PAR

2000 Guide to the Constitutional Amendments

INTRODUCTION

Voters will face four proposed constitutional amendments on the November 7 ballot. Major changes in state policy hinge on the decisions made regarding three of these proposals. Hanging in the balance are two policy issue packages--the first is the Louisiana Inc. (LA Inc.) package and the second is a package of tax changes and education pay raises.

Proposition No. 1 would authorize the Legislature to create a state-funded economic development corporation and exempt it from participation in state civil service. However, adoption of the amendment would also make effective extensive companion legislation that creates LA Inc. (the authorized quasi-private corporation), abolishes the state Department of Economic Development and reassigns all of the agencies and functions currently under the department to LA Inc. or other state departments.

Propositions No. 2 and 3 are tied to each other and to companion legislation, which taken together are referred to as the "Stelly Plan." If one proposal fails, the whole package fails. The first proposal would increase the individual income tax by reworking the tax rates and brackets while removing the exemption for federal taxes paid. The second would prohibit the state from levying a sales tax (currently at 4%) on food and utilities. The companion legislation would set the new income tax rates and brackets and dedicate the net new revenue to an Educational Enhancement Fund with at least 80% going to teacher, faculty and support worker pay raises.

Proposition No. 4 would allow local governments, under certain conditions, to loan or donate tax revenue dedicated to economic development. This is the only proposal this year that appears to stand alone. However, it is a repeat attempt designed specifically to allow St. John Parish to use a tax its voters dedicated to economic development purposes some years ago.

After dealing with 20 proposed amendments in 1998 and another 16 in 1999 voters might feel some relief in having only four on the ballot this year. However, after considering the significance and complexity of the issues before them, voters will likely realize that neither their responsibilities nor their decisions will be much easier.

VOTER CHECKLIST

November 7, 2000 Ballot

For	Against	Proposed Amendment
☐	☐	1. Louisiana, Inc.
		"Stelly Plan"
☐	☐	2. Income Tax Changes
☐	☐	3. Sales Tax Exemptions
☐	☐	4. Donation for Economic Development

NOTE: No. 2 and No. 3 must both be approved or both fail.

LOUISIANA INC.

Current Situation: Since creation of the Department of Commerce and Industry in 1936, Louisiana has had a department responsible for industrial and economic development. The agency's name was changed to the Department of Economic Development (DED) in a 1988 reorganization. Over the years, a variety of programs, boards and commissions were placed within the department. (See Figure 1.)

The governor appoints the secretary of DED. The secretary's office together with the office of management finance and the office of policy and research provide the legal and management support for the department and its various boards and commissions. They also assist local development agencies and small businesses and manage workforce development and training funds.

The Office of Commerce and Industry is responsible for marketing the state to businesses, maintains foreign trade offices, staffs the State Board of Commerce and Industry (which grants industrial property tax exemptions), administers various financial incentive programs and promotes business growth and expansion in various ways. (See Figure 1.)

You Decide

☐ A vote ***for*** would create Louisiana Inc., a quasi-private, state-funded corporation, exempt from state civil service, as the state's primary economic development agency.

☐ A vote ***against*** would continue the existing Department of Economic Development.

The Louisiana Economic Development Corporation (LEDC) is the single review board for all of DED's financial assistance and venture capital programs which provide loans, loan guarantees, matching funds and other assistance.

In addition to economic development offices, the DED administers four agencies: Office of Financial Institutions (which regulates banks, savings and loans, finance companies and securities), the Louisiana Racing Commission, Red River Development Council, and State Board of Cosmetology. It also houses 13 "quasi-independent" boards and commissions for architects, auctioneers, cemeteries, CPAs, contractors, interior designers, polygraph operators, radio/TV technicians, shorthand reporters, boxing/ wrestling, motor vehicles, real estate appraisers, and used motor vehicles and parts.

For the current year, the DED has 345 authorized positions (down 20 from last year) and a total budget of $76.4 million. But of the total, about $25 million is pass-through funding largely for technology projects, another $24 million is program funding (e.g. $11 million for loans, $6.5 million for training), and about

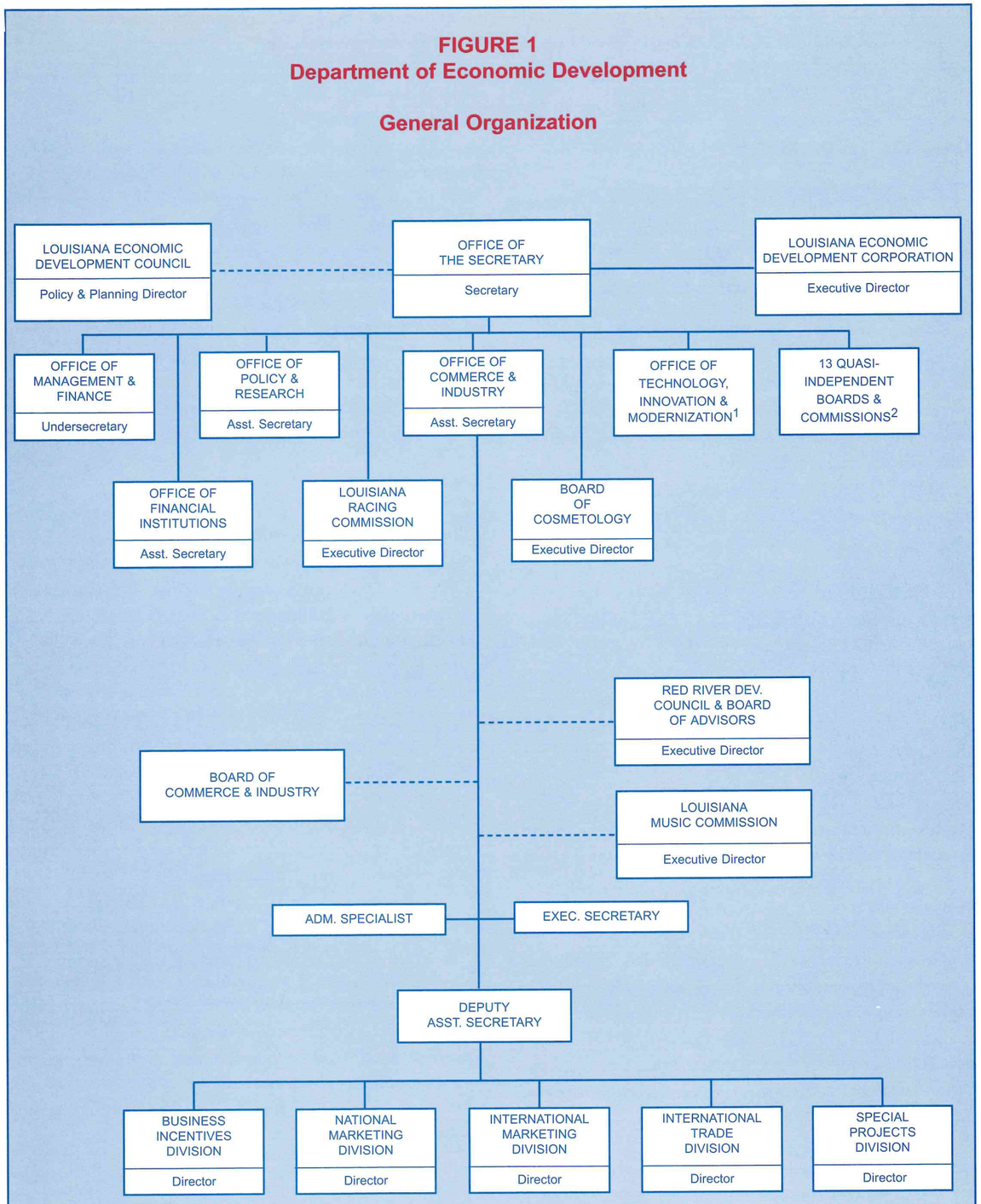
Voting on Louisiana Proposed Constitutional Amendments (1921 - 1999)

	Number of Amendments Proposed	Number of Amendments Approved	Average Percent of Registrants Voting
1921 Constitution	**802**	**536**	--
1974 Constitution (Total)	**153**	**105**	--
November 7, 1978	1	1	29.9
October 27, 1979	3	3	37.5
November 4, 1980	4	4	55.7
September 11, 1982	8	4	24.9
October 22, 1983	3	3	44.2
November 6, 1984	5	0	53.7
September 27, 1986	7	2	39.3
November 21, 1987	5	5	32.3
October 1, 1988	1	0	27.5
April 29, 1989	1	0	46.8
October 7, 1989	13	5	28.3
October 6, 1990	15	14	46.9
October 19, 1991	8	5	47.1
October 3, 1992	5	2	29.4
November 3, 1992	7	0	53.7
October 16, 1993	6	6	18.1
October 1, 1994	4	4	30.9
October 21, 1995	15	13	46.9
November 18, 1995	1	1	53.2
September 21 1996	2	2	36.1
November 5, 1996	3	3	54.4
October 3, 1998	18	15	19.6
November 3, 1998	2	2	26.4
October 23, 1999	10	5	31.9
November 20, 1999	6	6	23.1

SOURCE: Official Promulgation, Secretary of State.

