



legislative bulletin

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PUBLIC RETIREMENT FUNDING

The adoption of a 1987 constitutional amendment was a landmark in public employee retirement financing. The amendment requires the four state-funded and nine statewide retirement systems to attain and maintain actuarially sound funding and mandates the amortization of the systems' unfunded accrued liabilities (UAL) within 40 years, beginning in fiscal 1989-90. Although a year remains, legislation to implement the amendment is needed this year to allow time for the necessary valuations and other preparations.

The Legislature is directed to provide the method of valuation to be used by each system, set employee contributions and appropriate the actuarially required money for the state-funded systems, and set the employer and employee contributions and dedicated taxes needed to fund the statewide systems. The Legislature also must determine how the UAL is to be amortized.

The UAL to be amortized will run \$6-\$7 billion for the 13 systems. The cost of paying off this debt depends to a large extent on the amortization method selected. The variety of optional payment schedules is endless; however, if less is paid in the earlier years, more must be paid later.

Proposed Legislation

HB 688 (in House committee) would implement the 1987 constitutional amendment in a consolidated law applying to the 13 state and statewide public retirement systems. The bill provides an actuarial basis for the Legislature to determine

annually the employers' contribution to each system.

The bill specifies an actuarial funding method, UAL amortization method and schedule, employee contribution rate and dedicated local tax proceeds (where applicable) for each retirement system. (See Table 1.)

The bill would increase employee contribution rates for teachers (except school lunch employees), state police, clerks of court, and parish employees in Plan A. Employee rates would be decreased for Plan B parish employees and registrars of voters.

Comment

HB 688 selects an actuarial funding method judged suitable for each retirement system. The funding method determines how the normal costs are distributed over the employee's career and hence the amount of liabilities of the system. The projected unit credit method is selected for the state-funded systems to meet the requirements of national accounting standards. This method may lower the estimates of UAL from the current method.

The actuarial funding method selected for each statewide system was chosen by the system or its actuary. Several of the systems near full funding would adopt the aggregate funding method. This method does not calculate an unfunded accrued liability but determines contribution requirements based on the total liabilities of the system. These systems do not require plans to amortize UAL.

NOTE: Status of Bills is Reported as of May 11, 1988

As shown in Table 1, the systems differ widely in the soundness of their current funding. In fact, two now receive more contributions than they need, largely due to dedicated local tax revenues. Differences in the systems, their prospects for payroll growth and current funding levels dictate

different approaches to amortizing their UAL. Major amortization options include level dollar payments, a fixed percentage of payroll, and annuities which increase (or decrease) annually at a fixed percentage rate.

For the larger, poorly funded systems, a fixed percentage of payroll amortization would pass on too much of the cost of paying the UAL to future taxpayers. Most of the statewide systems have opted for increasing annuity amortization methods with annual increases (ranging from 2% to 4.75%), apparently pegged equal to or less than the expected growth in payroll.

A level dollar amortization requires the same amount each year. This means a higher payout in the earlier years than under the percent of payroll method or an increasing annuity. The level dollar method and a 20-year payout have been selected for the state police system. The system is nearly bankrupt and new employees are members of another system; thus, payroll will decline and most existing members will be retired in 20 years. Here it is important to pay off the UAL as quickly as possible.

One system, municipal employees' Plan A, would have an amortization schedule more costly in the early years than under the level dollar approach. The decreasing annuity (2% reduction annually) method would front load the payments but cost less over the long run.

The most serious funding problems are in the major state-funded systems, and the choice of UAL amortization methods can seriously affect the state budget. The methods selected for these systems must make a significant effort to retire the UAL while not unreasonably burdening the state budget. A level dollar approach could cost the state \$300 million in added contributions in the initial years. A level percentage of payroll approach would lower the initial cost but require substantially higher appropriations in the future. The variable increasing annuity proposed by HB 688 for the state employees', teachers' and school employees' takes the middle ground between the level dollar and level percentage extremes.

