

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 7** HLS 243ES 16
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: November 10, 2024 6:45 PM **Author:** EMERSON
Dept./Agy.: Statewide **Analyst:** Patrice Thomas
Subject: Constitutional Amendment to Revise Article VII

FUNDS/FUNDING EG DECREASE RV See Note Page 1 of 2
 (Constitutional Amendment) Revises Article VII of the Constitution of La. (Items #1, 2, and 7)

Proposed constitutional amendment contemplates a statewide election to be held on March 29, 2025, and: (1) Requires 2/3 votes of the legislature for new tax, increase existing tax, new exemption, exclusion, deduction, credit, or rebate; increase a deduction, credit or rebate; or repeal existing tax exemption; (2) Freezes the sales and use tax exemption on food for home consumption as listed on 1/01/25; (3) No sales/use tax on prescription drugs; (4) Requires locals to tax retail, use, lease, rental, consumption, or storage of goods, services, and other products required by law; (5) Replaces graduated income tax with a flat income tax; (6) After 12/31/25, persons 65+ shall be entitled to an additional standard deduction; (7) Caps the expenditure limit to 105% of preceding year's limit unless changes made by 2/3 of legislature; (8) Beginning FY 26, Budget Stabilization Fund (BSF) deposits 15% of corporation income and franchise tax revenues, and 15% mineral revenues; if BSF capped, deposits become nonrecurring SGF; no deposit if balance exceeds 7.5% previous year's revenue receipts; (9) Creates fund classes - permanent trust funds (no principle removed) and program funds; (10) Dissolves the Education Excellence Fund, LA Education Quality Trust Fund and LA Quality Education Support Fund, balances transferred to TRSL to pay off a portion of the UAL and provide permanent teacher salary increases; and (11) Various other changes.

EXPENDITURES	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

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

EXPENDITURE EXPLANATION

Anticipated expenditure impact on state and local entities will be contemplated in the fiscal notes of each statutory companion bills if necessary.

REVENUE EXPLANATION

The proposed constitutional amendment is anticipated to result in a net revenue loss for most fiscal years across multiple scenario assumptions. For this analysis, the LFO will assume a "low" scenario, wherein anticipated deposits into the Revenue Stabilization Trust Fund (RSTF) are based on the lowest or most conservative assumptions built into the competing revenue forecasts presented to the REC on 5/9/24 when it adopted its latest official forecast, and will assume a "high" scenario wherein anticipated deposits into the RSTF are based on actual deposits at the end of FY 24. The net impacts under these two scenarios are as follows:

Low	FY 25	FY 26	FY 27	FY 28	FY 29
SGF	\$634.9 M	\$ 31.2 M	\$67.6 M	\$58.6 M	\$49.6 M
Stat Ded	(\$725.4 M)	(\$152.4 M)	(\$250 M)	(\$250 M)	(\$250 M)
Annual Total	(\$90.5 M)	(\$152.4 M)	(\$182.4 M)	(\$192.4 M)	(\$200.4 M)
High	FY 25	FY 26	FY 27	FY 28	FY 29
SGF	\$1,129.1 M	\$1,097.6 M	\$1,067.6 M	\$1,058.6 M	\$1,049.6 M
Stat Ded	(\$1,250.0 M)	(\$1,250.0 M)	(\$1,250.0 M)	(\$1,250.0 M)	(\$1,250.0 M)
Annual Total	(\$120.9 M)	(\$152.4 M)	(\$182.4 M)	(\$191.4 M)	(\$200.4 M)

The proposed constitutional amendment proposes revisions to the State Constitution, Article VII - Revenue and Finance. Significant constitutional revisions are as follows: (1) Certain revisions materially redirect current revenue from trust funds to SGF; (2) Changes to the severance tax that would decrease SGF; (3) Dissolves certain trust funds, which results in the loss of investment income; (4) An additional standard deduction of a single individual for 65+; and (5) Prohibits local sales tax on prescription drugs and eliminates the cap on transfers of severance taxes. Several revisions require statutory changes to implement. Thus, various aspects of this proposed constitutional amendment have no direct effect on state revenue collections until statutory provisions contained in companion legislation are amended and enacted. The SGF impact will be reflected and explained in the various constitution companion statutory instruments. For other revisions, there are uncertainties as to their impact, if any.

