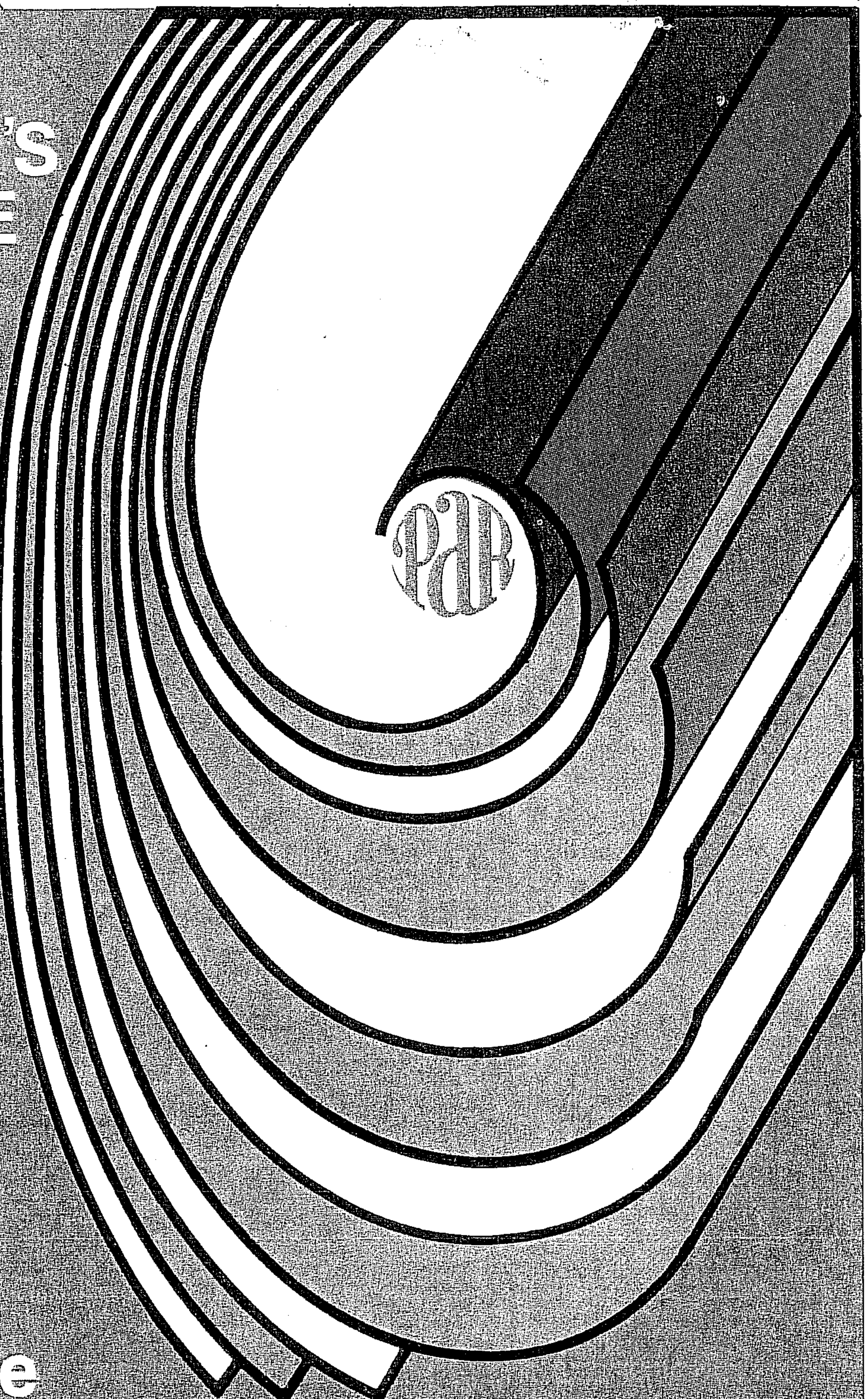
PAR VOTER'S GUIDE



To The November 7, 1978 constitutional admendment

CONSTITUTIONALLY DEDICATE FIRST-USE TAX

PURPOSE: To prevent future governors and legislatures from spending money from the first-use or similar tax, except to: (1) finance tax credits to those unable to shift the tax to others; (2) establish an irrevocable $500 million trust fund; (3) pay off state debt ahead of time; and (4) preserve the state's now-eroding coastline.

