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# SENATE FOCUS FORUM

## Fiscal Component Summary Tickfaw State Park

Final



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*President of the Senate*

Prepared and Compiled by Senate Staff

## **Focus Forum Summary of Fiscal Component**

The fiscal segment of the Focus Forum centered around the fiscal problems that the legislature will face in the upcoming and future legislative sessions.

### **Putting All of the Problems on the Table**

One of the first steps that must be taken in developing solutions to Louisiana's chronic fiscal problems is to first identify all of the problems. This is not an easy task, because some of the problems are short-term, like finding revenue to finance a teachers pay raise while others are long-term, like finding revenue to sustain teachers pay at the southern average once funds for a pay raise are found.

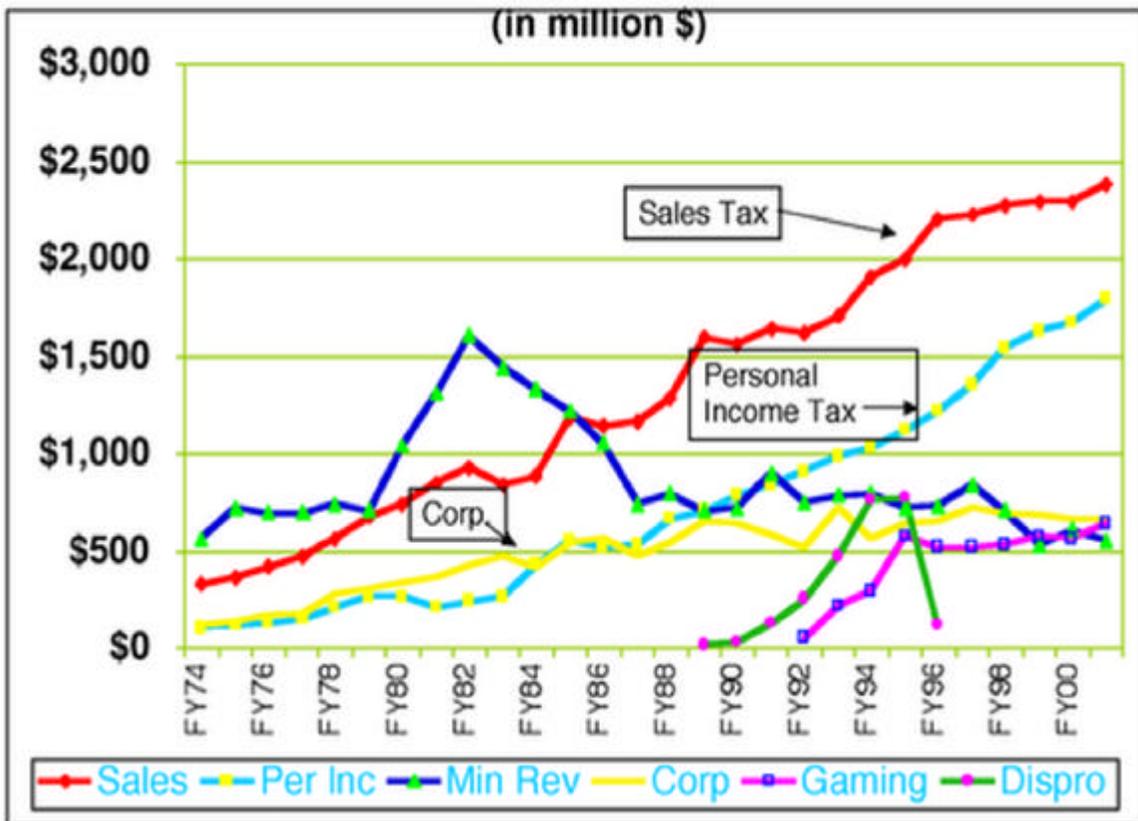
### **The State's Tax Structure Has Growth Problems**

Searching for a source of funding for a teachers pay raise reveals another problem which is a tax structure that does not grow at a rate sufficient to sustain existing programs let alone provide funding to catch up with our peer states in K-12 and higher education.

The graph below indicates that of the state's six major revenue sources, personal income tax, which represents only 25% of the tax base, is the only one that is growing at a respectable rate.

## Revenue Growth for Six Major Sources FY 74 to FY 01

(in million \$)



The sales tax line in the above chart is illustrative of why Louisiana is facing problems well into the future. Note that the slope of the line has flattened out during the period FY96 through FY00. Sales taxes, which are the state's single largest source of revenue, account for 33% of all General Fund revenue. For the period FY96 to FY00, the annual growth rate for this revenue source averaged only 1%. This rate of growth was well below the average inflation rate of 2.5% for the period.

The average growth rate for corporate taxes during the same period was -3%. This poor growth rate comes at a time when the United States is experiencing the longest period of sustained economic growth in its history. If these important revenue sources are not growing at a rate that is *at least equal* to inflation during this time of unprecedented economic growth it is unreasonable to expect that they will do any better as the economy cools down.

Contributing to the sluggish growth of the tax base is \$272 million in tax reductions and dedications enacted since 1992. Once granted, tax reductions and dedications are difficult to retract and therefore become a loss of revenue to the state general fund.

The personal income tax has grown from 8% of the state's traditional revenue base in FY94 to 25% of that base in FY 01. Without any other changes, the personal income tax will eventually overtake the sales tax as the largest revenue generator in the tax base. Unfortunately the time frame over which this will take place is quite long, and the short-term revenue problems will force action to be taken on the expenditure side of the equation in the mean time.

