Meaningful Debt Limit Requires Strong Constitutional Protection

by

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Bills to statutorily limit and reduce state debt will mean little without strong constitutional backing. A statutory limit alone could be changed or suspended at any time by a simple majority vote of the Legislature. A weak constitutional provision also might allow the statutory limits to be easily adjusted or avoided.

Louisiana state government is buried in debt. With the fourth highest per capita state debt in the nation, it pays about $700 million a year on debt principle and interest. Reducing state debt would free up state revenues for other programs and help improve the state's bond rating--now the lowest in the nation.

The House and Senate each have passed their own versions of a debt management statute and proposed constitutional debt limit provision. The two statutory limit bills (HB 561 and SB 414) are not too far apart. The constitutional amendment proposals (SB 1079 and HB 275), however, differ substantially. The Senate's constitutional provision is much less specific than the House version and leaves far more room for avoiding the debt limits.

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Both proposed constitutional amendments require the Legislature to enact a debt management plan with a procedure for setting debt limits for each fiscal year. The House version requires the plan to reduce the state's debt service to six percent of state revenues from taxes, licenses and fees by fiscal year 2002-2003, and allows the limit to be changed, by specific legislation, with three-fourths vote of each house.

The Senate's version of a constitutional amendment provides simply that the statutory debt limit plan may be amended by a separate act approved by a two-thirds vote of each house. This two-thirds vote requirement to change the debt limit would be meaningless, because a two-thirds vote already is required to authorize debt in the first place.

The Senate constitutional amendment would not include any specific limits nor even targets for the debt limit plan to meet. The Senate companion bill would set a $150 million a year limit on new state debt, but this statute could be changed by a two-thirds vote.

The House version's constitutional three-fourths vote requirement to change debt limits would be a meaningful check on the Legislature. Also, the proposal's six percent target and fiscal 2002-2003 deadline provide specific constitutional guidelines for setting limits. While the House statutory limit bill does not set a dollar limit on annual new debt that could be issued, the six percent target would require the State Bond Commission to limit new bonds to about $200 million a year.

A state debt management law is badly needed; however, it would accomplish little without a strong constitutional debt limit provision to assure that the level of debt is reduced and the excesses of the past are not repeated.