FIGURE 1
Department of Economic Development

General Organization



1 OTIM-No budgeted funds or positions.
2 **Boards:** Architects, Auctioneers, Cemetery, CPAs, Contractors, Interior Designers, Polygraph, Radio/TV Technicians, Shorthand Reporters.
Commissions: Boxing/Wrestling, Motor Vehicle, Real Estate, Used Motor Vehicle & Parts.

$18.5 million is for agencies unrelated to economic development. The remaining $6.8 million is the actual operating cost of the department related to economic development.

Governor's Consultants

"Louisiana: Vision 2020" was a two-year planning effort by the governor's Louisiana Economic Development Council (LAEDC) to suggest ways to improve the state's economy. As a follow-up, the governor hired consultants in the fall of 1999 to design a structure to implement the LAEDC plan. The Economic Competitiveness Group, Inc. (ECG, Inc.) included consultants from Graphic Intelligence Corporation, IBM and Standard and Poor's DRI. A law firm was hired by the governor's office to assist in drafting legislation based on the consultants' recommendations.

As the March special session began the governor's intention to propose changes in the economic development program was well known, but the consultants' final report was not complete and the lengthy and complicated LA Inc. legislation was still being drafted. The initial bill was introduced on a Friday and taken up in committee on the next Monday.

Early in the session, interim consultant reports were released explaining their findings and recommendations. The consultants argued that unless something radical was done to change employment growth, the state's per capita income, currently at 81% of the U.S. average, would slip even lower over the next 20 years. The consultants recommended replacing the DED with a newer, private, economically effective entity–Louisiana Inc.–and adopt industry cluster strategies. They argued the LA Inc. solution would address key issues in DED: staff, structure, performance and image.

Through the legislative process, the LA Inc. bill was amended extensively–mostly to reshuffle placement of the boards and commissions to be transferred. A number of amendments, however, responded to criticisms of proposed exceptions from the ethics, open meetings and public records laws. Others were to add safeguards of various types.

As the LA Inc. legislation was being heard for a final floor vote, legislators were given copies of the consultant's final report. A last minute amendment, approved at that meeting, tied the start-up of LA Inc. to voter approval of the proposed constitutional amendment that would exempt the corporation from the state civil service system. Originally, the proposed corporation was to begin operation on July 1, 2000. The Legislature passed both the proposed constitutional amendment and the amended LA Inc. statutory bill. If this constitutional amendment is approved by the voters, LA Inc. becomes effective March 1, 2001.

The consultants had chronicled a long list of what they perceived as shortcomings in the structure and operation of the DED. These are summarized in the boxed discussion titled "Consultants' Findings." (See Figure 2.) In response, the former DED secretary defended the agency's performance by cataloguing its recent economic development activities and results.

LA Inc. proponents note that not all of the developments listed are directly attributable to DED actions. They argue that many of the investments simply took advantage of state exemptions or assistance programs that would continue to function if LA Inc. was created. (See Figure 2.)

Proposed Changes: The amendment would authorize the legislature to create and abolish, by law, a corporation to serve as the state's central source principal economic development organization. It would also exempt the corporation from the state's civil service law, allow it to engage in cooperative endeavors for economic development purposes and allow it to receive appropriated state funds.

Companion legislation, Act 144 [SB 88 Dardenne], would implement the amendment, by creating LA Inc. and a board of directors, abolishing DED and other entities, transferring certain DED functions to the new corporation, transferring boards and commissions in DED to other departments and providing for state funding of the corporation among other matters.

A 16-member board would include six *ex-officio* members (the governor, the commissioner of administration, the vice chairman of the Louisiana Economic Development Council, the commissioner of higher education, the secretary of the Department of Labor and the CEO of LA Inc. or their designees) and ten appointed by the governor for overlapping six-year terms with at least one from each congressional district. The board would select the CEO. (See Figure 3 showing proposed agency transfers.)

The law would provide the following protections:

- Prohibit certain employees and officials from working for LA Inc. for two years.
- Prohibit political contributions by employees or board members.

FIGURE 2

Consultants' Findings

The governor's consultants, ECG, Inc., examined the Department of Economic Development and provided the following list of shortcomings they suggested could be remedied by replacing the department with a quasi-private, non-profit corporation. Problems with DED according to ECG, Inc.:

- Bureaucratic organization that is slow to act, inflexible and constrained within government.
- Administrative attention is diverted to provide administrative support for the various non-economic development related agencies housed in the department.
- Outdated economic model that is overly dependent on industrial recruitment for "success."
- Little collaboration with other government agencies that could help economic development.
- Weak links to academic centers of excellence and private sector resources.
- Business direction supports an outdated economic model with limited strategic plan and very little customer focus.
- No knowledge sharing system and no ability to continually improve and learn.
- Limited business capabilities, slow and unmotivated by performance.
- Performance based rewards (bonuses) are not possible. Professionals with records of success in ED cannot be attracted for employment.
- Business direction deeply rooted in old government thinking and actions. Focus on task-to-task with no collaboration with private sector or academia.
- DED employees subject to state travel rules. Need special permission to travel weekends or overnight. When budget freeze on travel, marketing shuts down.
- Political pressures result in non-strategic benefits to retail business.
- DED can't solicit private funds for marketing as is done by many competitors.
- Inordinate time wasted in complying with state regulations designed for regulatory agencies.
- No capital equipment budget for computers and information technology (IT) investments in recent years.
- Civil Service rules and rates do not ensure best quality people for economic development.
- Salaries and benefits are substandard.
- Promotion is typical of a bureaucracy requiring the addition of staff under a position in order to upgrade it, a recipe for inefficiency.
- DED's frustrating operating environment encourages complacency.
- Original program intentions have been lost and substituted with misguided performance measures:
  - Research measures number of phone calls.
  - LEDC measures dollars out the door, not jobs created, and most are in retail.
  - Louisiana capital companies (CAPCOs) certified by DED cost the state millions in tax incentives without getting intended Louisiana reinvestment.
  - DED has little industry focus and no target industry performance measures.
- DED cannot move "at the speed of business".

1999 DED Accomplishments

The following data refers to DED activities and accomplishments as reported by the former secretary of DED in April 5, 2000. The data is for the calendar year 1999 unless otherwise noted:

National Marketing

- $4.7 billion in investment
- handled 128 new projects
- handled 679 new expansions
- helped create 15,999 new, permanent jobs
- helped create 37,239 construction jobs
- sponsored two Matchmaker business-to-business expositions for 500+ small business owners
- administered $4 million in EDAP contracts
- helped create 3,844 new jobs through workforce development and training

Major Projects

- General Motors $770 million small truck plant
- Wal-Mart distribution center, $70 million
- Chase Manhattan national mortgage center, $13.9 million
- Liebhardt Industries, $3 million (in high unemployment area)
- Bio-Tech Imaging recruited to Shreveport
- Diversified Foods retained

International Marketing 1993-99

- $4.3 billion in foreign investment
- handled 123 new projects and expansions
- helped create 2,877 new, permanent jobs
- helped create 25,253 construction jobs
- Foreign investment equals 60,000 jobs, 30-year total of $25 billion

International Trade

- conducted 11 foreign trade missions
- disseminated 2,722 trade leads
- hosted 53 foreign delegates
- sponsored 50 educational programs
- coordinated 12 trade shows

Louisiana Economic Development Corporation

- approved $10.9 million in small business loans
- approved $2.9 million venture capital programs
- created $82.1 million for the CAPCO program
- created the Capital Access Program
- created the Seed Capital Investment Program
- targeted Link Deposit Program to high unemployment areas

Accolades

- *ComputerWorld* Magazine selected Louisiana as a hot spot for IT jobs
- *Southern Business & Development* Magazine ranked three Louisiana projects in its 'Top 10 deals' for fourth quarter 1999, also ranked the General Motors project the #2 project in South in 1999.

- Prohibit buying positions or promotions.
- Prohibit coercion or punishment of political action.
- Prohibit political activity except poll watching, voting, signing recall petition, or supporting an issue, tax or bond proposal.

LA Inc. would be exempt from the following laws applicable to state agencies; however, it would be required to develop procedures for procuring services or goods, to be approved by the house and senate oversight committees:

- Public Contract Law
- Leases of Public Lands Law
- Administrative Procedure Act
- Professional, Personal, Consulting, and Social Services Procurement Law
- Louisiana Procurement Code
- Selection of Professional Services for Public Contracts Law
- Civil Service Law

(NOTE: LA Inc. would be subject to annual audits by the Legislative Auditor.)

The following laws would apply, with certain exceptions:

- Open Meetings Law, except that a member could participate and vote electronically, in up to three meetings a year if he or she can hear and be heard, but could not be counted to make a quorum
- Public Records Law, except:
  - proprietary or trade secret business information would be confidential
  - any information regarding preliminary agreements with a prospect would remain confidential at any stage prior to final action by the corporation

(NOTE: records of the expenditure of both public and private funds would be public.)

- Code of Governmental Ethics, without exception
- Louisiana Minority and Women's Business Enterprise Act, except administration is transferred to Division of Administration

LA Inc. would be funded under the following conditions:

- LA Inc. is not a budget unit or agency of the state.
- Any appropriated or other money remains in the LA Inc. Fund.
- No appropriated or other funds may be spent unless the budget was approved by the Joint Legislative Committee on the Budget.
- No funds may be used to enhance gaming activities.
- Louisiana Economic Development Fund and Small Business Surety Bonding Fund continue in the state treasury as property of state, but LA Inc. administers the money.
  (NOTE: See Figure 4 for oversight requirements.)