Using the proposed methods, the first-year cost of amortizing the UAL of the state-funded systems is estimated at about \$138 million beginning in fiscal 1989-90. Of the total increase, about \$21 million would come from the proposed increase in employee contributions by teachers and state police. An additional 30% of the remainder can be expected to come from federal and other non-general fund sources. The net added cost to the general fund could be about \$80 million. The general fund cost would be further reduced if the employer's cost for school employees were to

TABLE 1. Funding Status and Impact of HB 688 on the State and Statewide Public Retirement Systems

System	Actual (End FY 1987)		Proposed Actuarial Funding Method ^a	Proposed UAL Amortization		Employee Contributions		Percent of Parish Taxes Dedicated ^c
	Percent Funded (Assets/Liabilities)	UAL (Millions)		Method	Years	Current Percent of Payroll	HB 688	
State Employees Teachers	48.8%	\$1,989.0	PUC	40	7.0% ^c	7.0% ^c	8.0	
School Lunch A	43.3	3,771.8	PUC	40	7.0	9.1	9.1	
School Lunch B								
School Employees	92.2	45.5	PUC	40	7.0	5.0	5.0	
State Police	67.6	172.4	PUC	20	7.0	7.0	7.0	
Assessors	47.1	30.4	FAAN	40	7.0	7.0	8.0	
Clerks of Court	30.3	80.7	FAAN	40	7.0	7.0	7.0	
District Attorneys	82.1	9.4	AGG	40	7.0, 7.5 ^d	7.0	8.25	.25% ^f
Firefighters	102.0	3.7	AGG	40	7.0	7.0	7.0	.25% ^f
EAN	89.3	50.5	EAN	30	8.0	8.0	8.0	.20
Municipal and State Police	89.3	50.5	EAN	40	7.0	7.0	8.0	
Municipal Employees	63.5	76.9	FAAN	40	9.25	9.25	9.25	.25 ^h
Plan A	63.2	16.4	FAAN	40	5.0	5.0	5.0	
Plan B								
Parish Employees	56.5	224.3	FAAN	40	9.25	9.25	9.5	.25 ^h
Plan A	96.5	0.9	AGG	40	9.0	9.0	3.29	
Plan B	117.6	(2.7)	AGG	40	8.0	8.0	7.0	.0625
Registrars of Voters	48.9	143.5	FAAN	40	8.0	8.0	8.0	.5
Sheriffs								

a PUC=Projected Unit Credit Method; FAAN=Frozen Attained Age Normal Method; AGG=Aggregate Funding Method; EAN=Entry Age Normal Method.
b Annuity increases 4% annually for first five years; then the rate of increase is reduced by .5% each five-year period thereafter.
c Before and after 10/1/86.
d Existing percentage dedications are continued without change by HB 688.
e 1% Orleans.
f .5% Orleans.
g Except Orleans and East Baton Rouge parishes; receipts split among Plans A and B.

be shifted to the local level as provided in the Governor's proposed budget.

HB 688 would consolidate the laws related to the funding of the state and statewide systems, fix actuarial funding and UAL amortization methods, and require employer contributions to fill the gap between actuarial needs and employee contributions plus revenue from other sources.

The bill offers an important beginning toward shoring up public retirement funding, protecting future taxpayers and retirees, and improving the

state's bond ratings. However, the bill is not designed to correct the obvious disparities and inequities among systems in terms of employee benefits and employee contributions. For example, the present dedications of local property tax collections to various statewide systems would continue unchanged. These dedications, set arbitrarily without regard to the systems' needs, make some systems better funded than others, permitting them to provide better benefits or lower employee contributions.

CAMPAIGN FINANCE REFORM

A recently released PAR *Analysis*, "Campaign Finances in the 1987 Governor's Race," recommended that Louisiana's campaign finance law be changed to prohibit large contributions and loans and require full disclosure of contributions and expenditures. Many of the campaign finance bills propose similar changes. Only one bill has moved out of committee, HB 762, and has passed the House. Table 2 summarizes the major changes proposed in the bill, some of which are described below.

The limits on contributions and loans proposed by HB 762 would not apply to those made by a candidate to his own campaign. Jurisprudence has held that a candidate's use of his own funds cannot be restricted.

Reporting Thresholds

HB 762 would set a single reporting threshold of \$200 for all offices.

Comment

Louisiana's reporting thresholds for various offices are much higher than those of most states. Table 3 compares Louisiana's and other states' reporting thresholds for three levels of offices.

