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# PAR Says Follow Louisiana Constitution On Revenue Windfall

## Louisiana Legislature

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How should Louisiana deal with the recent budget windfall? Public Affairs Research has an opinion:

The announcement that state revenues for this year and next would be \$360 million ahead of earlier projections has fueled a feeding frenzy and the potential for making some major fiscal blunders. However, by honoring the spirit of the constitutional provision regarding the use of non-recurring revenue, the state has an opportunity to place its fiscal future on a much more stable and secure basis.

The key decisions regard the disposition of the \$192 million in extra revenue forecast for the current fiscal year 2004-05. If the current budget is not amended and no other use authorized, the \$192 million, plus other unspent funds, could result in a year-end surplus of more than \$200 million. The constitution provides that non-recurring revenues can only be used for the following purposes:

- Early payment of bonds,
- Additional payments on the state retirement systems' debt,
- Capital outlay projects,
- Coastal restoration,
- New highway construction with federal match, and
- Deposits to the Rainy Day Fund (25% must be deposited until the funding cap is reached).

However, with more than a month left in the current fiscal year, the legislature could amend the current budget and spend, or otherwise use, the \$192 million and prevent it from becoming surplus revenue. The biggest danger is that the money could be carried forward to help fund the 2005-06 operating budget. Some are now suggesting that three-fourths of the potential surplus should be used to fill the healthcare funding gap in next year's budget.

Using this year's potential surplus either to increase operating spending this year or to help finance next year's operating budget would be highly irresponsible and set the state up for a funding crisis in fiscal year 2006-07. It was the intention of the fiscal reformers, who pressed for the adoption of constitutional limits, that non-recurring funds be used solely for non-recurring purposes. Too often in the past, one-time windfalls were used to increase current spending to unsustainable levels.

PAR suggests that the constitutional plan for using the current-year revenue windfall would help deal with a number

of problems. The potential surplus should be allowed to occur, and it should be used as provided by the constitution. This would result in an additional \$50 million being deposited in the Rainy Day Fund. This would give the state added protection and help bring the fund to its ceiling earlier, thus making more mineral revenues available to budget in future years.

A major share of the remaining surplus could then be used to make additional payments on the unfunded accrued liabilities (UAL) of the state retirement systems. An extra \$100-million payment would help to partially offset the impact of last session's actions in extending the UAL payments and would save the state significant interest in the future.

There would still be another \$50 million or so left that could be used to meet or help fund a major capital outlay need such as the I-49 project. It would be a serious mistake to allow any portion of the surplus to be squandered on pork-barrel projects.

The other part of the good news from the Revenue Estimating Conference was the \$169-million increase in revenue estimates for the next fiscal year (2005-06). The question is how best to use this money. The obvious choice is to apply it toward the \$150 million to \$210 million healthcare funding gap in next year's budget and leverage the three-to-one federal matching funds. However, this money will not be entirely sufficient to fill the gap, particularly if the Legislature does not approve the proposed \$75-million hospital provider tax and/or the \$60-million reduction in nursing home payments. Under this scenario, funding for teacher raises would require the state to cut spending, raise taxes or forgo the three-to-one federal matching dollars. While a welcome relief, the good news falls far short of the panacea it has been made out to be.