The LA Inc. Board would have the following selected powers:

- Serve as the single review board for all financial assistance, grants and investment programs including Economic Development Award Program (EDAP) incentives.
- Employ employees and officers and provide benefit plans.
- Make loan agreements, cooperative endeavor agreements and other contracts with public or private entities.
- Invest in venture capital financing.
- Contract for professional services and set compensation.
- Acquire and dispose of property without public notice or bid.

FIGURE 3
Proposed Agency Transfers

Become Advisory Commissions to Louisiana, Inc.

Louisiana Music Commission
Louisiana Film and Video Commission
Small and Emerging Business Development Advisory Council

Transferred to Louisiana, Inc.

Louisiana Small Business Incubator Program
Workforce Development and Training Program
Louisiana Economic Development Fund (and Program)
Economic Development Award Program
International Trade Program
Technology Transfer Program
Office of Policy and Research
Office of Commerce and Industry (includes National and International Marketing)
Office of Management and Finance
Office of Technology, Innovation and Modernization
Small and Emerging Business Development Program
Small Business Surety Bonding Fund
Louisiana Motion Picture Incentive Program
Venture Capital Network
Office of Film and Video Program

Agencies Abolished

Louisiana Economic Development Corporation
Louisiana Pan African Commission
Louisiana Real Estate Investment Trust Association
Department of Economic Development
Louisiana International Trade Development Board

Transferred to Office of the Governor

Louisiana State Racing Commission
Louisiana Cemetery Board
Louisiana State Board of Cosmetology
State Board of Certified Public Accountants of Louisiana
State Board of Architectural Examiners
Louisiana Real Estate Commission
Louisiana State Board of Home Inspectors
State Licensing Board for Contractors
Louisiana State Radio and Television Technicians Board
Board of Examiners of Certified Shorthand Reporters
Louisiana Auctioneers Licensing Board
State Board of Examiners of Interior Designers
Louisiana Real Estate Appraisers State Board of Certification
State Boxing and Wrestling Commission
Louisiana Motor Vehicle Commission
Louisiana Used Motor Vehicle and Parts Commission
Polygraph Board
State Plumbing Board
Office of Financial Institutions; Commissioner of Financial Institutions
Commissioner of Securities

Transferred to Division of Administration

Board of Commerce and Industry & Business Incentives Division
Louisiana Economic Development Council
Division of Minority and Women's Business Enterprise

Transferred to Department of Culture, Recreation & Tourism

Red River Development Council

FIGURE 4
Oversight of Louisiana, Inc.

Below is a summary of the oversight provisions in the proposed LA Inc. law. The oversight is primarily legislative although other agencies are also involved. The general legislative oversight committees are the House Committee on Commerce and the Senate Committee on Commerce and Consumer Protection. The Joint Legislative Committee on the Budget (joint budget committee) plays an important role and the money committees do some oversight as well.

- All LA Inc. programs, books and records are subject to examination and audit by the Legislative Auditor who must provide copies of such audits to the oversight and joint budget committees.
- LA Inc. must provide quarterly reports to governor and the oversight and joint budget committees detailing its activities including all applicants, financial assistance granted, type of projects financed, net new jobs created or retained, duration of financial assistance, amount of non-state financial support, and status of other loans.
- LA Inc. must adopt an annual budget showing its use of state appropriated and other funds and specifying its expected performance. It must be filed with the joint budget committee and with the oversight committees.
- The joint budget committee must approve the LA Inc. annual budget before funds can be appropriated to it.
- The oversight committees and the House Committee on Appropriations and the Senate Committee on Finance may request and receive certain LA Inc. information.
- LA Inc. must develop procedures for the procurement of services and for goods, materials, supplies and equipment, and for the construction of public works, and for the lease or disposal of property and submit them for approval by the oversight committees.
- Before hiring officers or employees (except administrative or clerical), LA Inc. must file a description of the positions and the qualifications for each with both oversight committees.
- LA Inc. must submit information on the small and emerging business program to the oversight committees.
- Bonds must be approved first by the State Bond Commission and then by the House Committee on Ways and Means and Senate Committee on Revenue and Fiscal Affairs.
- Bond attorney fees must be approved by the attorney general.
- Costs of issuing bonds must be approved by the State Bond Commission.

- Borrow funds.
- Create supporting nonprofit corporations or foundations.

LA Inc. will develop an economic development award program (EDAP) which will be the mechanism for evaluating and awarding all incentives and assistance except tax incentives which remain with the Board of Commerce and Industry. Projects subject to the capital outlay review process are not subject to the requirements applied to EDAP awards.

The Small and Emerging Business Development Advisory Council, the Music Commission and the Louisiana Film and Video Commission are created as non-state agencies to advise the corporation.

LA Inc. could issue bonds with the approval of the State Bond Commission and the House and Senate fiscal oversight committees. However, no loan or obligation of the corporation would be an obligation of the state.

The Louisiana Economic Development Council is moved to the division of administration with responsibility for directing economic development policy making and strategic planning. (See Table 1 for the distribution and transfer of funds, programs and positions under the proposal.)

Comment: The LA Inc. proposal involves lengthy and complex legislation. However, there are several major issues around which many of the arguments pro and con revolve. The following is a discussion of the interconnected issues of privatization, confidentiality and staffing for economic development.

Privatization Issue

State economic development efforts traditionally emphasized "smokestack chasing" but much of the emphasis later shifted to encouraging expansion of existing businesses and industries. More recently, states have increasingly placed economic development responsibilities in the hands of quasi-private entities often in the form of non-profit corporations. These range from limited single purpose entities to corporations that fully assume the role of the state's primary economic development agency.

Louisiana and many other states have created business and industry development corporations (BIDCOs) to operate loan and loan guarantee programs using seed money provided by the state. The Louisiana Economic Development Corporation (LEDC) is an example of using this business-like structure to help distance the state's financial assistance program decisions from politics.

Perhaps the best examples of the private or quasi-private corporation model for economic development can be found at the local and regional level throughout Louisiana. These include such organizations as the England Airpark Authority, Lafayette Economic Development Authority, Livingston Economic Development Council, Inc., Macon Ridge Economic Development Region, Inc., and the Jefferson Parish Economic Development Commission, among others. The purely private chambers of commerce and utility companies are also heavily involved in development activities.

Many states have created and funded quasi-private nonprofit corporations to perform certain functions complementing the work of their state development departments. These may do research, specialize in technology development, or carry out extensive marketing or industry assistance programs. Most are designed to work as public/private partnerships to coordinate state, local, regional and private development efforts and may be funded, in part, by private interests.

Alabama, Florida and Virginia are examples of southern states with major private or quasi-private economic development organizations that work closely with the state's purely public economic development agency.

Only a few states have entirely replaced their state development departments with a quasi-private corporation. PAR has identified three such states–Michigan, Rhode Island and Wyoming–that have set up corporations similar to the proposed LA Inc. (See Figure 5.) These are relatively new organizations but, except for some initial startup problems, all appear to be functioning well.

The experience in other states cannot be used to validate or deny the potential of a LA Inc. for Louisiana. The states and their circumstances differ greatly. Privatization appears to be working in several states but the question remains, can it work in Louisiana? And, would it be an improvement over the current department?

The governor's consultants argue that privatization is one of the radical changes needed to deal with the state's lackluster economic growth. They argue that a quasi-private corporation:

- Can more quickly reorganize operations along the industry-cluster development model.

TABLE 1
Proposed Distribution of DED Funds Based on FY 2000-2001 Budget

LOUISIANA INC.	General Operating Expenses	DED Positions Eliminated
Office of the Secretary		
Executive Administration	360,008	5
Legal	37,833	3
Office of Management & Finance	1,247,415	21
Office of Policy & Research	654,330	9
Indirect/Shared Overhead	799,189	
Internal Audit	59,178	1
Small & Emerging Business Dev. (SEBD)	326,209	5
Infrastructure & Training Assistance	148,059	3
Communications	45,500	1
Total Office of the Secretary	3,677,721	48
Office of Commerce & Industry		
Executive Administration	448,769	5
National Marketing	993,840	15
International Marketing	345,076	4
International Trade	399,234	5
Music Commission	212,029	3
Total Office of Commerce & Industry	2,398,948	32
LA Economic Development Corporation		
Executive Administration	751,526	9
Total LA Economic Development Corp.	751,526	9
Total General Operating Expenses - Louisiana Inc.	6,828,195	89
Louisiana Inc. - Program Funding		
LA Business Technology Transfer Office	50,000	
Partnership for Technology & Innov.	350,000	
Small & Emerging Business Dev. - Technical Assistance	300,000	
Small & Emerging Bus. Dev. - Small Bus. Bonding Program	2,000,000	
Foreign Representatives	302,860	
Ad. Promotion and Marketing	954,500	
Music Comm.-Ad. Promotion & Marketing	97,182	
LEDC - Financial Assistance Program	11,165,243	
Workforce Dev. & Training	6,500,000	
Marketing Education	1,000,000	
Small Business Dev. Centers	252,078	
Small Business Dev. Center - LSU-Baton Rouge	100,000	
North East Econ. Dev. Efforts	56,000	
North West Econ. Dev. Efforts	56,000	
MetroVision (Econ. Dev. Activities)	450,000	
Macon Ridge Econ. Dev. Region (Econ. Dev. Activities)	250,000	
South La. Economic Council (Econ. Dev. Activities)	150,000	
Military Economic Dev. Activities	49,200	
EDA Grant - Federal Funds (Not Approved)	100,000	
Directory of LA Manufacturers	62,025	
Total Program Funding - Louisiana Inc.	24,245,088	
Total General Operating Expenses to Louisiana Inc.	6,828,195	
Total Program Funding to Louisiana Inc.	24,245,088	
Total General Operating Exp. & Program Funding to Louisiana Inc.	31,073,283	
Pass-Throughs		
UNO Research & Tech. (Navy Phase I, II & III)	15,250,000	
UNO/Avondale Tech. Center	7,194,789	
National Adv. Center for Manufacturers	300,000	
LA Resource Center for Educators	480,000	
LA Council for Economic Education	75,000	
Alliance Compressors (Loan Guarantee)	2,000,000	
Total Pass-Throughs	25,299,789	

