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MEMO TO: Members of The Louisiana House of Representatives

FROM: Mark C. Drennen
President

SUBJECT: Revenue Estimating Conference Issues

The Louisiana Legislature and citizens made historic decisions in recent years when they overwhelmingly approved constitutional amendments establishing the Revenue Estimating Conference (REC), requiring balanced budgets, limiting the use of nonrecurring funds, and reducing debt. These reforms have made tremendous improvements in the budgeting process and will positively impact our future fiscal condition. They now appear to be in danger of being weakened or even scuttled.

The Way It Used To Be

The Revenue Estimating Process

While long-time legislators should need no reminder, newer legislators may not be fully aware of the problems which led to the current revenue estimating process. Under the earlier system:

- * The Legislature was inundated with estimates and pressured to accept whichever one promised the most money to spend.
- * Estimates came from the Division of Administration, the Legislative Fiscal Office, the Department of Revenue, Colleges and others.
- * It became common practice to increase the estimates after the spending bill left the House. The House would agonize for weeks over how to balance the budget only to have "new money" appear in the closing weeks of the session.

Invariably, the Legislature adopted the highest estimate. This caused serious financial problems as overly optimistic estimates resulted in an actual accumulated deficit in excess of \$500 million by 1987. This was not a projected deficit. In 1988 the Louisiana Recovery District (LRD) was created and \$1 billion borrowed to pay our debts caused by excessive spending.

The Use Of Nonrecurring Funds

It had also become customary to use nonrecurring funds to balance the budget, especially in election years. In each case extraordinary actions were taken to resolve the resulting fiscal crisis.

- * In 1983 the accounting system for state government was changed to bring in 13 months of revenue over a 12 month period. Two special sessions were called after the election to raise taxes.
- * In 1990, almost \$300 million that remained as surplus from the 1988 bond sale was used to balance the budget.
- * In 1991 spending exceeded revenues by \$501 million as other accumulated surpluses were used to balance the budget. In 1992 a Constitutional Convention was called, payments to retirement system debts delayed, LRD debt refinanced and LRD reserves used.

The Legislative Response

After years of one fiscal crisis after another the Legislature and our citizens responded positively by passing a series of constitutional amendments to reform the process:

1. The Revenue Estimating Conference was given constitutional status;
2. Debt limitations were enacted;
3. A mandate requiring that nonrecurring funds be used only to retire debt early was adopted; and,
4. Balanced budgets were required.

The Reasons for Reforms

The REC And Unanimous Vote Requirement

- * To give the Legislature an official revenue number that could not be exceeded and that had been agreed on in public forums;
- * To involve one economist and give his/her vote an equal weight to the three elected members. The economist would have to be treated as an equal partner, not an advisor.

- * In the event that a future governor might be able to control the vote of the other elected members, to give the citizens an opportunity for an independent voice.

Debt Limitations

- * Louisiana has become the number one debtor state in the south;
- * Too much of our financial resources were being consumed by interest payments, depriving education and other budget areas of needed funds.

Balanced Budget

- * To require that government spending not exceed revenues.

Nonrecurring Fund Use

- * To remove the possibility of using one-time funds for recurring expenses; and,
- * To use them to retire our excessive debt.

PAR views these as a package of budget reforms that have and are working together to bring fiscal sanity to Louisiana. This package also is viewed extremely favorably by the bond markets. If allowed to continue, this package will resolve a number of longstanding problems.

Proposed Legislative Changes

Legislation that would allow nonrecurring funds to be used for purposes other than debt retirement and change the unanimous vote requirement will take the legs out from under reforms of which we are all proud. Legislation before you would remove the unanimous vote requirement and allow decisions to be set by three of the four members of the REC.

There is ample evidence to support the position that the casino money proposed to be given for pay raises is, in fact, nonrecurring. The RFP issued by the Casino Corporation clearly requires that the casino operator provide a "contract inducement fee" not less than \$125 million in addition to annual payments based on gross revenues. Correspondence from Harrah's to Governor Edwards always differentiated

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the one-time and annual payments. It would be clearer to see the one-time nature of this issue had the casino opened in the beginning rather than end of our fiscal year; but, the late opening should not be used to obscure the facts.

We should not destroy the unanimous vote process that has served the state so well since 1987 simply because, for the first time, we don't like the results. The other major concern, of course, is that such action would be taken to facilitate the use of one-time, nonrecurring revenues for pay raises although the constitution requires their use for debt retirement.

I would suggest we work towards paying our teachers and employees a competitive salary without trampling our constitution. SECURE has a plan to do just that. Returning to the old system of revenue estimating will only harm teachers and state employees in the future.

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