The collapse of the state’s fiscal situation in the mid-1980s prompted a series of studies and reform efforts involving a wide range of academic, business, civic and governmental representatives and interests. PAR participated in most of those efforts either directly or indirectly through the use of its research. These reform efforts developed a fairly consistent set of recommendations collectively referred to as “fiscal reform.”

While several attempts at comprehensive fiscal reform failed, a number of the major proposals were enacted on a piecemeal basis over the past decade. Many of these changes addressed the budget process or expenditure side of the fiscal equation.

Most of the remaining issues for fiscal reform involve the state’s tax structure. The yet-to-be enacted tax recommendations common to earlier fiscal reform efforts can be grouped under three basic objectives:

1. Restructuring the way individuals pay for government services.
2. Providing a more competitive business environment.
3. Strengthening local fiscal ability.

PAR RECOMMENDATIONS

PAR’s recommended tax changes are generally consistent with those of the major fiscal reform efforts of the past decade. These changes would bring Louisiana’s tax structure much closer to the national norm, create a more stable fiscal future for state and local governments, and improve the state’s ability to compete for economic development.

The following fundamental changes to the state’s tax structure are recommended not as a menu of options to be enacted individually, but as a coordinated package. Several secondary recommendations not listed here are included in the full report.

**Individual Tax Reform**
- The state should lower its sales tax rate to 2% on a broad base. Most long-standing exemptions should be removed, including those for food and utilities.
- The personal income tax should be redesigned to achieve: a broader base, a personal exemption/standard deduction that is phased out as income rises to produce moderate progressivity, and a flat rate sufficient to continue existing revenues and to partially offset the recommended decrease in state sales tax.
- The homestead exemption should be phased out and replaced with a circuit-breaker provision to provide partial tax relief for low income homeowners and renters. The relief should increase as income falls below a threshold amount.

**Business Tax Reform**
- Federal tax deductibility should be removed from the corporation income tax to broaden the tax base and permit lowering the maximum rate from 8% to 6%.
- The franchise tax rate should be cut in half by returning to the pre-1984 rate of $1.50/$1,000 or, alternatively, debt should be removed from the tax base.
- Together with the above business tax changes, a simultaneous phase-out of the industrial property tax exemption and homestead exemption should be considered.

**Local Tax Reform**
- Parishes, school boards and municipalities should be authorized to levy—with local voter approval—an income tax on individuals, piggybacked on the state tax and limited to 1% or 2%.
- Special authorization to exceed the 4% maximum local sales tax levy should no longer be granted.
- Parishes and municipalities should be given general authority to levy a property transfer tax (a tax on the sale of real estate).
- All taxable property, both real and personal, should be reassessed annually based on current fair market value. A limited growth in assessed values due to inflation should be permitted.

**CONCLUSION**

Fundamental changes in a state’s tax structure do not come easily, particularly when they require individual taxpayers to accept greater responsibility for funding the services they demand. Such is the political challenge of tax reform in Louisiana.

Another political challenge is to accomplish the remaining fiscal reforms as a cohesive package. Selective enactment of the major tax recommendations could have an undesirable impact on the business tax climate or on state and local revenues.
INTRODUCTION

Long before fiscal reform became a buzz word in the late 1980s, PAR predicted dire consequences if the state continued its long history of over-dependence on unreliable mineral revenues and using windfall revenues to create unsustainable spending levels. These predictions came true, as mineral revenues fell by nearly $1 billion between 1982 and 1987. While revenues fell, the state continued to spend, running up large deficits three years in a row.

Economic conditions, inadequate fiscal constraints and politically determined revenue estimates contributed to the deficits. Nonrecurring funds were routinely used for recurring spending, and highway user revenues were diverted to other purposes. Debt service was taking an inordinate share of the budget.

Capital budgeting lacked long-range planning, feasibility studies and an adequate priority system. The state’s fiscal crisis, large debt burden and retirement system liabilities resulted in the downgrading of its bond rating.

Large tax increases in 1984 to cover the decline in mineral revenues created anxiety about future tax increases. Other problems in the tax structure included poor revenue growth, an increasing over-reliance on sales taxes, and an under-reliance on property taxes and personal income taxes.

Business contended that Louisiana’s tax structure made the state less competitive. Problems cited were tax uncertainty, comparatively heavy inventory and franchise taxes, the sales tax on equipment, inheritance taxes and the disproportionate share of property taxes borne by business.

In reaction to budget cuts, the Minimum Foundation Program for education was given constitutional protection in 1987. This and other spending dedications forced spending priorities further out of kilter.

Local government revenue authority was limited by various prohibitions, by a property tax base narrowed by exemptions and by local competition for available revenue sources.

The collapse of the state’s fiscal situation in the mid-1980s prompted a series of study groups and reform efforts. These efforts involved a wide range of academic, business, civic and governmental representatives and interests. PAR participated in most of those efforts either directly or indirectly through the use of its research.

A study sponsored by Louisiana State University (LSU) and the Council for A Better Louisiana (CABL) and efforts by the Louisiana Council on Fiscal Reform inspired a package of tax and spending reforms in 1988. In spite of administration support, the package failed in the Legislature. A similar effort in 1989 to rewrite the revenue and tax code failed when voters rejected a proposed constitutional amendment. Another group, the Committee of 100 for Economic Development, pressed for a constitutional convention in 1992. The result, however, was a watered-down reform proposal which also was rejected by the voters.

More recently, a two-year, state-funded study completed by the Select Council on Revenues and Expenditures in Louisiana’s Future (SECURE) in 1995 again recommended wide-ranging tax and spending changes.

All of these reform efforts developed a fairly consistent set of recommendations collectively referred to as “fiscal reform.” This analysis examines the current status of fiscal reform and consolidates and updates recommendations from prior PAR research on Louisiana’s state and local tax structure.

While several attempts at comprehensive fiscal reform failed, many of the major proposals were enacted on a piecemeal basis over the last decade.”

