact of the legislative decision to refinance the unfunded liability of state retirement systems is tremendous. (This graph represents the teachers' system only. The additional cost to taxpayers will be \$4.8 billion for all state systems.)

**FTE Appropriations: Doctoral
1989-90**

Alabama	\$ 4,244
Arkansas	4,797
Florida	7,261
Georgia	6,094
Kentucky	4,462
Louisiana	3,165
Maryland	7,786
Mississippi	3,961
North Carolina	6,422
Oklahoma	4,541
South Carolina	5,217
Tennessee	4,962
Texas	5,025
Virginia	4,853
West Virginia	3,709
Southern-State Average	\$ 5,230

PAR COMMENT: Louisiana ranks last in state appropriations per full-time student for doctoral-level institutions.

Median Annual Tuition and Fees 1989-90

Alabama	\$ 1,600
Arkansas	1,523
Florida	1,228
Georgia	1,917
Kentucky	1,560
Louisiana	2,014
Maryland	2,097
Mississippi	1,911
North Carolina	1,010
Oklahoma	1,521
South Carolina	2,448
Tennessee	1,582
Texas	1,022
Virginia	2,719
West Virginia	1,692
Southern-State Median	\$ 1,591

PAR COMMENT: Louisiana's tuition and fees climbed to fourth highest among the 15 southern states in an effort to offset the low level of state support.

Two-Year Colleges

	<u>Of All Freshmen: Percent In Two-Year College</u>	<u>Number of Two-Year Colleges</u>
Alabama	47%	40
Arkansas	30	10
Florida	60	29
Georgia	40	30
Kentucky	36	14
Louisiana	12	6
Maryland	53	19
Mississippi	67	20
North Carolina	45	58
Oklahoma	50	14
South Carolina	46	21
Tennessee	31	14
Texas	54	66
Virginia	29	24
West Virginia	22	4
U.S. Average	49	

PAR COMMENT: Louisiana has taken a different, and more expensive, approach to educating college freshmen. While 49% of freshmen nationally will attend a two-year school, only 12% will in Louisiana. If Louisiana were a "typical" southern state, it would have 11 more two-year colleges and four fewer four-year colleges.

Program Duplication

	<u>Programs</u>	
	<u>Florida</u>	<u>Louisiana</u>
Horticulture	2	6
Animal Science	2	10
Architecture	2	4
Journalism	3	9
Speech	4	11
Business	6	13

PAR COMMENT: While Louisiana does a poor job funding its colleges, the situation is worsened by diluting available resources.

Graduation Rates*

<u>Trustees</u>	<u>Percent</u>	<u>Southern</u>	<u>Percent</u>
Delgado	15	Baton Rouge	25
Grambling	43	New Orleans	9
Louisiana Tech	46	Shreveport	11
McNeese	26		
Nicholls	34		
Northeast	34		
Northwest	35		
Southeast	32		
USL	34		

<u>LSU</u>	<u>Percent</u>
LSU - Baton Rouge	45
LSU - Alexandria	21
LSU - Eunice	33
LSU - Shreveport	24
UNO	19
National Average	45
Louisiana Average	33

* Represents the percent of students graduating within six years after entering college in 1982.

PAR COMMENT: Data from the Board of Regents demonstrates the state's colleges graduate a low percentage of students. This reflects a lack of selective admission standards and poorly prepared students. In fact, 50% of freshmen must take remedial (high school) courses their first year.