ENTITIES/FUNCTIONS TRANSFERED TO OTHER STATE DEPARTMENTS	General Operating Expenses	DED Positions Transferred
Office of the Secretary		
Economic Development Council to Div. Of Administration	61,594	1
Office of Commerce & Industry		
Business Incentives to Division of Administration	624,106	10
Bus. Incentives - IAT Support Services to Div. Of Admin.	194,627	3
Marketing & Developing Markets for Recycled Materials to DEQ	50,000	1
Red River Development Council to culture, Recreation & Tourism	67,581	1
LA State Racing Commission to Office of the Governor	8,635,674	78
LA St. Racing Comm. -IAT Support Services to Office of the Governor	424,229	7
Office of Financial Institutions to Office of the Governor	6,770,142	116
Office of Fin. Inst. - IAT Support Services to Office of the Governor	213,738	5
LA State Board of Cosmetology to Office of the Governor	1,247,186	29
LA St. Board of Cosmetology-IAT Support Services to Off. of the Gov.	217,375	5
Total Entities/Functions Transferred	18,506,252	256
Funding Eliminated		
Joint Special Marketing	44,807	
Self-Generated DLM Support	3,379	
Double Count IAT from LEDC for Legal	139,497	
Double Count IAT from LEDC for SEBD Dev. Assistance	300,000	
Double Count IAT from LRC, OFI, Cosm. For QMF Services	1,050,277	
Total Funding Eliminated	1,537,960	

Total Transferred to Louisiana Inc.	31,073,283	
Total Pass-Throughs Transferred to Other Departments	25,299,789	
Total Entities Transferred to Other Departments	18,506,252	256
Total Funding Eliminated	1,537,960	
Total Positions Eliminated	0	89
Department Grand Total	76,417,284	345

SOURCE: Department of Economic Development.

NOTE: DED presently has 345 authorized positions and a $76.4 million budget. This table shows how 89 current DED positions would be eliminated and the $6.8 million funding associated with them and another $24.2 million in program funding would be transferred to LA Inc.

The remaining 256 DED positions would be transferred, together with their associated funding, to other agencies as shown.

FIGURE 5
Three States Privatize Economic Development

Three states completely replaced their existing state economic development agencies with quasi-private, non-profit corporations in recent years. These include the Michigan Economic Development Corp. (MEDC) in 1999, the Rhode Island Economic Development Corp. (RIEDC) in 1995 and the Wyoming Business Council (WBC) in 1998. The three corporations differ in size with budgets of $116 million, $17 million and $10 million respectively, but share many characteristics. The three corporations all call themselves quasi-private or quasi-governmental but are primarily funded with state or self-generated money. All receive state appropriations, but the MEDC also gets Indian casino money and the RIEDC receives funds from its port and industrial park operations.

The three corporations replaced and assumed the roles of existing state economic development agencies. The WBC combined and privatized 25 programs and seven agencies. They all do marketing, assist local agencies, have specialists in target industries, provide information, offer job training, arrange or provide infrastructure investments and financial assistance with some differences. The RIEDC is also a port authority and operates industrial parks as well.

All three agencies are subject to open meetings, public records and ethics laws. However, each is generally capable of maintaining the confidentiality of a prospect until the board makes a final decision. In addition, all three states allow and require board members to recuse themselves from voting on issues when they have a conflict of interest. Spokesmen for each agency stress the importance of being able to maintain confidentiality throughout the negotiation process.

Each corporation has its own purchasing system–generally an expedited variant of the state law or procedure–even the one agency that is technically subject to the state law. Each agency is subject to state audit and legislative oversight.

Employees of the two small corporations are exempt from state civil service. The MEDC has 235 authorized civil service employees that are technically state employees and 25 unclassified positions. The unclassified positions are used for the senior staff and to hire industry specialists including the two IT experts who head the information technology development efforts.

CEO salaries or bonuses have attracted some public criticism in several cases. Compensation for the MEDC CEO is roughly $250,000 including a salary and bonus. The salary of $189,000 was based on a consultant's study of comparables. Early on, two of the organizations also faced serious criticism for loose spending controls or irresponsible purchases. However, all appear now to be operating without major problems and with the support of the business community.

It is too early to make a final judgment on the performance of quasi-private economic development corporations. However, *Site Selection* Magazine has ranked Michigan's MEDC among the top ten development groups in the nation. The other nine included only one purely public agency and the rest were local development corporations or other private local groups.

- Provides the state-of-the-art structure needed to help expand and diversify the economy into cutting-edge industries of the future (e.g. microtechnology)
- Creates a leaner, downsized operation by shedding the less-productive, time-consuming functions that trouble the existing agency and concentrate efforts on the top development priorities.
- Can rehire the best of the existing DED employees and let the rest seek relocation elsewhere in state government.
- Permits a rapid response to aid potential new or expanding businesses.
- Offers an entity with which private businesses might feel more comfortable working.

LA Inc. proponents argue that flexibility in staffing the agency with appropriate industry experts is essential to its operation and that civil service protects the jobs of marketing personnel who do not have the necessary current expertise. They point out that the existing division structure staffed with classified civil servants makes it difficult to create project teams drawing from the various specializations. They suggest that while DED could probably obtain authorization from the Civil Service Commission for a handful of additional unclassified positions, it would be nowhere near the number–25

or so–needed to cover the leadership and industrial specialist positions.

The proponents also suggest that the proposal would subject the privatized agency to as high if not a higher degree of oversight than the current agency. (See Figure 4.)

Critics of privatization point out that, in spite of the national trend toward having private or quasi-private entities perform at least some role in economic development, most states have also retained traditional state departments as their primary economic development agency.

Critics have argued that:

- the governor's consultants overstated the extent of privatization of economic development in the southern states used as examples.
- the cluster concept, while not entirely a proven idea, is something that could be implemented in the existing DED.
- if the agency is to remain primarily state funded, it should remain a traditional state agency.
- LA Inc. would have too much power through its authority to:
  - use public funds to buy and sell property through private negotiations
  - fund start-up ventures
  - create subsidiaries in an effort to avoid public accountability
  - have an ownership stake in companies that could compete with existing private companies.

The LA Inc. proposal is rushing privatization too quickly. Privatization could more appropriately be undertaken on a piecemeal basis.

LA Inc. would still have the same product which makes the state a hard sell—the same archaic and unstable tax structure, a poorly trained workforce, a troubled educational system, a marginal infrastructure, a lack of industrial diversity and a political culture that remains highly suspect.

Confidentiality and Sunshine Law Issues

A primary objective of privatizing economic development functions is to be able to operate like a business in interacting with private sector prospects. Developers argue they need to be able to act quickly and keep confidential information about a prospect's plans that might otherwise give away trade secrets, alert competitors to an opportunity, raise land prices or even affect their stock prices.

The initial draft of the LA Inc. bill included a broad exemption from the Public Records Law for "proprietary, sensitive or confidential information" of a business the corporation was working with. This language was later amended to read "proprietary or trade secrets" which cannot be as broadly interpreted. Another amendment removed language allowing the executive committee of the board to bind the board to an action upon which the full board had not taken action.

Language remaining in the proposal, however, would still allow LA Inc. to keep confidential information regarding deals it was making with a prospect until the board took final action. The act says, "...during any stage of activity in which a letter of intent or preliminary agreements are involved prior to permanent or final action taken on behalf of such [private sector] entities, any such information, in any form shall not be deemed to be subject to the Public Records Law...."

Critics of the proposal have roundly condemned this provision as a dangerous and unnecessary exception from the public records law that would allow developers to make secret deals with potentially undesirable companies, using state money, without public knowledge or input. This far-reaching exemption, they argue, would make it impossible for a citizen to request information about a company's application for a tax exemption, financial assistance or infrastructure project before the final action was taken to approve or reject the application. Currently, the formal application or request for assistance becomes a public record when it is made–often well in advance of board consideration. Under the proposal, the public might not hear of a project until the agenda was posted–as little as 24 hours prior to a board meeting.

Supporters argue the critics' fears are unfounded, that the DED currently operates with a public records exception for proprietary and trade secrets and that good prospects might not be inclined to work with the agency if doing so would make its business plans prematurely available to the media. Furthermore, they argue, the proposal would simply codify the current practice. Companies are warned not to make formal applications until they have all their ducks in order and are ready to go public. Even then, there is seldom, if ever, a request under the public records act for the application information prior to a formal announcement of the project or final board action on the application. They suggest that an environmentally sensitive project would have to go through a public permitting process prior to any LA Inc.

action and that a project requiring major state funding would still have to obtain legislative approval.