A DECADE OF FISCAL REFORMS

While several attempts at comprehensive fiscal reform failed, many of the major proposals were enacted on a piecemeal basis over the last decade. (See boxed list.) Many of these changes addressed the budget process or expenditure side of the fiscal equation. Current efforts to employ performance
A DECADE OF FISCAL REFORMS

The following are significant fiscal reform recommendations enacted during the last 10 years:

**Constitutional Changes**

- Transportation Trust Fund created (dedicated motor fuel taxes and other related highway user taxes and fees) (1989)
- Priority highway program constitutionally mandated (1989)
- Motor Vehicle License Tax increased from $3 flat rate to $1 per $1,000 value with $10 minimum (1989)
- Revenue Estimating Conference, to make official state revenue estimates, constitutionally protected (previously statutory) (1990)
- New state expenditure limit based on the growth in personal income enacted (1990)
- Balanced budget requirement enacted (1990)
- Revenue Stabilization/Mineral Trust Fund created (1990)
- Local inheritance tax prohibition enacted (1990)
- Mineral Revenue and Audit Fund created (1991)
- Single local sales tax collector for each parish required (1991)
- State mandates for local spending disallowed without local approval or state funding (1991)
- Feasibility studies required for all capital projects (1993)
- Use of nonrecurring revenues limited to the early repayment of state debt (1993)
- State debt reduction plan and debt limit enacted (1993)
- Louisiana Recovery District prohibited from levying new taxes or issuing new debt; two-thirds vote required to create similar statewide special districts (1994)
- Property tax exemption for intangible business assets enacted (1996)
- Proposed “Rainy Day” Trust Fund to replace the now outdated Mineral Revenue Trust Fund (on fall 1998 election ballot)

**Statutory Actions**

- Double-taxation of “S” chapter corporations eliminated (1989)
- Natural gas severance tax indexed to annual change in price (1990)
- Inventory tax credit for manufacturers, distributors and retailers phased in over five years (1991)
- Inheritance tax to be phased out by 2004 (1997)

Budgeting and long-range planning promise further fine tuning in this area.

Several impediments to an optimum budgeting process remain, however. Statutory and constitutional spending mandates render 70% of the state budget “uncuttable” which greatly limits budget choices when cuts must be made. And, the existing Mineral Trust Fund, although a recent reform, has not functioned as a true “Rainy Day Fund.”

On the revenue and taxation side of the fiscal reform equation, several important changes have been made in the way business is taxed (e.g., inventory tax credit, “S” corporation tax treatment, and inheritance tax phase-out). An increasing awareness of the potential impact on economic growth has led to a change in attitude regarding business taxation. This change is not complete as evidenced by the recurring proposal for a massive new $1 billion-plus business tax—the hydrocarbon processing tax.

The structure of individual taxes, however, has actually worsened over the decade. The state’s increasing reliance on sales taxes since 1987 flies in the face of fiscal reform. The sales tax base was expanded (through temporary taxes on food and utilities) while keeping the 4% state rate. Fiscal reform called for a broad base but with a much lower rate.
Another challenge to fiscal reform has been the ongoing push to raise the homestead exemption. A proposed constitutional amendment freezing assessments for homeowners over age 65 now awaits voter approval.

Later Developments

In early 1995, CABL released a report prepared by Dr. James A. Richardson updating the Louisiana State University-CABL study that was completed in 1987. The state had continued to be vulnerable to fiscal crises. In the interim, annual special sessions had been required to deal with fiscal issues and several budget crises. A $750 million budget shortfall was projected for fiscal 1995-96 due to federal Medicaid cuts. The earlier dependence on mineral revenues was, however, no longer the source of fiscal crises. Instead, spending patterns and the failure of the state’s tax structure to keep pace with economic growth appeared responsible for the continuing problems.

In spite of several improvements, business taxes remained high compared to other states. The basic revenue imbalance continued with high sales taxes and low property and income taxes. A sharp decline in the income elasticity of sales tax revenues was noted. Also, by 1995, revenues from the lottery, river boats and video poker had become a sizeable but unsure funding source.

Since 1995, the state’s fiscal situation has improved. A steady growth in the economy and efforts to control spending have resulted in state operating budget surpluses in 1995, 1996 and 1997. The Medicaid budget crisis that threatened the state in 1995 was defused through program and spending cuts. Legislators even dropped a penny of the sales tax on food and utilities for fiscal 1998. Still, the basic imbalances in the tax structure continue as do the demands for increased state spending (for teacher raises, new community colleges, etc.).

Revenue forecasts through the year 2002 suggest the growth in Louisiana’s state revenues will not keep up with the growth in its economy as measured by personal income. The Economic Estimating Conference (February 1998 report) projected the following growth rates:

| Total Taxes, Licenses, and Fees | 
|---------------------------------|------------------|
| FY 2000                         | 2.06%            |
| FY 2001                         | 3.71%            |
| FY 2002                         | 3.79%            |

| State Personal Income | 
|----------------------|------------------|
| FY 2000              | 5.60%            |
| FY 2001              | 5.60%            |
| FY 2002              | 5.60%            |

Louisiana’s demand for services is unlikely to decline, and the current movement to hand down program and funding responsibilities (devolution) from the national level to the states could put even more pressure on the state’s tax structure.

Redesigning Louisiana’s Tax Structure: Basic Principles

Most of the remaining issues for fiscal reform involve the state’s tax structure. The yet-to-be enacted tax change proposals common to the fiscal reform efforts can be grouped under three basic objectives:

1) To rearrange the way in which individuals pay for government services by shifting the emphasis from sales taxes to personal income and property taxes.

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"Revenue forecasts through the year 2002 suggest the growth in Louisiana’s state revenues will not keep up with the growth in its economy as measured by personal income."
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"Most of the remaining issues for fiscal reform involve the state’s tax structure."
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10.07% of personal income in 1994—well below the national average.
2) To provide a more competitive business environment by addressing the problems of a high corporation franchise tax and the sales tax on the purchase of machinery and equipment.

3) To expand local government revenue capacity and flexibility by allowing a local piggy-back on the state income tax, restructuring state subsidy programs, broadening the property tax base or some combination of these.

There are several basic principles that need to be considered in redesigning Louisiana’s tax structure. The tax structure should provide:

- Reliable, stable and sufficient revenues
- Balanced revenue sources
- Equity among taxpayers
- A competitive business tax environment
- Balance between state and local revenues

Reliability, Stability and Sufficiency

In the last 25 years, tax changes resulted in net revenue increases in 13 years and net decreases in 10. The grand total was a net increase of over $1.5 billion through 1997 with $675 million of that occurring in fiscal 1984-85 alone. Of the net increases during that period, $847 million were from taxes on business and $683 million on individuals.