A stated purpose of Louisiana's law is public disclosure of campaign finances, but this is undermined by the high reporting thresholds. Without full disclosure of contributions and expenditures, the campaign finance law is difficult to police and the possibility for abuse is greater. PAR's recent report recommended that the reporting thresholds be eliminated and all contributions and expenditures reported.

Contribution Limits

HB 762 would limit contributions to a candidate or his campaign committee for each election (a

primary and general election for the same office would be considered separate elections). Recognized political parties and their committees would be exempt. Also, if a candidate made a contribution to his own campaign in excess of the limit, the bill would allow each of his opponents to receive contributions or loans from any contributor or PAC equal to the excessive amount.

Different levels of limits would be established according to the office involved and the source of the contribution. Total contributions by an individual, business or other legal entity to a candidate or his campaign committee would be limited to \$5,000 for a major office candidate (i. e., governor and other statewide candidates), \$2,500 for a district office (i. e., legislators and parishwide officials), and \$1,000 for all other offices (i. e., police jurors and mayors of small towns). There would be no limits on contributions to political action committees (PACs) from these sources.

The limits on contributions by PACs would be the same as those on individual contributions but would apply to contributions to candidates and to other political committees. The bill specifically applies the PAC limits to a candidate's transfer of funds from a federal campaign to a state campaign, but apparently would not limit the candidate's transfer of funds from one state campaign to another.

Comment

Thirty-four states limit contributions in a gubernatorial election in some way. (See Table 4.) Many also limit contributions in elections for other state and local offices. Some states, and the federal government, further limit the total a contributor can give per year or per election to more than one candidate or organization.

The dollar limits PAR has recommended for contributions by an individual, business or other

TABLE 2. Major Changes Proposed by HB 762 to Campaign Finance Law

	<u>Present Law</u>	<u>HB 762</u>
Reporting Threshold	Major office—\$1,000 District office—\$500 All other offices—\$250	All offices—\$200
Limits on Contributions ^a	No provision	By individuals, businesses, labor unions to candidate or his campaign committee: Major office—\$5,000 District office—\$2,500 All other offices—\$1,000 By political committees ^b to candidate or his campaign committee and to other political committees: Major office—\$5,000 District office—\$2,500 All other offices—\$1,000
Limits on Loans	No provision	Loans ^c treated as contributions
Cash Contributions	Up to \$300 a year	\$100 or less; receipt required
Ticket Sales	If \$100 or less, single transaction, not recorded; gross proceeds reported	Treated as contribution
Personal Use of Campaign Funds	No provision	Prohibited
Use of Surplus Campaign Funds	No provision	May be returned to contributor; given to charity; used to support or oppose a proposition, political party or candidacy of any person
Enforcement	Permits supervisory committee to file proceedings for civil violations	Requires supervisory committee to file proceedings for civil violations; if determination of violation is 10 days before election, must institute proceedings by 4th calendar day

^a When a candidate makes a contribution in excess of the limit to his own campaign, the other opponents could receive contributions or loans from any contributor equal to the excessive amount.
^b Excluding recognized political parties and their committees.
^c Excluding a loan from a commercial financial institution or licensed lender, except that a guarantor or endorser of all or part of such a loan would be subject to the limits to the extent of his proportion of any unpaid balance.

legal entity to candidates are the same as those in HB 762; the dollar limits PAR recommended for PAC contributions to candidates are twice those for individuals. Since a PAC is by definition composed of two or more people, a higher limit for PAC giving is reasonable. However, PAR recommended the limits apply to the entire campaign rather than to each election. The dollar amounts in HB 762 are high and most states which limit contributions per election have significantly lower limits. For example, a gubernatorial candidate who runs in both the primary and general elections could receive up to \$10,000 from an individual. Also, the transfer of funds from a federal to a state campaign should not be singled out as subject to the contribution limits.

PAR has further suggested a \$5,000 a year limit on contributions to a PAC by an individual, business, political committee or others. This would deter the funneling of large amounts of money through a PAC to avoid the limits on individual contributions to candidates. PAR also recommended an aggregate \$25,000 annual limit on the

amount that an individual, business or other entity could give to candidates and political committees in a calendar year. This would reduce the possibility of contributors circumventing the limits by giving up to a limit several times to different groups that support the same candidate and thereby encouraging the proliferation of PACs.