Civil Service and Staffing Needs

One of the most important aspects of privatizing economic development, supporters say, is the ability to attract topflight development professionals and industry specialists. It is argued that, under Louisiana's civil service system, it is not possible to provide the level of salaries required or to use bonuses as performance incentives. Furthermore, they note that the red tape involved in hiring and firing through civil service hamper personnel decisions and makes staffing changes more difficult.

Of the 345 positions currently authorized by DED, 104 are directly related to economic development. Of the 104, 15 commerce and industry positions would be transferred to the Division of Administration under the LA Inc. plan. The remaining 89 positions would be eliminated, however the funding associated with them would be transferred to LA Inc. which would then be free to hire personnel as it saw fit or even to outsource various services. It was expected that the new staff would only number about 60-70.

The governor's consultants recommended a number of highly technical industry clusters that would require specialized development experts. Attracting a top information technology or micro-manufacturing expert could require a hefty six-figure salary well beyond the reach of any civil service salary schedule. In moving out of the civil service, the new corporation could rehire the best of the existing DED staff and let the rest seek employment elsewhere in state government.

Critics of the plan point out that the board structure of the proposed LA Inc. leaves the governor clearly in control. And, by removing the civil service restrictions, the agency could become a future governor's patronage job pool. Without civil service protection, all LA Inc. employees would be subject to firing whenever a new governor assumes control of the board. While DED operations have been criticized, there has been no effort to reform the existing agency (e.g. working with Civil Service to get additional unclassified positions or bonus-granting authority). The Civil Service Board could grant some unclassified positions for the hard-to-fill jobs and salaries could be set as needed. Civil service also permits a minimal system of performance-based incentives including limited bonuses, accelerated entry-level pay and other incentives but they must follow approved rules that apply to all eligible employees.

LA Inc. proponents, on the other hand, argue that the prohibitions of political activity of staff and board members, and the prohibitions on hiring, firing, promoting, or demoting because of political affiliations that are retained in the LA Inc. legislation from existing civil service law should ensure the organization's insulation from a political spoils system. They suggest that a wholesale firing of LA Inc. employees would run afoul of the legal prohibition against political firing and that it is unfair to assume the LA Inc. board would allow the governor to control it.

During the six months between passage of the proposed LA Inc. legislation plan and its consideration by the voters, the DED will undoubtedly have lost some employees, a measure of staff morale and operational momentum. Some of the remaining employees face the possibility of being transferred. Others are seeking other state jobs or waiting to see if they might be rehired if LA Inc. is approved. Failure of the proposal would find the DED in a weakened position. Whether the proposal passes or not, a major rebuilding of the economic development operation has been promised by the administration.

Conclusion: In summary, the arguments favoring LA Inc. center on the potential benefits of freeing the economic development function from some of the restrictions and limitations placed on state agencies that tend to slow down processes, turn functions into sluggish routine, value safety over innovation and risk taking and reward employees equally regardless of their performance. In short, it is argued, LA Inc.'s primary advantage would be its ability to hire and motivate good people, particularly a topflight director and development specialists for each target industry cluster, and to move more quickly on development opportunities. Proponents stress the number of safeguards and oversight requirements built into the proposal.

Arguments against LA Inc. focus on the potential problems of placing public functions and public money in the hands of a private entity, which is essentially under the control of the governor. It is argued allowing LA Inc. to keep its deals with prospects secret until they were formally approved would deny the public access to information about developments they might oppose and adds yet another exemption to the public records law. Critics also fear that an unscrupulous governor could use the unclassified LA Inc. positions to create a patronage pool.

Legal Citation: Act 153 (Senator Hollis) of the 2000 First Extraordinary Session, amending Article XII, Section 12.

THE "STELLY PLAN"

Income Tax Changes

Sales Tax Exemptions

NOTE: Proposed amendments No. 2 and 3 are discussed together because neither of the proposals nor the companion legislation becomes effective unless both amendments are approved. One proposal deals with the income tax and the other with the sales tax. The constitution limits an amendment to one object, thus separate amendments were required.

Current Situation: During the 2000 fiscal session, legislators struggled to balance a budget plagued by a major revenue shortfall while facing strong demands for pay raises for teachers and faculty. At the same time there was an increasing awareness that the state's tax structure was at the root of the fiscal crisis.

There were a number of failed efforts to pass major new business taxes–a business activities tax, an oil and gas processing tax and an oil refinery tax–each large enough to cover the budget shortfall and take care of the desired education pay raises as well. Other revenues such as sin tax increases were considered.

Rather than increase taxes to fund pay raises, many legislators favored forcing the school districts to come up with the money out of their regular MFP allocations. One proposal would have required the districts to put 75% of any additional MFP money they received into salaries.

During the regular session this year, the Board of Elementary and Secondary Education (BESE) voted to send a revised Minimum Foundation Program (MFP) funding formula to the Legislature calling for an additional $221 million to raise the average teacher salary to $35,522 and bring it roughly within $300 of the southern state average. Each teacher would have received between $2,250 and $4,500 a year. Confronted by an angry legislature desperately seeking ways to plug a major budget gap, BESE withdrew the new formula and ended up agreeing to a $23 million cut in the $48 million inflationary increase required under the existing MFP formula.

The Legislature finally settled upon the "Stelly Plan" (named for the author of the companion legislation) which is the subject of the two proposed constitutional amendments discussed here. The plan would raise the individual income tax for the tax year 2001 and provide funding for pay raises beginning in the 2001-02 school year. It would also partially offset the income tax increase by permanently removing the state sales tax on food and utilities.

Eventually, the Legislature cobbled together a package of tax increases totaling $211.5 million to balance this year's budget. This included an additional 1% sales tax on food and utilities ($109.9 million), eliminating the income tax deduction for one-half of the federal excess itemized deductions ($67.2 million), suspension of the $25 student credit ($18 million), renewal of an auto-rental tax $4.4 million) and an increase in cigarette and tobacco taxes ($14.7 million). This tax package was intended as a temporary "bridge" to allow time for the income-sales tax swap proposal to be approved and implemented. Most of the bridge taxes would expire on January 1 or June 30, 2001 if the Stelly plan is adopted, otherwise they would continue for another fiscal year.

No. 2 and No. 3

You Decide

☐ A vote ***for*** both amendments would increase personal income taxes, permanently remove the state sales taxes from food and utilities and dedicate at least 80% of the net new revenues to teacher, faculty and school worker pay raises.

☐ A vote ***against*** either amendment would continue existing income tax rates and brackets, the deduction for federal income taxes paid and the use of temporary state sales taxes on food and utilities.

Proposed Changes

Amendment No. 2: The amendment would eliminate the state income tax deduction for federal income taxes paid and change the limits on rates and brackets not to exceed those set in law as of January 1, 2001. The amendment would also drop the term "net" from the

current authorization of a "net income" tax. If adopted, the amendment would be effective January 1, 2001 but only if amendment No. 3 is also adopted.

Amendment No. 3: The amendment would constitutionally exempt from the state sales tax purchases of food for home consumption, natural gas, electricity and water. If adopted, the amendment would be effective on July 1, 2002 but only if amendment No. 2 is also adopted.

(NOTE: the companion legislation would statutorily repeal the tax on food and utilities earlier than this effective date.)

Act 37 and Act 28: The companion legislation (Act 37 of the Regular Session as amended by Act 28 of the second Extraordinary Session) would set new individual income tax rates and brackets and repeal certain deductions and credits. It would also repeal the suspension of the exemptions from the sales tax for food and utilities for the 3% tax on January 1, 2001 and the remaining 1% tax on July 1, 2001.

The new individual income tax base would be the "adjusted gross income" reported on the taxpayer's federal income tax return, less income exempt under Louisiana law or by the federal constitution or laws. This would exclude federal and railroad retirement income, Social Security income, and Louisiana public retirement income as provided by state law. Up to $6,000 of other annual retirement income would be excluded for taxpayers at least 65 years of age.

The legislation would eliminate the deductions from taxable income for federal itemized personal deductions in excess of the federal standard deduction, federal income tax liability, and amounts deposited in a medical savings account. In addition, credits such as the educational expense credit, environmental equipment purchase credit, child care credit, and jobs credit would no longer be available.

Taxpayers would continue to have a standard deduction/personal exemption of $9,000 (married filing jointly) or $4,500 (single or married filing separately) and the dependent deduction of $1,000 each.

The tax base, rates and brackets would change as follows for a married couple filing jointly (brackets for a single filer would be half the amounts shown):

Existing State Income Tax

Adjusted Gross Income (from federal income tax return)
- Standard Deduction/Personal Exemption
- Excess Itemized Deductions
- Federal Tax Liability

= Louisiana Taxable Income

2% on first $20,000 of taxable income
4% on next $80,000
6% on amount above $100,000

Proposed State Income Tax

Adjusted Gross Income (from federal income tax return)
- Standard Deduction/Personal Exemption

= Louisiana Taxable Income

2% on first $5,000 of taxable income
3% on next $5,000
4% on next 40,000
5% on amount above $50,000

The law also creates the Education Enhancement Fund which beginning in fiscal year 2001-2002 would receive the net increase in income tax due to the changes in this act. The net increase would be the total income tax collected each year, less the amount collected in FY 2000-01 adjusted for inflation, and reduced by $440 million (to replace the repealed sales tax on food and utilities.) At least 80% of the money in the fund must be used for pay increases for teachers, faculty and other school personnel. The pay increases are to be in amounts set by the legislature. In the case of teachers, salaries in the other SREB states must be considered. The remaining 20% may also be used for additional education spending and money not appropriated remains in the fund.