Through 1985, the tax increases and decreases were largely a response to changing fortunes in mineral revenues. Since then, other factors—including changes in federal aid and slow overall revenue growth—have been more important sources of fiscal instability.

According to a Tax Foundation report, Louisiana was one of only three states whose tax revenues, adjusted for inflation, actually declined between 1986 and 1996. In 1986 dollars, Louisiana’s state taxes had an average annual growth of -0.07%. At the same time, the state’s real personal income was growing at an average annual rate of 1.87%. By comparison, the U.S. average annual real growth in state taxes was 3.03%, slightly higher than the average annual real growth in personal income (2.70%).

Revenue Balance

Nationally, three taxes—the property tax, sales tax and individual income tax—provide about 76% of all state and local tax revenue. Nearly all of the states balance the use of at least two and usually all three of these sources.
Louisiana is one of only a handful of states with a state/local tax structure that depends primarily on only one of the three major revenue sources. The most recent census data (fiscal 1994) show Louisiana ranked fourth highest in the nation in sales tax as a percent of total taxes. It ranked 43rd in property tax and 40th in individual income tax among the 50 states.

The other one-tax states are Alaska (mineral revenues permit it to forego both sales and income tax), Delaware (favors the income tax), and New Hampshire (has no sales tax and minimal income tax). Two other states—Mississippi and New Mexico—are similar to Louisiana but rely more on property and income taxes.

Nineteen states make little or no use of one tax but balance the use of the other two. For example, Texas, with no income tax, evenly balances its reliance on property taxes and sales taxes. The remainder of the states balance all three taxes in approximation of the national averages.

As shown in Figure 1, Louisiana differs substantially from the national averages. The average tax structure for the 15 southern states differs from the national averages in the same way but not to the same extent that Louisiana does.

Louisiana’s revenue strategy traditionally emphasized taxing business over individuals. As long as mineral revenues held out, the state was able to avoid a significant income tax and could reimburse local governments for property tax losses due to the homestead exemption. As mineral revenues declined, the state increased business taxes and the “less painful” taxes (sales tax, excise taxes, “sin” taxes and fees) borne by both individuals and business. Taxes are considered “less painful” when taxpayers pay them a little bit at a time rather than receiving an annual bill.

As a result of the homestead exemption and low personal income tax, Louisiana is a low-tax state for individuals. The Tax Foundation, which annually computes a “tax freedom day” for each state, showed the average Louisiana taxpayer as having the lowest combined federal, state and income taxes (e.g. water used), while “ability-to-pay” more readily applies to functions considered a common good (e.g. education).

One measure of fairness is how a tax structure affects taxpayers at different income levels. If taxes take the same share of a taxpayer’s income at different income levels, the tax structure is “proportional.” If taxes take a larger share as income declines, it is “regressive” and, if it takes a larger share as incomes rise, it is “progressive.” A tax structure usually includes both progressive and regressive taxes, and the net impact depends on which taxes are emphasized.

National comparisons of state/local tax burdens on families have come to different conclusions about the progressivity of Louisiana’s tax structure. Several studies assumed home ownership and used income levels ranging from $25,000 to $100,000. These studies showed that Louisiana tax burdens were relatively progressive, at least between these income levels.

Another approach took average incomes for income quintiles, included renters and assumed that portions of the rent and certain business taxes were paid by the household. This comparison ranked Louisiana as having one of the 10 most regressive tax structures in the country with taxes taking more than twice as much of the poorest family’s income as it does of the richest.
Table 1

Ranking by Total State and Local Tax Burdens for Hypothetical Firms, 1993 Tax Year

<table>
<thead>
<tr>
<th></th>
<th>AL</th>
<th>AR</th>
<th>FL</th>
<th>GA</th>
<th>LA</th>
<th>MS</th>
<th>NC</th>
<th>OK</th>
<th>SC</th>
<th>TN</th>
<th>TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Manufacturer</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Capital Intensive Manufacturer</td>
<td>11</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>10</td>
<td>6</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Labor-Intensive Manufacturer</td>
<td>11</td>
<td>5</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>7</td>
<td>6</td>
<td>10</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>No-Profit Manufacturer</td>
<td>11</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>10</td>
<td>8</td>
<td>6</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>High Debt Manufacturer</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Construction Firm</td>
<td>11</td>
<td>4</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>9</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Wholesale Firm</td>
<td>11</td>
<td>3</td>
<td>9</td>
<td>6</td>
<td>4</td>
<td>1</td>
<td>7</td>
<td>5</td>
<td>10</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Retail Firm</td>
<td>11</td>
<td>4</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>1</td>
<td>9</td>
<td>6</td>
<td>10</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>


A similar study using slightly different assumptions showed Louisiana’s taxes quite regressive for family incomes between $20,000 and $30,000 and progressive for those between $30,000 and $200,000.

Low and middle income homeowner families pay little or no property tax and the tax is progressive for higher income families. Renters at all income levels pay property taxes passed on to them through rent and thus often bear a greater property tax burden than similarly situated homeowner families.

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7th highest in the share (6.2%) paid by visitors. By comparison, the U.S. average shares were: 40.7%—business; 54.9%—households; and 4.4%—visitors.

A higher business tax share is expected in a state with capital intensive industry and a relatively poor population. Thus tax share data alone does not indicate an unfair level of taxation on business.

"Louisiana’s high sales tax places a much heavier burden on families at lower income levels."

Louisiana’s high sales tax places a much heavier burden on families at lower income levels. Excise taxes can increase the burden even more depending on the family’s use of gasoline, alcohol and tobacco.

The personal income tax is not paid at the lowest income levels and is sharply progressive up to lower middle income levels after which progressivity flattens out. While generally progressive, the income tax is not used in Louisiana to the extent it is in the average state.

Competitive Business Environment

Studies of the relationship between state and local taxes and business development have had mixed results. However, many of the more recent studies have shown a positive, although modest, relationship between lower taxes and growth. Taxes are only one factor in the decision to locate or expand a business. However, for some firms, the state’s tax structure, and even how it is...
perceived, can be significant factors.

