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PARticles

Public Affairs Research Council of Louisiana, Inc.

Cover Story

PARticles is a new PAR publication which contains articles PAR has issued, beginning September 26, 1990, and notations of later developments. PAR issues its articles every other week. These will be published three times a year in ***PARticles***.

This publication contains the following articles published through December 12, 1990:

Amendment No. 2: State Budget Reforms Mean Huge Dollar Savings (September 26, 1990)

If you do a good job of managing your personal finances, you have a budget to be sure you meet your commitments and don't overspend. You save for possible emergencies and don't count on money you may not receive. If you receive unexpected money such as an inheritance, you don't spend it for a lifestyle you can't maintain.

Proposed state Constitutional Amendment No. 2 would require similar sound financial management practices for state government.

- A governor would have to propose a state budget balanced within existing revenue sources. If he proposed tax increases, these would have to be submitted separately. No longer could the Legislature approve a budget with new and expanded programs but balk at increased taxes to finance them.

- The Revenue Estimating Conference which provides the official revenue forecast would be protected. Its existence now depends on a law which could be changed or repealed by a majority legislative vote. This means the state could regress to the days when revenue estimates were unrealistically high, resulting in year-end deficits.

- Beginning next year, state mineral revenues above $750 million a year would go to a special fund, thus preventing one-time windfalls from being used for a higher state spending level. Money in the new fund could be used as a Rainy Day Fund to ease temporary economic downturns, to shore up public retirement systems, and to pay off state debt sooner than scheduled.

Amendment No. 2 makes good sense and offers an added incentive. Two national firms that rate state bonds said recently that approval of the amendment could upgrade the state's credit rating. That means you and other taxpayers could save hundreds of millions of dollars in lower interest costs on state bonds.

The constitutional amendment was ratified with a 71% favorable vote. Soon after, two major bond rating firms upgraded the state's rating which could save as much as $120 million in lower interest costs over the payoff of bonds the state issues in the next 10 years.

Amendment No. 3: Added Protection for the Quality Education Trust Fund (September 26, 1990)

Louisiana state government is certain to receive significant windfall revenue because the price of oil is skyrocketing due to the Middle East crisis. Over the years, the state has received other one-time mineral windfalls due to international crises, settlement of federal-state disputes on offshore territory and mineral revenue derived from it, and federal deregulation of oil and natural gas prices.

The state can boast of one exemplary incident when it did not fritter away a mineral windfall. In 1986 Louisiana received $640 million from a federal settlement on mineral revenue produced in a three-mile strip off Louisiana's coast. It is called 8 (g) money in reference to a provision of federal law that settled the matter.

Both the Legislature and voters overwhelmingly approved a constitutional amendment to lock up all but $100 million of the money in a trust fund, and use 75% of interest earnings to enhance the quality of education.

Many positive programs have been funded with 8 (g) money. Unfortunately, in some cases ways were found to circumvent the constitutional protection of the trust fund money--specifically to finance various types of administrative costs and also elementary-secondary education programs not included in the state school aid program.

Such use of trust fund money to replace previous state funding meant that the little "pot of gold" was melting away.

PAR helped devise the trust fund concept which is unique among states and has been its "watchdog" since it was established. Proposed state Constitutional Amendment No. 3 embodies PAR recommendations to close the loopholes and thereby give added constitutional protection to use of the trust fund money.

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Should Legislative Terms Be Limited? (October 17, 1990)

Limiting state legislators' terms has become a hot topic since Oklahoma voters approved a 12-year limit last month. Similar proposals are likely to pass in California and Colorado on November 6. While 26 states, including Louisiana, limit terms for governors, Oklahoma is the first to limit legislators' terms.

Proponents argue that a "tyranny of incumbency" gives well-heeled special interests an advantage over the general public. Those opposing limits argue that longer service allows continuity, leadership, special area expertise and independence.