Loans

Under HB 762, a loan would be considered a contribution and subject to the applicable limit. A loan from a commercial financial institution or licensed lender would be exempt, except that a guarantor or endorser of all or part of such a loan would be subject to the limits to the extent of his proportion of any unpaid balance.

Comment

Large campaign debt can leave a candidate open to the influence and pressure of those who offer to

help liquidate the debt. It also creates the appearance that the elected official may use the influence of his office to raise funds to pay off campaign debt.

Cash Contributions

HB 762 would limit cash contributions from the same source to \$100 a year. The candidate, or his

TABLE 3. Reporting Thresholds for Contributions Received by Candidates From a Single Individual

State	Governor	State Legislator	Mayor of City Under 35,000 Population
Alabama	\$ 10	\$ 10	\$ 10
Alaska	100*	100*	100*
Arizona	25	25	25
Arkansas	250*	250*	100*
California	100*	100*	100*
Colorado	25	25	25
Connecticut	30*	30*	30*
Delaware	100*	100*	100*
Florida	100	100	100
Georgia	101	101	101
Hawaii	100*	100*	100*
Idaho	50*	50*	50*
Illinois	150*	150*	150*
Indiana	100*	100*	100*
Iowa	25*	25*	25*
Kansas	50*	50*	50*
Kentucky	100	100	100
LOUISIANA	1,000*	500*	250*
Maine	50*	50*	50*
Maryland	NA	NA	NA
Massachusetts	25	15	15
Michigan	20	20	20
Minnesota	100*	50*	0
Mississippi	500	200	0
Missouri	100*	100*	100*
Montana	25*	25*	25*
Nebraska	100*	100*	100*
Nevada	500*	500*	500*
New Hampshire	25	25	25
New Jersey	100	100	100
New Mexico	0	0	0
New York	100*	100*	100*
North Carolina	100	100	100
North Dakota	100*	100*	0
Ohio	0 ^a	0 ^a	0 ^a
Oklahoma	200*	200*	200*
Oregon	100*	50	50
Pennsylvania	50*	50*	50*
Rhode Island	200	200	200
South Carolina	100	100	100
South Dakota	100*	100*	0
Tennessee	100	100	100
Texas	50*	50*	50*
Utah	50	50	0
Vermont	50	50	50
Virginia	100*	100*	100*
Washington	25*	25*	25*
West Virginia	0	0	0
Wisconsin	20*	20*	20*
Wyoming	0	0	0

* In aggregate.
NA=Not available.

a. Except for a \$25 or less contribution received from a person at one social or fundraising activity.

SOURCE: Federal Election Commission, *Campaign Finance Law '86*. (Washington, D. C.: National Clearinghouse on Election Administration, Federal Election Commission).

TABLE 4. States That Limit Contributions in a Gubernatorial Election

State	Contribution Source			Labor Union
	Individual	Corporation	PAC	
Alabama	—	\$ 500	—	—
Alaska	\$ 1,000*	1,000*	\$ 1,000*	\$ 1,000*
Arizona	—	Prohibited	—	Prohibited
Arkansas	1,500	1,500	1,500	1,500
Connecticut	2,000	Prohibited	2,000/4,000 ^a	Prohibited
Delaware	1,000	1,000	1,000	1,000
Florida	3,000	3,000	3,000	3,000
Hawaii	2,000	2,000	2,000	2,000
Indiana	—	5,000	—	5,000
Iowa	—	Prohibited	—	—
Kansas	3,000	3,000	3,000	3,000
Kentucky	3,000	Prohibited	—	—
Maine	1,000	5,000	5,000	5,000
Maryland	1,000	1,000	—	1,000
Massachusetts	1,000*	Prohibited	—	—
Michigan	1,700	Prohibited	1,700	1,700
Minnesota	60,000* ^b	Prohibited	60,000* ^b	60,000* ^b
Mississippi	—	1,000	—	—
Montana	1,500	Prohibited	8,000	1,500
New Hampshire	5,000	Prohibited	5,000	Prohibited
New Jersey	800	800	800	800
New York	—	5,000*	—	—
North Carolina	4,000	Prohibited	4,000	Prohibited
North Dakota	—	Prohibited	—	Prohibited
Ohio	—	Prohibited	d	—
Oklahoma	5,000	Prohibited	5,000	5,000
Pennsylvania	—	Prohibited	—	Prohibited
South Dakota	1,000	Prohibited	—	Prohibited ^e
Tennessee	—	Prohibited	—	—
Texas	—	Prohibited	—	Prohibited
Vermont	1,000	1,000	5,000	1,000
West Virginia	1,000	Prohibited	1,000	1,000
Wisconsin	10,000	Prohibited	c	c
Wyoming	1,000	Prohibited	—	Prohibited