Louisiana’s tax structure has traditionally placed a greater emphasis on business taxes. The constitutional protections from property and income taxes for individual taxpayers have left business to pick up the slack. In recent years, however, a new attitude toward business taxation has been evident. There has been an increased concern for the potential impact that business taxes might have on state growth. This is reflected in recent tax changes favorable to business such as the inventory tax credit.

A number of business concerns remain to be addressed. These include the heavy tariff placed on start-ups and expansions by the sales tax on manufacturing machinery and equipment (MM&E), the relatively heavy franchise tax and inclusion of debt in the franchise tax base, and the effect of an ever-increasing homestead exemption on businesses’ exposure to the property tax. Several recent comparative studies tend to support the contention about relatively high taxes on business, particularly manufacturers, in Louisiana.

PAR’s comparative study of 1993 corporate tax burdens in 11 southern states found that a hypothetical “average manufacturing firm” faced the highest tax burden in Louisiana. (See Table 1 for tax burden ranking for eight hypothetical firms.) Louisiana’s tax structure also placed a higher than average burden on construction, wholesale and retail firms. (This analysis assumed the firms were ongoing and that any temporary exemptions had expired.) This study also showed the extremely high burden placed on start-up firms due to Louisiana’s sales tax on purchases of manufacturing machinery and equipment and its unique franchise tax. (See Figure 2.)

A 1994 12-state comparison by the North Carolina Business Council of Management and Development found Louisiana had the highest overall tax burden for three of four manufacturing sectors and an above-average burden for retail firms. (See Table 2.)

Another 1994 study by KPMG Peat Marwick assessed business tax competitiveness among 21 states (including 12 southern states). The study found Louisiana had the highest total effective business tax rate—fully one-third higher than the 21-state average. (See Table 3.)
Table 2
Overall Business Tax Burden as Calculated by the
North Carolina Business Council of Management
and Development Report

<table>
<thead>
<tr>
<th>Ranking in Overall Business Tax Burden Out of 12 States</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL</td>
</tr>
<tr>
<td>----</td>
</tr>
<tr>
<td>Paper Process</td>
</tr>
<tr>
<td>Machinery Products</td>
</tr>
<tr>
<td>Food Products</td>
</tr>
<tr>
<td>Textiles</td>
</tr>
<tr>
<td>Groceries</td>
</tr>
<tr>
<td>Department Stores</td>
</tr>
<tr>
<td>Home Improvement</td>
</tr>
<tr>
<td>Banks</td>
</tr>
</tbody>
</table>

NOTE: The number one denotes a high tax burden.

Louisiana offers business a number of significant tax incentives—the industrial property tax exemption, enterprise zone exemptions from sales taxes, tax equalization contracts, the 15-year net operating loss carry forward and the recently phased-in inventory tax credit. For eligible businesses, these incentives can offset problems in the tax structure to some degree.

The state’s major industrial exemption has come under attack in recent years. Several fiscal reform proposals suggested package deals wherein the industrial tax exemption might be phased out but only if the other major business tax reform proposals and the homestead exemption were dealt with at the same time.

State/Local Tax Balance

States differ in the way taxing and spending responsibilities are divided between the state and local levels. The National Conference of State Legislatures measures the degree of centralization at the state level using state taxes as a percent of state/local taxes. By this measure Louisiana has made a remarkable shift towards decentralization. In 1970, the state collected 69.6% of the state/local taxes. By 1994, Louisiana’s state share dropped to 59.0%—the largest shift downward in the nation.

At the same time, most other states were moving to centralize more responsibility at the state level. The average state tax share for all states moved up from 55.3% in 1970 to 59.7% in 1994.

As a result of the state and national shifts, Louisiana now has the same degree of state centralization as the national average.

There is an imbalance between state and local revenue authority due to Louisiana state and local tax structure. Local governments have almost sole use of the property tax, but the tax base is extremely limited by exemptions. Local governments are prohibited from levying a tax on income, severance and motor fuels. To help make up for these limitations, local governments have been given unusually broad sales tax authority.

The limited tax authority has forced local governments to rely heavily on sales taxes and on fees and charges. With a few exceptions, Louisiana local gov-
Table 3
Effective Tax Rates
KPMG Peat Marwick Study

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Louisiana</td>
<td>11.54%</td>
</tr>
<tr>
<td>2</td>
<td>Arizona</td>
<td>11.14</td>
</tr>
<tr>
<td>3</td>
<td>Texas</td>
<td>10.11</td>
</tr>
<tr>
<td>4</td>
<td>Indiana</td>
<td>10.96</td>
</tr>
<tr>
<td>5</td>
<td>Ohio</td>
<td>10.78</td>
</tr>
<tr>
<td>6</td>
<td>Pennsylvania</td>
<td>10.43</td>
</tr>
<tr>
<td>7</td>
<td>Florida</td>
<td>10.25</td>
</tr>
<tr>
<td>8</td>
<td>Tennessee</td>
<td>9.86</td>
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<tr>
<td>9</td>
<td>Michigan</td>
<td>9.74</td>
</tr>
<tr>
<td>10</td>
<td>Mississippi</td>
<td>9.56</td>
</tr>
<tr>
<td>11</td>
<td>South Carolina</td>
<td>8.44</td>
</tr>
<tr>
<td>12</td>
<td>Massachusetts</td>
<td>8.02</td>
</tr>
<tr>
<td>13</td>
<td>Georgia</td>
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<td>14</td>
<td>Kentucky</td>
<td>7.59</td>
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<td>15</td>
<td>Arkansas</td>
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</tr>
<tr>
<td>16</td>
<td>Illinois</td>
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</tr>
<tr>
<td>17</td>
<td>California</td>
<td>6.73</td>
</tr>
<tr>
<td>18</td>
<td>North Carolina</td>
<td>6.48</td>
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<tr>
<td>19</td>
<td>New York</td>
<td>6.41</td>
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<tr>
<td>20</td>
<td>Virginia</td>
<td>5.03</td>
</tr>
<tr>
<td>21</td>
<td>Alabama</td>
<td>4.91</td>
</tr>
<tr>
<td></td>
<td>21-State Average</td>
<td>8.60</td>
</tr>
</tbody>
</table>

SOURCE: Policy Economics Group, KPMG Peat Marwick LLP, Comparative Analysis of the Relationship of North Carolina’s Tax Structure to Economic Development, Washington, D.C., November 30, 1994, p. 44. This study assessed business tax competitiveness in 20 states and North Carolina. The taxes covered include federal income taxes; state income and franchise taxes; state and local property taxes, including intangibles; state and local sales taxes; and state utility taxes. The effective tax rate is calculated based on the difference between pretax and after-tax rates of return and accounts for the impact of taxes on investment decisions. See pp. 18 and 64-65 of the KPMG report for an in-depth discussion of effective tax rates.

governments have largely avoided serious fiscal crises in recent years.