Until now, Louisiana reformers have been more concerned with making the Legislature stronger and more independent. PAR's 1952 "Guide to the Louisiana Legislature" decried the high legislative turnover (73%), low pay, lack of time in biennial sessions, and absence of professional staff. Today, Louisiana's legislators have relatively high pay and benefits, extensive staff support, and annual sessions. In the last four elections, on average, only 26% of the incumbents did not return for various reasons.

Louisiana legislators have become difficult to unseat. In the 1987 election, 84% of the incumbents re-won their seat or a seat in the other house. Only 20 incumbents were defeated and half of those had served only one term.

Currently, 20 of the 105 House members and 13 of the 39 Senate members have been elected to five or more terms. If Louisiana had a 12-year limit, 34 current House members and 21 senators would not be in office. An eight-year limit would have removed 48 House members and 24 senators. Either way, the legislative leadership and most committee chairmen would have been replaced.

Louisiana voters cannot initiate constitutional amendments as is done in many states. A proposal to limit terms can be placed on Louisiana's ballot only by two-thirds approval of the members of the House and Senate. If Louisianians want an opportunity to vote on limiting legislative terms they need to extract commitments from legislative candidates prior to and during the 1991 fall elections.

Voters in California, Colorado and Oklahoma overwhelmingly approved limited terms for legislators and other public officials, and the issue is heating up in other states. A Louisiana statewide poll of voters showed 73% favor the idea. The Governor will include the limitation in his 1991 legislative package and some legislators announced support. Efforts are underway in New Orleans to limit terms of city council members.

This Year's Mineral Windfall: Last Chance for a Choice (October 30, 1990)

Constitutional Amendment No. 2, approved almost unanimously by the Legislature and 71% of the voters, will stop the state from using future mineral windfalls to finance recurring costs. It's an important step, but there's a hitch. The new constitutional provision will not start until next year.

Meanwhile, the state is receiving a mineral windfall this year because of the Middle East crisis. The windfall is certain and could exceed $200 million.

What to do? One thing for sure--don't use it to finance recurring costs of government. Some have suggested we do just that by using the windfall to replenish the general fund surplus, drained by $350 million to help balance this year's budget. The replenished general fund surplus then could be used to help plug the gap in next year's budget. This would be another quick fix, resulting in more financial crises.

Another suggestion is to pay off bonds issued in 1988 to eliminate the state's cumulative operating deficit. Sounds good, but again there's a hitch as only $133 million of the $776 million in bond principal outstanding by July 1, 1991 can be paid off next year.

Another option would have a more positive and enduring impact. Create a public higher education trust fund to augment the Quality Education Trust Fund. Interest earnings from the new fund would stretch state dollars by matching private donations.

Purposes could include additional endowed professorships, scholarships for the top Louisiana high school graduates and children of college faculty, research and instructional equipment and laboratories, library acquisitions, and capital outlay.

Louisiana has ranked at or near the bottom of states for too many years. It's time for us to set our goals high and aim for a place within the top 10 states. Dedication of this windfall to higher education will provide immediate quality results and make a positive impact on Louisiana's economic development.

Several legislators plan to author bills to create a public higher education trust fund with this year's mineral windfall, while other legislators will sponsor legislation to use the windfall to pay off bonds issued to cover the state's prior operating deficit.

A statewide poll showed a majority of Louisiana voters prefer to use the windfall for education rather than other options--help pay off state debt, prevent tax increases or aid local government.

State Mandates: The Rest of the Story (November 14, 1990)

State-mandated costs imposed on local governments is a growing issue. It also was an issue during the 1974 constitutional convention when PAR commented that "one of the most noxious of legislative practices is that of legislating cost increases for local governments without making any provision for the government's ability to meet those increased costs."

The 1974 state constitution prohibits the state from increasing the costs of local governments without their approval or the state providing the money. However, it is a token prohibition as it applies only to legislation which increases wages and benefits of local employees, but not those of municipal police, firemen and school employees.

The Louisiana Municipal Association has cited numerous state-mandated local costs. These include a 2% annual pay increase for firefighters, a directive that minutes of meetings be published in the official journal, election costs, as well as costs for judicial officials and annual audits. The "catch 22" is that the state restricts local authority to raise revenue to finance the added costs.