LEGAL CITATION: Act 797 of 1978, amending Article IX by adding Section 9.

BACKGROUND: Four 1978 statutes levy the first-use tax, provide certain tax credits and dedicate the proceeds. *None* are contingent on voter approval of the constitutional amendment.

First-Use Tax: Act 294 levies the first-use tax, effective April 1, 1979, which relates to natural gas produced in offshore federal territory. It is to be imposed on the "first use" or activity which that gas undergoes as it moves through Louisiana, such as sale, transmission, processing, manufacture or treatment. Payment is to be passed on to out-of-state consumers.

Tax Credits: Acts 436 and 599 grant tax credits to taxpayers who cannot otherwise be reimbursed for cost of the first-use tax.

Dedication of the Tax: Any money the state might receive from the first-use tax is dedicated by statute (Act 293) to the same purposes as the proposed constitutional amendment.

The tax collections and interest earned from investment are to be deposited in a First-Use Tax Fund from which the cost of tax credits to producers will be paid.

After payment of the credits, 75% goes to an "Initial Proceeds Account" to accumulate a $500 million permanent trust fund. None of the $500 million can be used for any purpose, but interest earnings can be used for early retirement of state debt. It would take about four years to fund the $500 million.

When the trust fund reaches $500 million, the 75% portion is dedicated to pay off *any* state debt earlier than scheduled.

The 25% balance is pledged to funding capital projects to preserve and maintain Louisiana's coastline.

COMMENT: Voters are *not* asked to decide whether the state should levy a first-use tax or whether to dedicate the proceeds. Those decisions were made by the legislature and governor. The courts will ultimately decide if the state can levy the tax.

Voters *are* asked to decide whether the dedications, now established by law, should be "frozen" in the constitution as a safeguard against change. This question requires an examination not only of the wisdom of dedications, but if *these* dedications are the best use of the money.

Constitutional Dedications: The new constitution eliminated most revenue dedications, thereby allowing flexibility in use of state money to meet changing needs. One dedication retained is the pledge of "tidelands" money to early retirement of state debt and capital construction. This was prudent policy since the "tidelands" windfall was nonrecurring. However, money from the first-use tax will continue so long as there is offshore gas.

Declining Severance Tax: State severance tax collections on oil and gas are declining due to reduced mineral production. The first-use tax could be a replacement, but not if it is constitutionally earmarked for other purposes. Other state taxes might have to be increased to meet operating expenses.

Early Retirement of Debt: State debt outstanding totals over $2 billion (principal only); another $1.6 billion is authorized but not sold. Bonds issued in recent years totaled between $250 and $265 million a year.

Some contend that dedicating the first-use tax to early debt retirement would enable the state to be debt free in 10 to 12 years. This would allow money now pledged to retire state debt to be available for other purposes.

A debt-free state is a desirable goal, but this dedication does nothing to achieve it. It could encourage more debt since reducing debt increases the state's ability to incur more. If the state ever did pay off its debt, money constitutionally dedicated for early debt retirement would accumulate with no authority to spend it without another constitutional amendment.

Coastal Preservation: As the state's coastline recedes, Louisiana loses valuable territory. Preservation of the coast may be a great need, but this tax dedication would give this project priority over other capital needs. None of the billions of dollars in bonds authorized in recent years were for the barrier islands. In fact, the state lacks specific data as to the extent of the problem, how best to alleviate it and the cost.

Conceivably, 25% of the first-use tax could be bonded for this project and 75% used to retire these bonds early.

Conclusion: Proponents argue that this potential new source of state money should be constitutionally earmarked to prevent its being spent unwisely. If that is the intent, it could be accomplished better by using first-use tax money to offset other taxes. Wise spending should come through better planning and budgeting, not constitutional dedications of recurring revenues.

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