In part due to its tax structure, Louisiana’s local funding for K-12 education is low relative to state funding. According to National Education Association data, Louisiana local funding on average comprised 36.8% of total education revenue receipts in 1995-96 compared to a national average of 45% from local sources. The state also assumes full responsibility for funding post-secondary education whereas local funding of vo-tech schools and community colleges is commonplace elsewhere.

Local governments continue to rely on various types of state aid—revenue sharing, salary supplements, and severance tax and gasoline tax dedications.

WHAT IS A “GOOD” TAX?

The criteria for a good tax structure, as discussed above, generally apply when evaluating specific taxes as well. Stability, equity, and competitive factors are very important. However, several additional factors also must be considered. A tax should:
- Have a broad base and low rate,
- Not unreasonably distort the allocation of economic resources,
- Not be hidden from the taxpayer,
- Be easy to administer, and
- Require minimal compliance costs.

A real world consideration is taxpayer acceptance. To most taxpayers, a “good” tax is one someone else pays regardless of how well it meets the above criteria.

TAX REFORM OBJECTIVES

The remainder of this report examines major tax and revenue issues and recommends changes aimed at achieving three basic objectives to produce an optimum state/local tax structure for Louisiana:
1. Restructuring the way individuals pay for government services.
2. Providing a more competitive business environment.
3. Strengthening local fiscal ability.

Restructuring how the individual pays state and local taxes basically involves reducing the reliance on sales taxes and making greater use of the property and personal income taxes.

Sales Tax

The general sales and use tax has become the major single revenue source for both the state and local governments in Louisiana. It provides about one-third of the revenues collected by each level of government from its own sources. The state alone receives more than $2.2 billion annually in sales taxes while local governments take in more than $1.5 billion. In combined state and local sales taxes per capita, Louisiana ranked 9th highest in the nation in fiscal 1994 while ranking 34th in total revenue per capita.

Changes in the economy have made the sales tax less elastic than it once was. Because a large and growing share of spending is on services rather than goods, a sales tax that does
not include services in its base will grow more slowly than the economy. The state sales tax now has an elasticity of about 0.75, meaning it grows at three-fourths the rate of the state’s personal income. The slow growth of the sales tax combined with its dominant role in the state’s revenue structure creates a potential for future instability.

Louisiana’s combined state/local sales tax rates are among the highest in the nation. Six municipalities, including Bastrop and Denham Springs, lead the nation with a combined state and local rate of 9.5%. New Orleans, with 9%, ties the highest rate found in any other state.

Louisiana is one of only 10 states that authorize local governments to levy sales taxes at rates of 3% or more. Most states have no local sales tax or allow levies of 2% or less. In Louisiana, parishes, municipalities, school boards, sheriffs, district attorneys and some special districts can levy sales taxes bringing the combined local rate to 4% or more for most urban residents of the state.

The sales tax is regressive in effect. While everyone pays the same rate, families with lower incomes use a larger share of their income to purchase items subject to the tax. Another problem is that, unlike property or income taxes, the sales tax is not deductible for federal income tax purposes.

In most states, local sales taxes are piggy-backed on the state tax and share a common base. This is not the case in Louisiana where the tax base differs between the state and locals and among local jurisdictions because they allow different exemptions. This together with local rate differences complicates administration and compliance.

"Louisiana’s combined state/local sales tax rates are among the highest in the nation."

From the early 1970’s, food, drugs and utilities were exempt from the state tax but not from the local. Since 1986, the state has suspended the food and utilities exemption for part or all of its tax adding further to its regressive-ness.

Most states include at least some services in their sales tax base. For exempt status. Florida added most services to its sales tax base one year, but removed them the next.

According to a 1996 comparison by the Federation of Tax Administrators, Louisiana now taxes 58 of 164 services that are taxed by one or more states. Twenty-one states tax more services than Louisiana, but only half of those tax 70 or more services. Five states tax between 141 and 157.

Some argue that unilateral taxing of professional services by one state could impair its firms’ ability to compete with others in the region. Others argue that collecting the tax on all services delivered in state would avoid intra-state competition problems.

Personal Income Tax

The personal income tax provided 19% of the state’s own-source revenue in fiscal 1997—up from 5.3% in 1981—and has had almost a straight line growth since 1987. This is the state’s only major tax which exhibits substantial elasticity. A 1% rise in state personal income translates to a 1.4% increase in the revenue on average. The tax raised nearly $1.3 billion last year. In spite of the growth in income tax collections, Louisiana ranks very low per capita in its use of this revenue source—41st among the 46 states that levied the tax in 1994.

"In spite of the growth in income tax collections, Louisiana ranks very low in its use of this revenue source—41st among the 46 states that levied the tax in 1994."

the most part, professional services (e.g. lawyers, accountants, etc.) are exempt. A broad inclusion of services has been suggested as a way to gear the sales tax to the growing service-based economy and increase its elasticity. However, the service industries have strongly resisted losing the
Louisiana’s personal income tax has a relatively high personal exemption/standard deduction ($9,000 for couple filing jointly) and rates increasing from 2% on the first $20,000 of taxable income, to 4% on the next $80,000 to 6% on the excess over $100,000. As a result, the tax is highly progressive for incomes up to $30,000 for single filers and $50,000 for joint filers. Above these income levels, the progressivity tends to flatten out.

Two exemptions tend to flatten progressivity. One is for excess federal itemized deductions (reduces tax collections by about $93 million) and the other is the deduction for federal income taxes paid ($329 million tax reduction). These exemptions are more important at higher incomes.

Fiscal reform proposals have typically called for eliminating all deductions except the standard deduction/personal exemption and levying a flat rate tax of no more than 4%.