The act would become effective January 1, 2001 and the income tax changes would apply to tax years beginning after December 31, 2000, but only if amendment No. 2 is also adopted.

Comment: The package of proposed amendments and legislation to implement the tax increase for education pay raises presents a number of issues. The following discusses the impacts of the proposed tax changes on state tax collections, the impact on taxpayers and several of the more controversial issues surrounding the proposal.

Impact on Tax Collections

Estimates of the impact of the tax changes can only be approximated. However, the Legislative Fiscal Office (LFO) estimates the proposal will result in $202 million for the education enhancement fund in FY 2001-02 and $312 million, $357 million and $405 million in the following three years. The additional income tax resulting from this proposal would be $642 million in FY 2001-02 but would jump to $752 million in 2002-03 when the full effect of removing the deduction for excess federal deductions is attributable to this proposal. (Half of the deduction has already been removed for two years as part of the "bridge" tax plan.)

The tax swap would actually begin mid-year in FY 2000-01. Income tax withholding under the new rules would begin January 1, 2001 and the 3% sales tax levy on food and utilities would be lifted at the same time. The extra withholding revenue is expected to offset the $163.4 million loss in sales tax in the last six months of the current fiscal year. But to be sure, the additional 1% food and utilities tax was allowed to run until June 30, 2001. After that point, the revenues added by this proposal would go to the education enhancement fund. For FY 2001-02 the full impact of removing the 4% tax on food and utilities would give taxpayers a $440 million savings.

Impact of the Tax Swap on Taxpayers

Generalizing the impact of the tax swap on taxpayers is not easy. Varying estimates have been published. Table 2 shows the impact on the average tax filer in different income ranges as prepared by the Legislative Fiscal Office using data on income tax increase and federal

TABLE 2
Estimated Tax Consequences of Act 37 (HB 295) of the 2000 Regular Session

Federal Adjusted Gross Income	Act 37 (HB295) State Income Tax Increase	Federal Income Tax Savings	Food & Utilities Sales Tax Savings	Net Impact of Tax Proposal	Net Impact Per Month	Change in Net Taxes Paid	Number of Taxpayers 1998
0 to $5,000	($24)	$0	$14	($38)	($3)	(222%)	168,663
$5,000 to $10,000	6	0	41	($35)	($3)	(54%)	200,334
$10,000 to $15,000	37	0	64	($27)	($2)	(17%)	206,978
$15,000 to $20,000	76	0	90	($14)	($1)	(5%)	159,917
$20,000 to $25,000	134	2	112	20	2	4%	125,610
$25,000 to $30,000	199	6	133	60	5	10%	99,513
$30,000 to $40,000	335	19	169	147	12	18%	155,305
$40,000 to $60,000	479	40	240	199	17	16%	211,859
$60,000 to $80,000	805	90	330	385	32	21%	118,841
$80,000 to $100,000	1,244	239	380	625	52	26%	55,873
$100,000 to $120,000	1,699	408	449	842	70	28%	26,342
$120,000 to $140,000	2,164	588	520	1,055	88	29%	13,448
$140,000 to $160,000	2,507	682	535	1,290	108	30%	8,222
$160,000 to $180,000	2,793	973	582	1,237	103	25%	5,505
$180,000 to $200,000	3,029	1,080	608	1,342	112	23%	3,789
Over $200,000	7,261	2,588	617	4,057	338	24%	20,452
TOTAL							1,580,651

SOURCE: Legislative Fiscal Office.

The Act 37 tax increase and the federal income tax savings were generated by the Department of Revenue from a simulation of 1998 return data that has growth applied to it in order to approximate year 2001 tax liabilities. These calculations account for the rate and bracket changes in Act 37 as well as the elimination of deductions for federal taxes paid and excess federal itemized deductions.

The federal income tax savings, estimates the reduction in federal tax liabilities resulting from the deduction at the federal level of the increased state tax liabilities brought about by Act 37.

The food and utilities sales tax savings are based on an estimate that approximately 55% of the sales taxes collected on food and utility is attributable to individuals.

Note that each income group represents an average of all filing types and situations that fall within a particular AGI range. This means that single and joint filers, with and without dependents, and with and without various other specific tax characteristics are all represented by the values in each particular income group.

income tax savings from a Department of Revenue simulation. The estimated income tax increases and reductions in federal income taxes and sales taxes on food and utilities could differ widely for the same income depending on the type of filer (single, married filing jointly, etc.), size of the household, spending patterns and other factors.

Taxpayers who itemize deductions on their federal tax returns would get a reduction in their federal tax based on their increased state tax payment.

Roughly one half of all tax filers, those with adjusted gross incomes under $25,000, would likely experience a net gain or only a very small loss from the tax swap. The net tax increase would rise gradually as a percentage of a taxpayer's income reaching its highest point (less than 1%) at about $150,000 and then decline gradually thereafter.

By one estimate, the proposal would save itemizers an estimated total of $110 million on their federal taxes. It has been suggested that, if the total net state tax increase for the first year is $202 million, then the whole tax swap proposal would cost state individual income tax payers only about $92 million. This would be the case if individuals received all of the benefit from the sales tax reduction. Business and industry also use utilities and would receive from 25% to 45% of the benefit (estimates vary widely). Business could thus save between $110 million and $200 million making the cost to individual tax payers $212 million to $292 million. However, a large share of business income ("S" corporations, LLCs, partnerships and proprietorships) is now taxed as individual income. Businesses taxed as corporations would save an undetermined amount on the sales tax reduction but would have an income tax increase.

The proposal would significantly alter a taxpayer's income tax and sales tax payments. Table 3 provides a comparison of tax burdens of a family of four in the largest city of each of the 50 states and D.C. to show the impact of the current tax structure. At all income levels, Louisiana ranks at or near the top in sales taxes paid and near the bottom in income taxes.

A very simple comparison shows how the income tax changes would work. The following assumes a married taxpayer filing jointly, without dependents, showing an adjusted gross income of $50,000 on his federal tax return.

STATE INCOME TAX COMPARISON, CURRENT AND PROPOSED
(Married couple filing jointly with AGI of $50,000)

	Current	Proposed
Adjusted Gross Income (federal return)	$50,000	$50,000
Standard deduction/personal exemption	(-9,000)	(-9,000)
Federal tax liability	(-5,600)	---
Louisiana taxable income	$35,400	$41,000

	Current		Proposed	
Tax Computation:	2% X 20,000 =	400	2% X 5,000 =	100
	4% X 15,400 =	616	3% X 5,000 =	150
	6% X 0 =	0	4% X 31,000 =	1,240
			5% X 0 =	0
Total tax liability		$1,016		$1,490

Income Tax Increase under proposed plan =	$474
Estimated sales tax savings (4% on food and utilities =	(240)
Federal Income Tax Savings =	(40)
Net Change in Taxes Paid	$ 194

The Proposal as Tax Reform

Proponents of the Stelly plan argue that the proposed shift from sales taxes to income taxes would represent a major step towards tax reform for the following reasons:

- It reduces the state's reliance on sales taxes whose slow growth has contributed to the state's recent budget problems.
- It replaces the sales tax on food and utilities with the personal income tax, one of Louisiana's few growth taxes, thus allowing revenues to better keep pace with the natural growth in the economy. Also, the temporary nature of the sales tax affects the state's bond rating and encourages horse trading and pork-barrel spending.
- Eliminating the regressive sales tax on food and utilities would help poor families and Louisiana has the second highest poverty rate in the U.S. Families with incomes under $25,000 would have a modest reduction in their taxes.
- Removing the tax on utilities would save money for other consumers and businesses.
- State income taxes are deductible from federal taxes while sales taxes are not.
- The new revenue generated would be targeted to education–a major need.
- The income tax increases would be largely achieved by removing deductions that primarily benefit those with higher incomes (40% of the value of these deductions now go to taxpayers with income above $200,000.) Most other states do not offer these deductions.

Proponents also argue that it is time to try a piecemeal approach to tax reform, citing the failed attempts at comprehensive reform over the past decade. They suggest that the concept of shifting reliance from sales to income taxes has been a central idea in all of the recent tax reform recommendations of study groups such as SECURE and the recent Ewing commission.

Supporters warn that if the proposal fails, the state fisc could be left in a terrible bind. The $500 million in temporary "bridge" taxes would expire at the end of FY 2001-02 and a failure to renew all or part of them would be devastating to a budget already projected to have a more than $200 million shortfall to start with.