NOTE: Limit shown is per office, candidate or election unless * appears, in which case the limit is per election year or calendar year.

a. \$2,000 limit for labor organization PAC and \$4,000 limit for corporate PAC.

b. \$60,000 limit for election year; \$12,000 for non-election year.

c. Limited according to a formula.

d. Prohibited for corporate PAC; otherwise unlimited.

e. Prohibited if union is a corporation; otherwise unlimited.

SOURCE: The Council of State Governments, *The Book of the States, 1986-87*.

committee, would be required to give the contributor a receipt showing the contributor's name, address and social security number signed by the contributor and the candidate, or his committee, and to keep a copy of the receipt.

Comment

No state completely prohibits cash contributions. Thirteen states (and the federal government) prohibit cash contributions of \$100 or more, six ban cash contributions of more than \$50, one prohibits cash contributions over \$25, and one prohibits cash contributions over \$20, according to the *Campaign Finance, Ethics and Lobby Law Blue Book 1986-87*.

The present \$300 allowance for cash contributions leaves a large loophole for avoiding the proposed reporting requirements and limits. PAR has recommended a \$25 restriction.

Use of Campaign Funds

HB 762 would prohibit the conversion of campaign funds to personal use unrelated to a political

campaign or the holding of a public office or party position; it would define "converted to personal use" as occurring when the funds become reportable as income on income tax returns. The bill also would restrict the use of surplus campaign funds to being returned to the contributor, given to charity, or spent in support of or in opposition to a proposition, political party, or candidacy of any person.

Comment

A candidate's contributors and the general public should be able to learn how a surplus is spent, as well as know the possibilities open to the candidate. PAR's study recommended a similar provision, except that it would exempt from the contribution limits a candidate's transfer of funds from any previous campaign to a new campaign.

Penalties

HB 762 would add penalties to cover violations related to the contribution limits and personal use of campaign funds. Any candidate, treasurer or chairman of a political committee who committed such a violation would be assessed a penalty of up to \$5,000 or the amount of the violation, whichever was greater, except that the penalty for a knowing and willful violation would be not more than \$10,000, or 200%, of the violation, whichever was greater.

The bill would change the penalties for report violations. To the penalties for knowingly and willfully failing to file the required reports, it would add a minimum of not less than \$100 a day for major offices and not less than \$30 per day for district offices to the present maximums of \$500 a day not to exceed \$10,000 and \$300 a day not to exceed \$5,000, respectively.

SUPERBOARD FOR HIGHER EDUCATION

How best to structure and manage higher education has been an issue in Louisiana and other states for most of this century. Louisiana has not tried one approach used in some states—a statewide governing board which is recommended by the Governor.

Types of Boards

There are only two types of boards for higher education—governing and coordinating.

The statewide governing board is the oldest and has the most power. Its authority is similar to governing boards for a single institution. It may initiate new programs, campuses or services, or discontinue them; hire and fire heads of institutions; establish admission standards and tuition rates; set personnel policies; develop institution budgets, and allocate funds. It can set goals and adopt plans to achieve them and coordinate every activity—big or small—on every campus.

A coordinating board may have only "advisory" authority or "regulatory" power. Advisory boards usually plan and analyze policy, recommend elimination of degree programs and approve new ones. They do not develop campus budgets.

A regulatory coordinating board usually has authority to eliminate degree programs, campus departments and services. It recommends operating and capital budgets to the governor and Legislature and may have authority to consolidate budgets of campuses or systems.