The current maximum income tax rates were frozen in the constitution in 1974 along with the federal income tax deduction, which had been repealed four years earlier. These restrictions severely limit the state’s ability to use this revenue source. Underutilization of the income tax, which is most closely associated with the ability-to-pay principle, has resulted in an even greater reliance on the regressive sales tax.

Without a constitutional change, only statutory changes can be made in the income tax. These would be limited largely to lowering rates or manipulating the personal exemption.

**Property Tax--Homestead Exemption**

One recent national report noted that Louisiana’s “kingfish of homestead exemptions” makes it the only state with a progressive property tax. The homestead exemption covers the first $75,000 in value of an owner-occupied home. Statewide, 75% of all homes are completely protected from all property taxes except municipal levies (the exemption also covers most city taxes in New Orleans). In 1997, the exemption covered nearly $5 billion in assessed value of homes and reduced tax bills by $551.2 million.

On average the exemption removes about one-fourth of the property tax base. Of the statewide total assessed value of $19.7 billion, only $14.7 billion is taxable. The assessed value of homesteads that remains taxable is only about $370 million or 2.5% of the tax base.

The exemption creates special difficulties for those local jurisdictions which have few expensive homes, little commercial activity and no major industry. This, the most liberal homestead exemption in the U.S., is the leading reason for Louisiana’s under-use of the property tax.

The 25% of homeowners who paid property tax in 1997 paid less than 4% of the total collected. The remaining 96% was borne by income-producing property such as farm land, rental housing, commercial property and industry. Renters pay property tax indirectly through their rents. If one assumes landlords pass on half of the tax on rental housing, the 35% of households that rent could be paying two or three times the total property taxes paid by all homeowners in the state.

The exemption makes it difficult for local citizens to tax themselves to pay for services they want. Raising even a small amount of revenue in a homestead-heavy jurisdiction can require a large millage and a significant tax increase for the remaining taxable property.

PAR has long advocated either reducing the homestead exemption, particularly for school millages, or replacing it entirely with a “circuit breaker”—an exemption which applies when a family’s income falls below a certain level. Over the years, PAR has supported a variety of proposals to lessen the revenue impact of the exemption including:

- giving voters an option of whether to apply the exemption to new tax millages only,
- reducing the exemption to $2,500 of assessed value ($25,000 market value) for new
or renewed millages while retaining the $7,500 ($75,000) exemption for elderly homeowners,

- lowering the exemption for school taxes.

In opposing efforts to increase the exemption, PAR has argued that "at the very least" the exemption should be left alone so that inflation could gradually place an increasing portion of home values on the tax rolls. PAR has argued that homeowners should not be exempted from paying taxes to support services that directly affect them and their home values. Having a greater stake in supporting local services would increase homeowner interest in holding local governments accountable.

Objective No. 2
Providing a More Competitive Business Environment

The major tax proposals to improve the state’s business climate deal with the corporation income and franchise taxes and the sales tax on machinery and equipment.

The corporation income and franchise taxes are the state’s major direct business taxes producing $380 million and $244 million, respectively, in 1997. Together, they made up 9.3% of the state’s tax revenue—down slightly from 9.7% in fiscal 1981. The income tax is the more volatile of the two as it reflects changes in industry profits. The franchise tax, based on capital values, is more stable.

Corporation Income Tax

The corporation income tax is based on a firm’s Louisiana net income less an adjustment for prior year operating losses and a deduction for federal income taxes paid. The rate rises in steps from 4% on the first $25,000 to 8% on income above $200,000. The adjustment for losses carried forward reduced collections by a reported $171 million last year and the federal income tax deduction removed another $94 million. The inventory tax credit, which may be applied against either the income or franchise tax, will reduce the state’s collections from these two taxes by about $100 million this year.

Of the 45 states levying a corporation income tax, only five, including Louisiana, allow federal tax deductions. Also, as of 1996, 17 of the states levied flat rates or maximum rates equal to or higher than Louisiana’s 8%. However, the top rate in 9 of the southern states was at 6% or less.

Although Louisiana’s maximum rate was higher than that of the other 10 southern states in PAR’s recent comparative study, Louisiana’s hypothetical firms all showed corporate income tax burdens, even before the inventory credit was removed, that were lower than all but two states (including Texas which has no tax).

Corporation Franchise Tax

Louisiana’s corporation franchise tax is based on the amount of issued and outstanding capital stock, surplus, undivided profits and borrowed capital. The tax rate is $1.50/$1,000 on the first $300,000 and $3.00/$1,000 on the remainder with a $10 minimum.

Louisiana is one of only a few states that include debt in the franchise tax base. Debt is said to comprise about 40% of the tax base and represents roughly $100 million in revenues. In PAR’s 11-state southern comparison, Louisiana firms paid at least twice the franchise tax levied in other states. On average, the franchise tax made up only about 5% of a firm’s total state/local tax bill in the comparison states.

Fiscal reform proposals have included eliminating the franchise tax, cutting the rate in half or removing debt from the base. Proponents of cutting debt argue it is unfair to tax borrowing and that it is an unnecessary burden for start-up firms, troubled firms and firms that have no option but to borrow.

However, for many firms, the decision to borrow or to issue stock is an economic one based on capital costs. Lowering the franchise rate while keeping debt in the base would provide a degree of equity among firms with different capital structures.
Sales Tax On
Manufacturer’s Machinery
and Equipment (MM&E)

PAR’s corporate tax comparison study found Louisiana to be the only southern state that did not exempt or greatly reduce the sales tax on the initial purchase of manufacturing machinery and equipment. Of the 11 states examined, six fully exempted MM&E and two applied only minimal levies. One state, Oklahoma, also exempted the cost of building materials and other business equipment and furniture. As a result, a Louisiana manufacturing firm’s start-up sales taxes were more than 50% higher than the next highest state and three times that of the typical state.

Louisiana does provide for a rebate of state and certain local sales taxes (upon approval of the affected local government) on building materials, machinery and equipment for businesses located in one of the state’s 1,626 enterprise zones which nearly blanket the state. Still many purchases remain taxed. An exemption of manufacturing machinery and equipment purchases would lower state tax collections by $100 million.