### **Cutting The Budget Is An Alternative That Must Be Considered**

Without revenue growth to provide additional funds for priorities like K-12 and higher education, it will be necessary to cut the budget or make fundamental and dramatic changes in the service delivery systems throughout state government in order to generate the funds needed.

Cutting the budget to free up funds for other purposes will be difficult because of the numerous constitutional dedications and court orders that limit the legislature's ability to make cuts. As things stand now, the legislature only has discretion over 39% of the budget. Said another way, 61% of the budget cannot be touched if the legislature wants to cut the budget in order to free up funds for other programs. Of the 39% of the budget that is discretionary, Higher Education constitutes 47% of this cuttable portion of the budget. If

Higher Education is exempted from budget cuts, as has been the case in recent years, the remaining 53% of the cuttable portion of the budget represents the Department of Health and Hospitals, Aid to Local Government (Urban and Rural Development, Supplemental Pay, Hotel/Motel Sales Tax Dedications) , Economic Development, Natural Resources, Social Services, Agriculture, Wildlife and Fisheries, Statewide Elected Officials and the remaining functions of general government.

Restructuring service delivery systems will also be a problem. Not only will it be politically difficult to enact profound changes in the current structure for delivering most state services, the constitutional limitations on what can be considered during a legislative session will also be a problem. The next session of the legislature in the Spring of 2001 is a general session during which changes can be made in how services are delivered. However, there is little time between now and that session to plan for a major restructuring of service delivery systems. The legislative session in 2002 is a fiscal only session and the legislature may only deal with the budget and tax matters. The next opportunity to make changes in general laws would be in 2003 which, unfortunately, falls just a few months before the legislature must run for reelection. Making dramatic changes in service delivery systems that will have the effect of reducing the level of many state services may be a difficult agenda to accomplish in a session just before members of the legislature must stand for reelection.

The governor has the power to call a special session at any time for the specific purpose of restructuring service delivery systems, but even if he did, he would set the agenda and the legislature would be limited by the agenda in what it could enact.

## **Comparative Statistics May Identify Candidates For Restructuring**

### **State Employment**

Statistics presented at the Focus Forum showed that Louisiana ranked first in the country in the number of state and local employees per 10,000 population. *Note: The data was consolidated into state and local for comparison purposes because in-patient health care services are provided at the state level in Louisiana while this service is provided at the local level in most other jurisdictions.*

## **K-12 Education**

Data in the area of K-12 education suggests that education dollars are not going into teachers pay in the same proportion in Louisiana as they are in neighboring southern states. Louisiana ranked 11<sup>th</sup> out of 14 states in the percent of education dollars going toward teachers pay. Alabama ranked 1<sup>st</sup> with 48.2% of education dollars going to teacher salaries while Louisiana was 11<sup>th</sup> with only 35.7%.

Another comparison showed that enrollment in Louisiana public schools declined by 29,730 students between 1994 and 1999. During that same period, the number of teachers increased by 1,935 and the number of non-teachers increased by 3,284. The comparisons to other states raises the questions about how K-12 dollars are allocated in Louisiana.

If it is determined by the Legislature that Louisiana is not properly utilizing K-12 education dollars for teachers pay, some restructuring of the state's relationship with local school districts may be in order to ensure that teachers pay becomes a budget priority.

## **Higher Education**

Selected comparative data on higher education suggests that Louisiana has a disproportionate percentage of its college students in four-year universities. In Category 1 universities (LSU), Louisiana matched up fairly well with other southern states having 17.5% of undergraduate enrollment in Category 1 schools compared to 19.5% for peer southern states.

However, in Louisiana, 59% of all undergraduates were enrolled in Category 2-5 schools (UL Lafayette, Nicholls State, Grambling, Southeastern, etc) while in other southern states this enrollment constituted only 36%.

In two year institutions, Louisiana is well behind its peer southern states with only 13.3% of undergraduate enrollment in these schools while peer states had 46% of their undergraduate enrollment in two year institutions. Since the cost of educating students in 2 year schools is considerably less than in 4 year schools, the above statistics raise questions about the structure of higher education in Louisiana that should be addressed.

## **Comparative Data Must Be Validated and Analyzed**

In recent months the legislature has been bombarded with comparisons from everyone who has a political or economic stake in the allocation of scarce budget dollars. These comparisons need to be validated and analyzed. Even then the conclusions are likely to be different and subject to discussion and debate. It will be through these discussions and debates that light will be shed on Louisiana's service delivery systems.

The question that must be answered in every case is whether these systems are properly structured to deliver services based on state priorities and within the constraints of the revenue that is available to fund them. The state cannot risk having all of higher education decline to a mediocre state if funding cannot be found to fund the existing structure at a respectable level of effectiveness. The same is true in K-12, transportation, and other programs important to Louisiana's ability to provide a good quality of life for its citizens.

The decisions facing the legislature are much too consequential to be acted on without the best, most accurate data, and timely information that can be assembled. The Consensus Estimating Conferences created in Title 39 of the Revised Statutes offers a forum for the development of such information. These Conferences should be activated and conferees instructed to begin identifying and developing consensus on the important data elements in each area for which Conferences have been created.

Even with good data, reaching a consensus on what policy changes to make in order to provide the best services to Louisiana citizens within the revenue available will be difficult at best and impossible if time honored traditions of conducting business as usual are allowed to become the order of the day.

# DISCRETIONARY / NON-DISCRETIONARY GENERAL FUND EXPENDITURES

(in millions)

