LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 619** HLS 24RS 903
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 1, 2024 2:29 PM **Author:** BEAULLIEU
Dept./Agy.: Division of Administration
Subject: Expenditure Limit calculation guidelines **Analyst:** Deborah Vivien

BUDGETARY CONTROLS OR SEE FISC NOTE GF EX
Provides relative to the expenditure limit

Present law directs the DOA to calculate and submit to JLCB an expenditure limit no later than 35 days prior to each regular session. The calculation applies an annual growth factor based on the average change in LA Personal Income as reported by the US Dept of Commerce for 3 prior calendar years with methodology included in law (minimum of 0% change). Present law authorizes DOA to determine the funds included in the calculation of the expenditure limit.

Proposed law repeals DOA calculation and requires the expenditure limit be adopted by the REC (majority vote) and submitted to JLCB no later than 35 days prior to each regular session along with methodology and data sources for the growth factor (methodology changes require JLCB approval). The growth factor is changed to the sum of the 3 calendar year average annual percent changes of LA population and US Chained CPI, up to 5%, and can be negative. The expenditure limit is the lesser of the growth factor applied to the current year expenditure limit or to the prior year appropriation. Proposed law authorizes the DOA to determine those funds included and excluded from the expenditure limit. Effective upon enactment and voter approval of HB ___ of 24RS at the November 5, 2024 election.

EXPENDITURES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**					**$0**

REVENUES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**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

There are no anticipated agency costs from the bill.

The bill is expected to result in a lower growth factor in calculating the annual expenditure limit, which will cause the expenditure limit to grow more slowly than current law under typical economic conditions. The bill replaces the submission of the expenditure limit by the Division of Administration (DOA) with Revenue Estimating Conference (REC) adoption of a limit using a prescribed formula. The formula differs from current law by capping the growth factor at no more than 5%, allowing negative growth and changing the calculation methodology.

For the growth factor, current law utilizes a 3 calendar year (CY) average of the annual change in LA Personal Income. The bill contemplates calculating the growth factor as the sum of the 3 CY average change in LA Population plus the 3 CY average change in the US Chained CPI. This methodology results in consistently lower growth factors due mostly to use of the chained CPI, which typically tracks below the CPI-U, the more well-known a measure of US inflation. Use of a national indicator instead of a state indicator to proxy state economic growth increases the likelihood that state economic conditions will not be reflected in the data, especially with relatively small incremental changes in population. As in the current calculation, the growth factor calculation in the bill is not timed to coincide with actual economic events (i.e., FY 27 expenditure limit is based on average growth in CY 23-25).

From FY 05 through Moody's forecast in FY 56, the new calculation of the expenditure limit growth factor does not reach 5% in any year, which is the annual cap imposed by HB 592 of 24RS, the constitutional amendment upon which this bill is contingent. **Further, from FY 05 through Moody's FY 56 forecast, the new growth factor methodology results in no year with a negative outcome, which means the expenditure limit may never meet the provisions to permit a vote to change it (two consecutive years of decline).** This provision is also included in the constitutional amendment (HB ___ of 24RS), upon which this bill is contingent.

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REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

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}

Alan M. Boxberger

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Legislative Fiscal Officer

EXPENDITURE EXPLANATION CONTINUED FROM PAGE ONE

As an illustration, a comparison of the current and proposed growth factors over roughly 20 years (FY 05-FY 24) results in a compounded growth rate of about 118%, or about 4% per year under current law, while under the new calculation methodology, compounded growth is closer to 52%, or about 2% per year. However, the provision of proposed law stipulating expenditure limit growth shall be the lesser of the new growth factor applied to the expenditure limit in the current year OR the amount appropriated out of the SGF and dedicated funds for the prior fiscal year would likely result in a further limitation to the average growth over this time period. This illustration assumes no increases or decreases in the expenditure limit other than the application of the growth factor and utilizes actual instead of preliminary data for all indicators on a full calendar year basis. Actual calculations will be subject to preliminary estimates of data and may not have full calendar year data available at the time of calculation.

Fixing the FY 26 expenditure limit growth at 3% of FY 24 actual appropriations could restrict spending in FY 26. As of the start of the 24 RS, current FY 24 appropriations were $17.7 B including $1.3 M set aside for the Interim Emergency Board (IEB) and 65% of the FY 23 surplus (does not include a supplemental bill from the 24 RS). Growing by 3% would place the FY 26 expenditure limit at $18.2 B, which is below the FY 25 expenditure limit of $18.6 B. Thus, the FY 26 budget may be constrained, depending on actual FY 25 appropriations. Future expenditure limits would be adopted at REC utilizing changes in a US inflation factor (chained CPI) and state population.