LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB** **467** SLS 16RS 1199
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.: **w/ PROP SEN COMM AMD**
Sub. Bill For.:

Date: May 11, 2016 5:10 PM **Author:** LAFLEUR
Dept./Agy.: Statewide/Treasury/OSRAP/Non-appropriated Debt Service
Subject: Mandatory use of statutory dedications for debt service **Analyst:** Deborah Vivien

FUNDS/FUNDING OR INCREASE GF EX See Note
Provides relative to the Bond Security and Redemption Fund. (gov sig)

Present law provides that most revenue collections be deposited first to the Bond Security and Redemption Fund (BSRF) in order to ensure that debt service secured by the full faith and credit of the state is paid prior to any other use of the funds, including as a statutory dedication. Subject to contractual obligations, the only funds not deposited to BSRF are grants/donations/assistance with agreements requiring otherwise. As a practical matter, efficient use of state resources has dictated over time that the general fund pay 100% of non-appropriated debt service.

Proposed law retains present law in regard to money credited to the BSRF. After being credited to the BSRF, 2% of statutory dedications and fees or self-generated revenue appropriated in each fiscal year will be utilized to pay non-appropriated debt service. Any remaining debt service will be paid by state general fund. (Proposed Amendment SCASB467 HESSM 2842)

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

Should the bill become effective during this fiscal year, it is estimated that an immediate budget cut of about $70M would be incurred from appropriations of statutory dedications and fees/self-generated revenue which will then be used to pay debt service, offsetting the need for general fund-direct resources. However, a detailed analysis of specific funds that are credited to the BSRF and appropriated in the most recent budget proposal is not immediately available.

It is not clear which of the 342 funds along with numerous fees that currently flow through the BSRF may have unappropriated reserves to backfill the impact. Some of the funds impacted could include the Transportation Trust Fund (16 cents only), Millennium Trust Fund including TOPS, LEQTF 8g Education funding and permanent trust, Budget Stabilization Fund, Natural Resource Restoration Trust, Medicaid Trust Fund for the Elderly, LA Medical Assistance Trust (MATF), portions of revolving loan funds, funds that are or may be pledged for debt service including the Unclaimed Property Leverage Fund, State Highway Improvement Fund and local hotel-motel sales tax funds, among many others. It does not include bond proceeds, clearing and escrow accounts, and other fiduciary funds.

Implementation is expected to cost about $120,000 annually to implement due to the additional classification of all transactions involving statutory dedications. Classification accuracy and oversight are critical and challenging in order to avoid an accumulated burden on the general fund at the end of the fiscal year. For a system change to fully automate the process, the cost estimate is $5M and about year to complete, according to OTS.

REVENUE EXPLANATION

This bill does not generate new revenue. The bill provides for mandatory allocation of 2% of most statutory dedication and fee revenue, estimated at $68.8M, which will offset the same amount of general fund expenditures, making it available to spend elsewhere in the budget.

Several areas of observation include:

1) TIMING An ensuing year estimate of statutory dedications into the BSRF must be used to determine the net amount of general fund available for use in the budget as it is being crafted before the end of the fiscal year. If the statutory dedication revenue does not materialize as expected, the risk is transferred directly to the state general fund, which has already been adjusted in anticipation of the funds materializing.
The effort to create an estimate of BSRF funds is complicated. To utilize the BSRF total within the IEB funding calculation, which is the best indicator of amounts actually deposited, the timing limits use because it is not released until after the close of the prior fiscal year, around October. For instance, if this method was used today, the FY 17 budget would rely on FY 15 actuals during a time when tax policy changes will result in revenues varying greatly in that two year timeframe. However, in order to accurately forecast the 342 funds with this required precision, literally down to particular revenue sources in some cases, additional staff resources are expected to be required. The Act 419 funds forecast within the REC includes all revenue sources aggregated, including accommodations for funds transfers, which would necessarily inflate the estimate for the purposes of this bill. ***(CONTINUED)***

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[x] 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:

REVENUE EXPLANATION ***(Continued)***

Within the budget process, the offset of general fund will act as a secondary impact to the general fund after consideration by the REC since it occurs on the expenditure side. Presumably, it will appear as a fluctuation in the non-appropriated debt allocation of general fund in the fiscal status report so general fund would require a true-up for debt service at the end of the year, should statutory dedication revenue not materialize. Because there is no extra general fund set aside to cover debt service and debt service must be paid, it is expected that borrowable reserves may be spent without the ability to repay.

2) CASH LIQUIDITY State general fund is spent before it is collected by utilizing interfund borrowing to essentially seed the general fund until receipt of general fund revenue over the course of the fiscal year. The funds that are borrowed to support the general fund over the year may be many of the same funds that are being utilized in this bill to pay a portion of debt, which reduces borrowable reserves. In FY 15, the state general fund ended the fiscal year in a negative posture which essentially is the inability to repay borrowed reserves, and the borrowed position to date is twice as latge as in FY 15. Any reduction in borrowable reserves deepens the cash liquidity crunch the state may face.

Interfund borrowing exists because the system allows general funds to be spent before the money is collected. The system does not allow the same for statutory dedication and fees, which must be on deposit before they are spent, which is why they are the borrowable reserves for the general fund. This bill will effectively allow 2% of statutory dedications and fees to be spent prior to deposit in the treasury because the general fund must make up any shortfalls. Because debt service will always be paid, the shortfalls will have to be absorbed by cutting expenditures or by not repaying the borrowable reserves.

3) CIRCULAR USE OF GENERAL FUND If the 2% base includes statutory dedications that are largely financed with what would otherwise be general fund revenues (page 2 of the REC), the bill will capture what is essentially general fund resources from these dedications that will potentially be back-filled with the general fund debt service savings that the bill offsets and makes available for use elsewhere in the budget.

Senate / Dual Referral Rules / House

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Senate | Dual Referral Rules | House

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