According to a 1986 tabulation by the Education Commission of the States, the majority of states (26) had a statewide coordinating board and 19 states had a statewide governing board, with some of these states having other boards for institutions such as for junior colleges. The remaining five states had no formal statewide coordinating or governing board, but four of them had a planning mechanism. These five states have small populations and relatively few public campuses.

Present Louisiana Structure

Louisiana has four constitutional boards for higher education—a regulatory coordinating board (Regents) and three governing or management boards (LSU, Southern and Trustees). Each management board has different levels of institutions under it, ranging from two-year institutions to those granting doctorate degrees.

All members of the higher education boards are appointed by the governor with Senate consent for six-year overlapping terms, except for a student member who serves on each board for a one-year term.

The state's postsecondary vocational-technical schools are managed by the State Board of Elementary and Secondary Education (BESE).

Proposed Legislation

Three Senate and two House bills—all proposed constitutional amendments in house of origin—

would replace the existing four higher education boards with a single governing board. SB 45 and HB 120, similar bills, contain recommendations of the Governor's advisory transition committee on higher education.

SB 45 and HB 120 would create a Board of Governors and repeal the four boards. It would have far greater authority than the present boards. It could:

- Plan, manage and govern all public institutions of higher education, including Regents' authority to eliminate programs and departments.
- Have budgetary responsibility for all public campuses, including submitting a "comprehensive budget" for operations and capital outlay, and allocate and distribute appropriated funds in conformance with budgets the board approved for each institution. Budgets could be revised by the board to conform with available funds.
- Reduce, close or merge institutions.
- Establish admission standards and policies for transfer of credit among institutions.
- Formulate a "strategic" plan to define the role, scope and mission of each institution and have authority to carry out the plan. The plan is to reflect the "educational aspirations of the state and take into consideration the long-range needs of the state and its citizens."
- Employ a president as the board's chief executive officer, other board officers and staff, and the chancellor for each campus; all would serve at the pleasure of the board.
- Delegate its duties and powers to its officers and employees under terms and conditions set by the board.
- Create advisory boards as it wished.
- Supervise, manage and plan for all public vocational-technical schools including the same budgetary power it would have for higher education.
- Establish one or more special endowment funds with private contributions and any available state appropriation or year-end surplus.

SB 45 and HB 120 provide that the number and qualifications of board members, their terms and filling of vacancies are to be provided by law. HB 120 contains provisions for transferring the vo-tech schools from BESE to the new Board of Governors, while SB 45 does not. Thus far, no companion bills have been introduced. Companion legislation for these and other details could be considered at a subsequent session, or the proposed

constitutional amendments could be amended at this session to be self-executing.

The other three proposed constitutional amendments (SB 34, SB 61 and HB 104) also would replace the present higher education boards with a single governing board.

Comments

The 1968 act establishing Louisiana's first coordinating council stated its purpose was to avoid unnecessary duplication and make better use of the state's resources devoted to higher education. That was a worthy goal 20 years ago, and it still is. The Board of Regents has eliminated a number of overlapping and weak graduate programs—but some had few students and graduates. There are still far too many overlapping and duplicating programs, particularly at the undergraduate level. Clearly the present structure has not worked as well as it could or should have worked.

Changes in the structure will not guarantee that the complex problems of higher education will be solved successfully. The calibre of the persons who serve as board members and executive officers is extremely important, regardless of what structure is in place. Funding of higher education also must be at a level that will finance quality.

SB 45 and HB 120 are patterned after the North Carolina plan which was established by statute in 1972. North Carolina has a single governing board for senior institutions, campus boards with power conferred and which can be withdrawn by the superboard, and another state board for community colleges and vo-tech schools.

The proposed new Louisiana Board of Governors would have tremendous constitutional power, most of which now is vested in the Legislature. It could realign institutions of higher education by grouping them by level and specialty, such as the tiers in California; designate a flagship university, and establish a new system of community colleges and vo-tech schools for those without the knowledge or desire to enter a university initially. Campuses poorly located or too costly could be closed.

Should Louisiana switch to a superboard, it will be important that the board confine its activities to policy and planning, choose a top person as its chief executive officer, delegate administrative authority to him and other administrators such as vice presidents and campus heads, and hold them accountable. The board's extensive powers would be embedded in the constitution and could only be modified or changed by another constitutional amendment.



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