Louisiana Legislative Fiscal Office Fiscal Notes

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 656** HLS 22RS 711

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 22, 2022 4:55 PM **Author:** GEYMANN

Dept./Agy.: Budget

Subject: Imposes a revenue limit on state general fund direct **Analyst:** Deborah Vivien

FISCAL CONTROLS OR SEE FISC NOTE GF EX

Limits the amount of recurring revenue that can be recognized by the Revenue Estimating Conference

Current law stipulates that the Revenue Estimating Conference meet to unaminously approve a forecast of recurring and non-recurring state general fund revenue. Constitutionally, at least 25% of revenue declared non-recurring must be sent to the Budget Stabilization Fund, and at least 10% must be used to pay the unfunded accrued liability (UAL) of LASERS and Teachers retirement systems. The remaining non-recurring funding may only be spent on debt, UAL, capital outlay projects, Budget Stabilization Fund, or new highway projects with a federal match.
Proposed law limits recurring state general fund direct revenue to the prior year actuals adjusted by a growth factor which must be unanimously approved by the REC in January of each year. The factor is the average of the ten year change in state GDP and state Personal Income. Any SGF direct in excess of the growth factor, except use of the Budget Stabilization Fund, is to be deemed non-recurring and subject to the allocations and limits of current law. The revenue limit can be overridden by a 2/3 vote of the legislature, and the growth factor must be zero or positive.

EXPENDITURES	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

Currently, all SGF direct recognized by REC would most likely be adopted as recurring and spent in the state budget on recurring or non-recurring expenses. In the bill, if SGF direct grows beyond the calculated revenue limit and is deemed non-recurring, SGF direct spending would be constrained immediately by a 25% deposit of the non-recurring amount to the Budget Stabilization Fund. However, a 10% mandatory payment to UAL could potentially supplant recurring SGF that is budgeted for that use, depending on the amount (FY 23 recommended UAL paid with SGF = $523 M), and the remaining non-recurring revenue would be limited to the other one-time uses, which could potentially be fulfilled already in the budget, (i.e., nonappropriated debt service which is over $400 M annually). Any dedications are not counted against this limit since only net state general fund is subject to it.

For illustrative purposes, assuming this bill was in effect at the January 2022 REC, the SGF direct forecast reported annual growth rate of 2.6% or $270.2 M would be compared to the growth rate limit established in the bill. The language describing the revenue limit growth factor in the bill may be ambiguous (see NOTE on page 2), but this note assumes it is the simple average of 1) the annual percent change in state GDP averaged over 10 years and 2) the annual percent change in Personal Income averaged over 10 years. The revenue limit growth factor in this scenario would be 2.4%. Because SGF direct at 2.6% grew faster than the limit of 2.4%, the REC would declare $19 M of the forecast as non-recurring (presumably with a unanimous vote), and $4.8 M would be designated for the Budget Stabilization Fund with $1.9 M to UAL. The remaining $12.4 M would be restricted to non-recurring uses, possibly in the middle of the fiscal year. In the first year of implementation, a current year reduction in available revenue could trigger a budget deficit if a potential revenue limit was not contemplated upon creation of the budget. The same revenue limit procedure would apply to the ensuing year, in this case FY 23, giving policy makers time to adapt budgeting decisions.

For informational purposes, if the $400 M statutory dedication to the Storm Risk Reduction Repayment Fund had not been in effect, the SGF direct forecast would have increased by 6.4%, or $670.2 M, but the revenue limit of 2.4% would resulted in $251.2 M declared recurring and $419 M non-recurring. Of the non-recurring, 25% or $104.8 M would be retained for the **(Cont'd)**

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure. The bill does not change taxes, license or fee liabilities, but changes the mandated uses of a certain portion.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

Expenditure Explanation (CONTINUED)

Budget Stabilization Fund and 10% or $41.9 M to UAL with $272.4 M remaining for other nonrecurring uses. With this bill, it is possible that the required Storm Risk Reduction Repayment Fund payment could not have been made with SGF had it not been a dedication because the payment would have been an allowable use of the excess. Thus, this bill could encourage the dedication of SGF direct revenue.

Any end-of-year surplus, whether from revenue or unspent expenditures, would remain under the same restrictions as current law subject to all Constitutional non-recurrring uses, including 25% to the Budget Stabilization Fund. If the Budget Stabilization Fund has reached its maximum of 4% of prior year total state receipts less disaster payments, it is assumed that all funds in excess of the bill's revenue limit would be restricted to other Constitutional non-recurring uses. This analysis assumes that fees and self-generated revenue is excluded from the revenue limit along with Act 419 dedications, though the definition of state general fund in the bill refers to "any additional funds that would otherwise be incorporated into the state's official forecast."

NOTE: The bill can also be interpreted to calculate the growth factor as a straight 10-year change in GDP and PI, which would immediately raise the limit well beyond constraint.