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PAR: When Louisiana Rains it Pours

Louisiana Legislature

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A bill to lower the cap on the state's Rainy Day Fund could shift another \$200 million in mineral revenues into the operating budget next year. This would be in addition to the \$169 million in new money recently added to the revenue estimate. The bill was passed out of the Senate Finance Committee on Monday without dissent and with little discussion. Coincidentally, the \$200 million would be about the same amount that the administration hopes to raise in the first year following an increase in the cigarette tax.

The constitution requires that mineral funds exceeding \$850 million a year must go into the state's Rainy Day Fund until it reaches 4% of "total state revenue receipts." Because the balance in the fund is well below the current cap, any additional mineral revenues above \$850 million will go into the Rainy Day Fund this year and next year as well.

SB 288 would lower the cap on the Rainy Day Fund by almost half - from about \$744 million to about \$425 million for this year. As a result, the cap would be exceeded this year, creating as much as another \$75 million in surplus. Based on current estimates, it would appear that mineral revenues for next year, fiscal year 2005-06, would exceed the lower cap by roughly \$200 million, which would be available to spend in the operating budget.

Lowering the Rainy Day Fund cap would make additional mineral revenues available for this year and next, but it would be fiscally irresponsible to do so. The Rainy Day Fund was created to provide some protection against fiscal calamity and to protect the state against developing a dependency on unstable mineral revenues. The proposed cap would be too low to make the fund useful in a serious economic downturn. Because only one-third of the fund can be used in a given year, the lower cap would make only about \$140 million available in the first year of a fiscal crisis and less than \$100 million in the second year. This would be less than 1% of the total annual budget and not much of a safety net. National experts suggest that an appropriate reserve would approach 15% of general fund operating revenues.

While oil and gas prices are currently quite high, it would be dangerous to again become dependent on an erratic revenue, particularly considering the state's declining production. The current Rainy Day Fund cap should be kept as it is.