Sales Tax Administration

In 1979 PAR recommended that the state collect local sales taxes (as is done in many states) to avoid the compliance problems of businesses having to report to numerous separate local taxing bodies. In 1991, voters approved a requirement for a single collector for each parish. While this was a big improvement, a retailer still must file a separate report for the state and each of the parishes in which it does business. Central collection should be considered if and when uniformity of the state and local sales tax bases is achieved.

Industrial Property
Tax Exemption

The constitution provides for a property tax exemption for a new manufacturing plant or an addition to an existing plant for five years, renewable for another five years. The exemption covers building, equipment, machinery and improvements but excludes land and inventories. (A separate state tax credit offsets taxes paid on inventories.) The exemption has been used extensively since 1936. In the past five years, new exemptions were granted covering investments of $2.9 billion a year on average. Through 1997, exemption contracts applied for or in force represented initial investments of about $21.2 billion (about $3.2 billion in assessed value at 15%, not counting depreciation).

Because assessors do not record assessed values for the exempt industrial property, the amount of tax revenue foregone can only be roughly estimated. Estimates run between $250 million and $350 million annually.

Industrial development professionals and manufacturers, particularly the capital intensive firms, have been very protective of this exemption. Proponents view the exemption as the state’s major incentive program and argue that it is necessary to ensure continued investment in the state’s basic industries. They argue that firms receiving the exemption more than make up for the exempt taxes with other taxes they pay to local governments and by the positive impact on the local economy.

 Critics of the exemption argue that the amount of tax forgiven per job created is high; that few of the exemptions go to new firms; and that the majority of the exemptions do not create any permanent new jobs.
Several economic development consultants have criticized the efficiency of the industrial exemption and suggested that targeted incentives would be more effective.

A recent PAR analysis concluded that, in 1993, the industrial tax exemption served to offset other disadvantageous aspects of Louisiana’s tax structure. The analysis compared the state and local taxes on a hypothetical capital intensive manufacturer for the first 10 years of operation in 11 southern states. Without the exemption, the Louisiana firm’s tax burden would have risen from the middle of the group to well above that of the highest competing state. This data provided a justification for the exemption independent of its role as an economic development incentive.

A number of the fiscal reform studies have grappled with the problem of the industrial exemption—how to broaden the local property tax base without worsening the business
tax climate. One proposed solution has been to remove the other problems in the business tax structure and then phase out the industrial tax exemption and the homestead exemption simultaneously.

Objective No. 3: Strengthening Local Government Fiscal Ability

One goal of fiscal reform has been to create an appropriate balance of revenue-raising responsibility between the state and local governments. The aim has been to enable and encourage local governments to take a larger role in funding local services—particularly for schools. To do this, certain limitations on local taxing ability must be removed.

Use of the property tax is limited by the major exemptions for homesteads and industry. The property tax base could be greatly expanded by including a phasing-out of these exemptions as part of a comprehensive tax restructuring. Several other property tax issues need addressing as well. One is the state property tax.

Fiscal reformers have differed on what to do with the state’s constitutional authority to levy a 5.75 mill property tax. Options include prohibiting the state tax, limiting its use or simply allowing it to remain available but unused.

The property tax should be reserved primarily as a revenue source for local governments.

However, the state would be in a better position to exercise its responsibility for ensuring statewide equity in assessments if it levied a small millage itself. A state levy might also be useful in helping to balance the tremendous inequities in property tax base among local jurisdictions.

The way the property tax is administered reduces its productivity. Property now must be reassessed at least every four years. Real property is reassessed every four years but personal property (inventory, etc.) is assessed annually. While personal property assessments keep up with inflation, real property values fall behind and then can increase significantly at reappraisal. To offset this increase, millages are automatically reduced every four years to prevent an increase in tax collections. Unless the governing authority votes by two-thirds to restore the millages, it loses the potential tax growth due to inflation.

Miscellaneous Issues

Mineral Revenues

Fluctuating mineral revenues were a major factor in the fiscal crises that activated the fiscal reform movement in the mid-1980s. A mineral revenue trust fund was subsequently created to prevent future problems by removing windfall mineral revenues—the amount exceeding $750 million each year—from the general fund. However, no money has gone into the fund since its creation because revenues have never exceeded the threshold.

Mineral revenues, which were over 42% of the state’s tax revenues in fiscal 1981-82, now provide only about 12% and, barring any tax increases, will continue to decline. Oil and gas production in Louisiana has been in a steady decline for a quarter century.

If voters approve a proposed constitutional amendment to increase the dedication of severance taxes to parishes at the fall 1998 election, state revenues will be further reduced.

In 1997, the Legislature enacted a proposed constitutional amendment to create a “rainy day fund” which would receive excess mineral revenues and other nonrecurring revenues as well. The proposal awaits voter approval in the fall 1998 election.

User Fees

Appropriately applied, user fees are not taxes. However, if they provide revenues above the cost of the service provided, the excess amount can be considered a tax. The Legislative Auditor undertook the first comprehensive review of the state’s fees in 1996 and found that the 1,551 fees studied totaled almost $1.2 billion in fiscal 1994. Fee revenue had grown 14% annually for the prior five years.

Fees include licenses, permits, registrations, certifications, tolls, inspections, examinations, hospital charges, college, and miscellaneous charges. They run the gamut from tuition to copy machine charges. About half of the fees studied recovered revenues exceeding the
cost of the service. However, many fees did not cover the full cost of service—falling an estimated $28 million short.

A 1995 constitutional amendment, designed to slow the growth of fees, required a two-thirds vote of the Legislature to levy a new fee or increase a fee. While many fees are set by law, many others are determined by government agencies through administrative rule. The amendment resulted in a great deal of confusion and requests for Attorney General Opinions. One opinion attempted to limit application of the new rule to the myriad charges for various goods and services at a university arguing that it was not the legislative intent to require each of these items to come up for a vote. This and other interpretations may allow a more reasonable use of the rule, but are still subject to possible redetermination in a court.

In an interim study requested by HSR 80 of 1997, a legislative committee recently heard complaints regarding difficulties the two-thirds-vote-for-fees provision has created for the universities. The committee was unmoved, suggesting that instead of changing the rule, the universities should be more “creative” in getting around it.

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**Conclusions and Recommendations**

**CONCLUSION**

Fundamental changes in a state’s tax structure do not come easily, particularly when they require individual taxpayers to accept greater responsibility for funding the services they demand. Such is the political challenge of tax reform in Louisiana.