Critics argue, for the following reasons, that those who have been involved in fiscal reform efforts over the past 15 years would not recognize the proposal as part of the tax reform packages they have supported:

- It is not revenue neutral . . . takes another $200 million to over $400 million (depending on whether bridge taxes are included) out of the private sector to expand the state budget.
- Does not really add stability or growth to the tax base...the additional growth would be taken off the top for teacher and faculty raises while other expenditures would still be funded from the same tax structure as before.
- The dedication of yet another revenue source narrows even further that portion of the budget that is considered discretionary. (Although the dedication is statutory and technically could be changed in a crisis.)
- The proposal only makes local government more dependent on the state.
- Tax reform efforts called for a reduction in state sales taxes and elimination of exemptions to broaden the base. This proposal keeps the high 4% rate and locks the exemptions for food and utilities in the constitution. (The food and utilities tax would no longer be available as a fall-back revenue in a crisis.)
- The revised income rates and brackets would still be locked in the constitution.
- The proposal is not the comprehensive reform that is needed. It might be considered a piecemeal approach at best but could set back the tax reform movement indefinitely by giving the impression that something has been done.

(NOTE: Amendment No. 2 would change the authorization of a state tax on "net income" to read simply "income." Dropping the term "net" could imply that the authorization was broadened to include a gross receipts tax or single business tax similar to that proposed by the administration this year. However, the administration claims it did not request this change and asserts that a gross receipts tax or single business tax could already be implemented by statute without any change in the constitution.)

TABLE 3
Estimated State and Local Tax Burden for a Family of Four, 1998 Taxes
(Ranking based on taxes in highest city in each state and Washington, D.C.)

Family Income	Income Tax	Rank[1]	Property Tax	Sales Tax	Rank[2]	Auto Tax	Total	Louisiana Rank
$25,000								
Louisiana	365	28	104	805	3	201	1,475	44
U.S. Average	479		854	569		246	2,026	
$50,000								
Louisiana	1,205	35	729	1,265	1	213	3,412	43
U.S. Average	1,714		1,712	890		281	4,274	
$75,000								
Louisiana	1,875	40	1,721	1,897	2	359	5,852	41
U.S. Average	3,056		2,644	1,355		501	7,004	
$100,000								
Louisiana	2,495	39	2,514	2,530	2	404	7,943	40
U.S. Average	4,487		3,382	1,807		559	9,442	
$150,000								
Louisiana	3,818	42	4,101	3,541	3	538	11,999	40
U.S. Average	7,423		4,870	2,696		670	14,376	

SOURCE: "Tax Rates and Tax Burdens in the District of Columbia: A National Comparison," Department of Finance, District of Columbia.
1 Of 43 states levying tax (average and rank).
2 Of 48 levying tax.

Pay Raise Issues

There is little disagreement concerning the need for teacher and faculty pay raises although there has been considerable controversy over the appropriate amounts, the source of funding, the type of pay raise given and the method of distributing money for raises.

Salaries of Louisiana's K-12 teachers and post-secondary education faculty are well below those of their peers in the other southern states. They were making some gains in recent years, but now appear to be falling further behind.

As shown in Table 4, Louisiana's average teacher salary ranked 13th among the 16 SREB states for the last two years falling short of the SREB average by $3,242 in 1998-99. The gap widened to $3,544 in 1999-2000. The state funded pay increases three years in a row putting in an extra $60 million in 1996-97, $80 million in 1997-98 and $73 million in 1998-99, but there was no extra funding for pay in 1999-00 or 2000-01. Currently, an estimated additional $221 million is required to bring teachers to the SREB average.

An even greater gap exists within the state in teacher salaries by district. For example, in the 1999-2000 school year, the salary for a beginning teacher ranged from $19,853 in Franklin Parish to $28,177 in St. Charles Parish. The average beginning salary that year was $24,373.

Also shown in Table 4 is the 12 to 13 percentage point gap between average salaries for faculties at Louisiana's four- and two-year institutions and their SREB peers. While faculty salaries had for a time reached the SREB average, they have since fallen behind. It is estimated that approximately $90 million would be required to bring faculty salaries up to the SREB average.

TABLE 4
Trends in Average Teacher Salaries

	1989-90	1992-93	1995-96	1998-99	1999-2000
U.S. Average	$31,361	$35,017	$37,702	$40,582	$41,575
SREB Average	$27,892	$29,880	$32,497	$35,752	$36,730
Louisiana Average	$24,300	$26,102	$26,800	$32,510	$33,186
LA SREB Rank	12 of 16	14 of 16	16 0f 16	13 of 16	13 of 16
LA as % of U.S.	77%	75%	71%	80%	80%
LA as % of SREB	87%	87%	82%	91%	90%
SREB as % of U.S.	89%	85%	86%	88%	88%

Average Salaries of Full-Time Instructional Faculty (1998-99)

	Public Four-Year Institutions	Public Two-Year Institutions*
U.S. Average	$56,916	$44,798
SREB Average	$52,632	$39,208
Louisiana Average	$44,902	$33,528
LA SREB Rank	16 of 16	15 of 16
LA as % of U.S.	79%	75%
LA as % of SREB	85%	86%
SREB as % of U.S.	92%	88%

SOURCES:
1. National Education Association, *Rankings of the States 1999* and *Estimates of School Statistics 2000.*
2. Southern Regional Education Board, *Teacher Salaries and State Priorities for Education Quality–A Vital Link.*
3. Soutern Regional Education Board, *Faculty Salaries in Colleges and Universities: Where do SREB States Stand?*
4. PAR calculations.

* Those granting AA degrees or transfer credits.

The Need for Pay Raises

Supporters of the tax swap proposal argue that action is needed now because of the following reasons:

- Recruiting and keeping good teachers and faculty is a major problem and pay is a key factor. Other states are actively recruiting Louisiana teachers and faculty by offering higher salaries, bonuses and other incentives.

- Other southern states are making headway on increasing teacher pay and inaction would only put us further behind. Two SREB states have exceeded the national average in teacher salaries while others, including Alabama, Georgia and Virginia, have set the national average as their goal.

- Considering the slow growth projected in the state's revenues and the current budget difficulties, this proposal offers educators the best hope of obtaining a significant pay raise in the foreseeable future.

There has been some criticism of including other school employees in the pay raise plan. Critics note that there is little evidence that support workers are underpaid in comparison with their counterparts in other states and suggest that some may already be relatively well paid.

The proposal does not specify the distribution of funds for pay raises, however, those eligible under the act and their approximate numbers would include the following:

K-12 classroom teachers	50,000
Other school employees	52,000
Postsecondary faculty	11,000
Other postsecondary employees	8,000
Total eligible for pay raises	**121,000**

Adequacy of the Proposed Raises and the Funding Source

Critics note that the proposal would not fund pay raises sufficient to reach the southern state average and the relative improvement in pay would only be temporary as the target average continues to rise.

The specifics of the pay raises would be determined later. However, it is clear that under the proposal, the first year's available funding of $202 million will not come close to closing teacher and faculty gaps with the SREB averages. These have been calculated at $220 million and about $90 million respectively. Figuring in a minimal average $1,000 raise for the other 60,000 employees and the total rises to about $370 million. However, the full revenue impact of the proposal is not felt until the second year, FY 2002-2003, when the dedicated revenue jumps up to $312 million. If the SREB average has not moved far by then, the money could come close to closing the teacher and faculty gaps if all of it was directed to those groups. This of course would require leaving out the other education employees.

One point of concern by teachers was that any raise they might receive will be offset to some extent by the increase in their state income tax. As shown in the example above, a couple of married teachers with a combined AGI of $50,000 would pay about $474 more in income tax, but their net increase would be less than $200 after the sales tax and federal income tax savings are figured in. Until the couple's AGI reached $80,000 or more the net tax increase would not make much of a dent in their raises.

Some legislators opposed the proposal during the session, preferring to fund pay raises through major business tax increases rather than using personal income taxes. Others felt that Louisiana, as a poor state, was already putting enough money into education and that school districts could fund teacher raises from existing money if they redirected their spending. They argued that the federal court orders mandating high spending for non-classroom related support services such as transportation should be actively appealed.

The most recent **actual** data for comparison of school funding is for school year 1997-98. Table 5 shows Louisiana's spending per pupil is below average for the nation and the South, ranking 40th in the nation and 11th among the 16 SREB states. If Maryland and Delaware, two high spending states are removed, Louisiana is still 9th among 14 states but is within $85 per student of the southern average. Louisiana ranks below the southern average in per-student spending on instruction and support services but leads the South and is second in the nation in the much smaller spending category of "non-instruction" (includes food services and athletics.)

While estimates of school spending for 1998-99 indicate Louisiana may have moved up in the rankings, the data is subject to major revision. In addition, the state's position likely slipped in 1999-2000.

Louisiana has more staff members per student compared to the nation or SREB region in several areas.