Recently, "remedies" have been proposed which would tie local approval, state-guaranteed funding or more local revenue authority to state-mandated costs. However, these "remedies" do not address the rest of the story. While the state mandates spending, it also gives aid. This year's budget includes over $260 million alone in state supplements to local employee pay, health insurance premiums for school employees, revenue sharing, and parish road and tobacco tax distributions.

A viable solution requires that the whole issue of state/local relations be reviewed to identify those functions which the state should assume and finance, and those functions which should be assigned to local governments and financed locally. Local governments should then be given authority to raise revenue, with voter approval, to finance their assigned responsibilities.

The present fragmented programs for state aid should be consolidated, except for schools, and distributed on a needs basis, geared to local tax ability and tax effort.

Inventory Taxation is Bad Business for Louisiana (November 28, 1990)

Voter approval in October of a local-option property tax exemption for wholesale inventories recognized a serious problem the state has in attracting businesses. However, this new exemption offers only a partial solution and may create new problems.

Dangers inherent in the exemption, which must be granted on a case-by-case basis, include the potential for destructive competition between parishes, political favoritism and inequitable application. Existing wholesale firms will be anxious to receive the exemption, while local governments will want to reserve its use for new firms.

Each exemption contract must have prior approval of every affected taxing body in the parish. Any taxing entity, including the sheriff or assessor, can hold up the exemption.

With no state-level review or controls, each parish may set its own exemption policy. At best, the inventory exemption's maiden voyage could help draw some new warehousing jobs. At worst, it could become a shakedown cruise.

There are strong economic arguments for removing taxes from ALL business inventories. Such taxes are difficult to administer fairly, create inequities among businesses with different inventory requirements, discourage stockpiling and hinder competition with states that do not tax inventory. Competition for wholesale and distribution centers is particularly affected.

The major stumbling block to a full inventory exemption is replacing the local revenues which would be lost--roughly $100 million statewide. Most of the 34 states which have lifted the tax on inventories have done so gradually and with at least temporary revenue replacement from state funds.

An appropriate solution was recommended by the Consensus Committee for Louisiana's Future. It proposed that businesses be granted a credit against state taxes for local property taxes paid on inventories, with the credits phased in over five years.

In this way, local governments would lose nothing, the state government could gradually assume the cost, and the state's economy would receive a significant boost.

The Governor's Conference on Small Business recommended elimination of the inventory tax through state tax credits, similar to the recommendations of the Consensus Committee for Louisiana's Future. Several legislators will introduce legislation in the 1991 session to eliminate this tax.

Class Size: How Small, How Much? (December 12, 1990)

Governor Roemer recently recommended reducing class size to 14 in kindergarten through grade three. State policy currently establishes a maximum K-3 class size of 26 and a systemwide average of 20 pupils to one classroom teacher by 1992-93. The statewide average K-3 class size is now 21.8.

Although surveys show that the public strongly favors small classes, national studies conclude that small classes benefit only "at-risk" youth and not "average" and "above-average" students. In addition, these classes, particularly in the lower grades, must be reduced to 15 or fewer pupils to have an impact, and teachers must use methods which take advantage of the small class size.

A June 1989 PAR report on class size concluded that the cost of lowering K-3 class size to a maximum of 15 would be prohibitive--more than $350 million a year. That estimate included only the first year of the recent three-year teacher pay increase, and excluded cost of additional classroom space since such data is not available. PAR estimated 14,000 additional teachers would have to be hired to lower K-3 classes to 15--a difficult, if not, impossible feat.

Louisiana should develop its own research data on the impact of class size and other factors for all students and base its policies on proven results. Data from the recently initiated school profiles would be a good start in compiling such information. The state also needs to start collecting data on availability of classroom space as well as teacher supply and demand to determine the feasibility of smaller classes.

Since national research shows smaller classes benefit "children at risk," the state should develop its own program to supplement inadequate federal funding for these children--and not waste money on smaller classes for average and above-average children unlikely to benefit.

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