Another political challenge is to accomplish the remaining fiscal reforms as a cohesive package. The piecemeal approach has been effective in enacting non-tax fiscal reforms, but selective enactment of the major tax recommendations could have an undesirable impact on the business tax climate.

PAR’s recommended tax changes are generally consistent with those of the major fiscal reform efforts of the past decade. These changes would bring Louisiana’s tax structure much closer to the national norm, create a more stable fiscal future for both the state and local governments, and improve the state’s ability to compete for economic development.

**RECOMMENDATIONS**

**Individual Tax Reform**

**NOTE:** The following are recommended changes in the way individuals pay sales, income and property taxes. The suggested changes in the sales and income taxes, in particular, require coordination as neither can be reformed independently.

1. **Lower state sales tax**
   - The state should lower its sales tax rate to 2% on a broad base.

- Most long-standing exemptions should be removed, including those for food and utilities. (Consideration should be given to retaining an exemption for prescription drugs and for those items that may be fully justified as effective economic development incentives.) Services not now taxed should remain excluded until the state’s service firms can be assured that they would not be placed at a regional disadvantage.

- When the state sales tax rate is lowered, local governments must be prevented from raising their rates to make up the difference.

- The state should consider moving toward creating a uniform state/local sales tax base and towards state collection of local sales taxes.
2. Redesign personal income tax

- The personal income tax should be redesigned to achieve the following:
  - A broader base (by removing the deduction for federal taxes paid and the deduction for excess federal deductions),
  - A personal exemption/standard deduction that is phased out as income rises to produce moderate progressivity and is sufficient to exempt poverty level incomes, and
  - A flat rate sufficient to continue existing revenues and to at least partially offset the recommended decrease in the state sales tax.

- The income tax rate limit and federal income tax deductibility provisions should be removed from the constitution to allow the tax to be redesigned statutorily.

- A personal income tax modeling system should be developed to help determine how best to achieve the desired results and to assess the impact of proposed changes on tax burden, progressivity and collections. Developing and maintaining the model should be a joint responsibility of the Department of Revenue and Taxation and the Legislative Fiscal Office.

3. Eliminate the homestead exemption

- The homestead exemption should be phased out and replaced with a circuit-breaker provision to provide partial tax relief for low income homeowners and renters. The relief should increase as income falls below a threshold amount. The state revenue-sharing program should be repealed and a portion of those funds used to finance the circuit breaker.

- The homestead exemption should be removed from all municipal millages in Orleans Parish.

4. Change corporation income tax

- Federal tax deductibility should be removed from the corporation income tax to broaden the tax base and permit lowering the maximum rate from 8% to 6%.

5. Cut franchise tax rate

- The franchise tax rate should be cut in half by returning to the pre-1984 rate of $1.50/$1,000 or, alternatively, debt should be removed from the tax base.

- The minimum franchise tax rate should be eliminated to reduce the paperwork required for very minor revenues.

6. Exempt MM&E

- A state sales tax exemption should be provided for purchases of manufacturing machinery and equipment (MM&E).

7. Phase out property tax exemption

- With the enactment of the above recommended business tax changes, consideration should be given to phasing out the industrial property tax exemption. The phasing-out of this exemption should be accompanied by a simultaneous phase-out of the homestead exemption (and its replacement by a circuit breaker). Existing tax exemption contracts should be honored.

NOTE: The following are recommended tax changes designed to improve Louisiana’s business tax competitiveness to help it attract and retain business and industry. These changes should be considered as a package.

8. Allow local income tax

- Parishes, school boards and municipalities should be constitutionally authorized to piggyback the state income tax on individuals, with local voter approval. The local levy might be limited to a maximum of 1% or 2%. The prohibition against a payroll or earnings tax (collected where an individ-
9. Cap local sales tax
   Special authorization to exceed the 4% maximum local sales tax levy should no longer be provided. (This would be imperative to prevent local replacement of a future state tax reduction.)

10. Allow property transfer tax
   Parishes and municipalities should be given general authority to levy a property transfer tax (a tax on the sale of real estate).

11. Devise state aid formula
   A state aid formula should be devised based on local need, revenue ability and tax effort to replace existing subsidy programs such as salary supplements.

12. Retain state property tax authority
   The state's 5.75 mill constitutional property tax authority should be retained. Revenues received from any such levy should be used only for property tax administration and distribution to local governments. The levy would give the state standing in court to seek equitable administration of the tax.

   Any distribution of a state property tax should be based on local tax ability and capacity and designed to achieve greater interjurisdictional equity.

13. Assess property annually
   All taxable property, both real and personal, should be reassessed annually based on current fair market value. The automatic millage reduction required by the constitution should be removed or limited to permit collection of the same amount collected the prior year plus the tax on new additions to the rolls plus an increase on existing property equal to the growth factor. The growth factor could be based on the average inflation for several years or could be limited to a maximum inflation rate.

14. Create Rainy Day Fund
   The outdated Mineral Revenue Trust Fund should be replaced by an effective Rainy Day Fund that can prevent the misuse of windfalls and assure that the fund will be built up during good fiscal years. The current proposed amendment is similar to prior PAR recommendations.

15. Monitor user fees
   PAR supports the following recommendations made in the 1996 study on user fees by the Legislative Auditor:

   - The Legislature should set mandatory review periods for all user fees to maximize self-generated fee revenue and assure that costs for services are equitably distributed among service users and taxpayers.

   - Wherever possible, the Legislature should allow departments flexibility in setting and adjusting fee amounts.

   In addition, PAR recommends:

   - The two-thirds vote requirement for fee increases should continue to be closely monitored for unintended consequences. If it becomes obvious that the rule is creating confusion, legislative make-work or an unreasonable bottleneck in fee setting, then action might be taken to remove the requirement from the constitution.

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Primary author of this report is
Ty Keller, Senior Research Associate
PAR’s mission is to be an independent voice and catalyst for government reform in Louisiana, offering solutions to critical issues through accurate, objective research and focusing public attention on those solutions.

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Membership in PAR is open to the public. For more information, contact PAR at 504-926-8414 or write P.O. Box 14776, Baton Rouge, LA 70898-4776.

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