TABLE 5
SREB Breakdown of Per Pupil Spending for Elementary and Secondary Education

State	1997-98 Current Expenditures Per Pupil in Membership											
	Total			Instruction			Support Services			Non-instruction		
		Nation Rank	SREB Rank		Nation Rank	SREB Rank		Nation Rank	SREB Rank		Nation Rank	SREB Rank
Alabama	$4,849	45	14	$2,963	45	15	$1,545	46	13	$341	8	4
Arkansas	$4,708	47	15	$2,985	43	13	$1,393	49	15	$330	11	7
Delaware	$7,420	8	1	$4,593	8	1	$2,464	7	1	$362	7	3
Florida	$5,552	34	6	$3,269	36	8	$2,008	26	5	$275	27	15
Georgia	$5,647	31	5	$3,513	29	5	$1,811	36	8	$323	13	9
Kentucky	$5,213	39	10	$3,188	38	10	$1,723	40	10	$303	18	13
Louisiana	**$5,188**	**40**	**11**	**$3,109**	**41**	**12**	**$1,647**	**42**	**11**	**$432**	**2**	**1**
Maryland	$7,034	13	2	$4,407	12	2	$2,289	14	2	$339	9	5
Mississippi	$4,288	50	16	$2,630	50	16	$1,352	50	16	$307	17	12
North Carolina	$5,257	38	9	$3,295	34	7	$1,631	43	12	$331	10	6
Oklahoma	$5,033	42	12	$2,984	44	14	$1,741	38	9	$308	16	11
South Carolina	$5,320	36	8	$3,166	40	11	$1,824	34	6	$329	12	8
Tennessee	$4,937	44	13	$3,210	37	9	$1,476	48	14	$251	32	16
Texas	$5,444	35	7	$3,344	32	6	$1,812	35	7	$289	22	14
Virginia	$6,067	23	4	$3,699	23	4	$2,048	23	3	$320	14	10
West Virginia	$6,323	17	3	$3,921	17	3	$2,027	25	4	$375	6	2
U.S. Average	$6,189			$3,827			$2,091			$271		
SREB Average	$5,461			$3,346			$1,804			$311		

Source: National Center for Education Statistics "*Revenues and Expenditures for Public Elementary and Secondary Education: School Year 1997-98*" NCES 2000-348.

TABLE 6
Projected Change in Staff if Louisiana at SREB Student to Staff Ratio

Category	Weighted Average Salary	Change in Staffing at SREB Ratio	Average Savings at SREB Ratio
Teachers	$32,231	(498)	($16,051,038)
Instructional Aides	$12,294	6	$73,764
Instructional Coordinators and Supervisors	$51,234	(627)	($32,123,554)
Guidance Counselors	$37,568	(1,184)	($44,480,328)
Librarians	$36,271	(100)	($3,627,100)
Other Student Support Staff	$15,776	(4,574)	($72,157,982)
School Administrators	$50,903	(21)	($1,068,963)
School District Administrators	$76,017	486	$36,944,091
Administrative Support Staff	$17,891	1,176	$21,039,816
TOTAL		**(5,336)**	**($111,451,294)**

Source: PAR calculations and National Center For Education Statistics "*Public School Student, Staff, and Graduate Counts by State, School Year 1998-99,*" (NCES 2000-330). Salary information from Louisiana Department of Education *"Summary of Reported Personnel PEP 1999-2000"* and PAR calculations.

As seen in Table 6, reducing staffing to the SREB level, primarily in the areas of teachers, instructional coordinators and supervisors, guidance counselors (guidance, vocational education, special education, culturally deprived student, and assessment counselors among others), other student support staff (bus drivers, food service workers, janitors, maintenance workers, and others), the state could release around $110 million for teacher pay raises. If the state did not increase staffing in the areas where it is short, another $58 million would be available for a total of $168 million. This would be short of the $221 million needed to raise average teacher pay to the SREB average.

Cutting staff to the SREB level however is a simplistic approach that fails to consider other factors. To accomplish this staff reduction, there would be 500 fewer teachers which would increase the pupil-teacher ratio. In addition, with federal court orders affecting busing and the large amount of federal dollars supporting free and reduced lunch programs in the state, it may be difficult to cut transportation and food service staffing. Federal spending for special education and poverty programs may also preclude staff cuts in the guidance counselor area.

Besides additional funding for salary increases, more funding is also needed in other areas. For example, using the latest available data on spending, Louisiana spends half of the amount per student for capital outlay compared to the nation or SREB region. Local school districts do not receive state funding for capital outlay, and the low level of spending in this area suggests the state will have a serious problem in the future as the condition of school facilities deteriorates. Also, the state's new accountability program may need more funding to help the state's worst schools improve to mandated performance levels.

In short, the potential for forcing a reordering of educational spending to provide the desired pay raises has some serious drawbacks.

Nature and Amount of Pay Raises

As initially adopted in the regular session, the legislation would have required equal pay raises for teachers, equal raises for faculty and specified a 4% raise for support workers. This raised strong objections from those who felt it would undermine the equity goals of the MFP formula process and the rational pay plan for faculty. A special session amendment struck the specific allocations and made them simply subject to legislative determination.

Proponents suggest that leaving the allocation process open will provide an opportunity to work out an equitable distribution among the three groups of employees and a fair system of pay raises while assuring that the additional money goes only to salaries.

The counter argument is that the amendment simply delays the battle over the distribution and that the Legislature has already displayed its traditional penchant for equal, across-the-board pay raises. Many legislators have clearly indicated they do not want to run the money through the MFP for fear districts will not use it for pay.

There will likely be pressure from the unions for across-the-board

raises instead of a plan giving teachers in some parishes larger increases than in others. Equal raises for all teachers would undermine the degree of statewide funding equity now provided by the MFP formula. It would also treat the so-called "hold-harmless" parishes (those that are now getting more state funds than the current formula would otherwise allow) the same as other parishes that are receiving only their fair share.

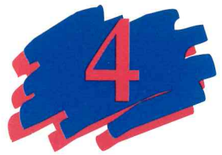
There is concern on the part of the teacher unions and others that the proposal might be setting the scene for an annual battle over the distribution of funds pitting the K-12 teachers against the college professors with support workers trying to get a piece as well. The Legislature would have to make the determination each year of how to split the money among the three groups.

Conclusion: In summary, proponents of the Stelly Plan argue that it provides an important first step towards reforming the state's outmoded tax structure by shifting from reliance on the regressive sales tax to the progressive and growth-oriented individual income tax. The primary objective, they assert, is to provide additional funding dedicated to education spending that would allow the state to give much-needed raises to teachers and faculty and potentially bring their pay in line with the other southern states over time. They feel that voters should recognize the need for appropriate pay to improve teacher motivation and the education product and that those voters should be willing to pay a modest increase in taxes to fund it.

Critics of the plan argue that taking only a partial step could further delay the comprehensive tax reform that is needed and that dedicating the added revenue would do nothing to help fill the serious state budget gap already projected for next year. Some question the need for increased taxes and suggest that sufficient pay raises could be achieved by redirecting existing state and local spending.

Legal Citations: Act 48 (Representative Daniel) of the 2000 Regular Session, amending Article VII, Section 4 (A).

Act 49 (Representative Thompson) of the 2000 Regular Session, adding Article VII, Section 2.2.



DONATION FOR ECONOMIC DEVELOPMENT

Current Situation: The constitution prohibits the donation of funds, credit, property, or things of value of the state or of any political subdivision to any person association, or corporation, public or private. Several exceptions are provided but there is no exception for economic development.

Another constitutional provision allows public entities to engage in cooperative endeavors with each other or with private entities for a "public purpose." This was considered an exception to the donation prohibition until a 1983 court decision held that it was not. Since then, various state attorney general opinions have held that local governments must receive something of equal value from a private entity which receives public aid and that a local entity must be "legally obligated to act" for that action to qualify as a "public purpose" for cooperative endeavors.

Attorney general opinions have cited the constitutional prohibition against public fund donation to stop local governments from undertaking a variety of activities, including some intended to promote economic development. The state has long operated economic development loan and subsidy programs ostensibly under authority of the cooperative endeavor provision. But even these programs have been under a constitutional cloud. A 1991 proposed amendment to clearly exempt state and local governments from the anti-donation provision for economic development purposes failed to get voter approval.

Proposed Change: The amendment would allow a parish or municipality to loan, pledge or donate tax revenues dedicated to industrial or economic development or the proceeds from bonds secured by such tax revenues to a person, association or corporation which, by a cooperative endeavor agreement, agrees to locate or expand an industrial enterprise in the area and hire a minimum number of local residents. The amendment authorizes a parish or municipality to enter a cooperative endeavor agreement for this purpose, but requires approval by the State Bond Commission.

You Decide

☐ A vote ***for*** would allow a parish or municipality to loan, pledge or donate certain revenues dedicated to economic development to a person, association or corporation that agrees to locate or expand an industrial operation in the area and hire local residents.

☐ A vote ***against*** would continue the general prohibition against such donations.

Comment: This amendment would apply statewide but was originally proposed a decade ago to allow St. John the Baptist Parish to offer industrial prospects rental breaks on property financed by a three-eighths of 1% sales tax that voters had dedicated to economic development. A proposed amendment identical to the current proposal failed to get voter approval in 1990.

St. John Parish has used its dedicated sales tax to indirectly encourage economic development by funding various infrastructure projects that it is legally responsible for, such as road improvements. However, the parish still wants to be able to build a building and lure industrial tenants.

The amendment would go substantially beyond the St. John situation. It would apply to revenue from sales, property or other taxes and would permit any type of donation including an outright gift of money. Allowing public gifts to private firms creates a potential for abuse, favoritism or even loss if the firm fails. It might also encourage locals to compete using giveaways or firms to use relocation threats to gain aid.

On the other hand, aggressive local efforts may provide the catalyst needed for development. The amendment would likely have limited use as local voters would first have to pass a tax specifically dedicated to industrial or economic development.

Legal Citation: Act 152 (Representative Faucheux) of the 2000 First Extraordinary Session, amending Article VII, Section 14 (B).