The amendment materially changes deposit provisions of certain trust funds. It diverts current revenue deposit from these trust funds to SGF - Revenue Stabilization Trust Fund (RSTF), Budget Stabilization Fund (BSF), Transportation Trust Fund (TTF) - portion from Motor
Continue on Page 2

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}		<input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

Vehicle Licenses Only, and Coastal Protection and Restoration Fund. In addition, the amendment dissolves trust funds - LA Education Quality Trust Fund (Permanent Fund), LA Quality Education Support Fund (Support Fund), and Education Excellence Fund (EEF), to divert fund balances to the Teachers' Retirement System of Louisiana (TRSL). There will be a corresponding loss of investment and interest earnings. The specific trust funds are detailed below.

Revenue Stabilization Trust Fund (RSTF) - Revisions remove the RSTF from the constitution and remove authorization for the treasury to invest monies in the fund and to transfer earnings into the SGF. The proposed statutory companion (HB 11) changes the fund's name to the "Revenue Stabilization Fund," and provides for authorized uses. The statutory companion substantively removes all sources of revenue into the fund, including certain excess mineral revenues and the excess corporate income and franchise tax collections over \$600 M. *Note:* For informational purposes, effective upon the enactment of the constitutional amendment, the proposed statutory companion bill authorizes the treasurer to transfer monies out of the RSTF into the BSF in an amount equal to that needed to bring the BSF balance to hit its deposit limiting cap (see "Budget Stabilization Fund" below). The transfer amount is estimated at \$1.76 B. The current balance in the RSTF as of 10/15/24 is \$2.77 B. After the transfer to BSF is completed, the new estimated balance of the RSTF would be approximately \$1 B. The LFO estimates potential reductions in recurring SGF from interest and investment earnings of approximately \$22.5 M in FY 25, \$54 M in FY 26, \$84 M in FY 27, \$93 M in FY 28 and \$102 M in FY 29..

Budget Stabilization Fund (BSF) - Revisions remove the deposit of mineral revenues in excess of \$750 M into the BSF, which are supplanted by a new deposit equal to 15% of corporate income and franchise tax proceeds and 15% of mineral revenues. To the extent the BSF balance is at its annual calculated deposit cap, then these deposits will not take place and the revenues are to be deposited into the SGF but declared non-recurring. The calculation of the BSF deposit cap is increased in the proposed constitutional amendment from 4% of the prior year's total state revenue receipts to 7.5% of receipts.

Note: The current balance of the BSF is \$1.06 B. For informational purposes, 15% of corporate collections in the FY 26 forecast as adopted by the REC at its meeting on 5/9/24 would total \$135 M (\$900 M x 0.15). Likewise, 15% of mineral collections in the FY 26 forecast would total \$165.3 M (\$1.1 B x 0.15). Assuming this constitutional provision were enacted and the balance of the BSF were at its calculated cap, this provision would result in \$300.3 M SGF being designated as nonrecurring and restricted to the provisions in the existing Constitution Art VII, Section 10(D)(2) (changed in this instrument to Constitution Art VII, Section 14(D)(2)). Under the existing Constitution, these funds would be designated as recurring SGF available for general appropriations.

Transportation Trust Fund (TTF) - Revisions remove the constitutional protection for the motor vehicle license (MVL) tax, which may impact revenues that provide for Department of Transportation and Development (DOTD) operations and/or capital expenditures, though such impacts are indeterminable at this time. The current constitution specifies that the avails from the MVL tax are to be deposited into the TTF. DOTD reports total avails of \$59.1 M in FY 24. The REC forecast projects avails at \$57 M for FY 25. This amendment removes the formula required to be used, the maximum value allowed, and how the fund is to be dedicated. The current statute, R.S. 47:463, retains the formula and maximum tax rates, but does not direct where these taxes are to be deposited. If the taxes are no longer deposited into the TTF, the department anticipates a reduction in expenditures corresponding to the loss of revenue deposits. The impact cannot be determined, as the legislature appropriates the TTF to a combination of operating and capital budget items.

Dissolves Trust Funds - Revisions dissolve the following trust funds - the Louisiana Education Quality Trust Fund (Permanent Fund), the Louisiana Quality Education Support Fund (Support Fund), and the Education Excellence Fund (EEF), and transfers the balances to the amortization base of the Teachers' Retirement System of Louisiana (TRSL). For informational purposes, the beginning FY 25 balances in the three funds contained within the Millennium Fund were as follows: LEQTF - \$1.45 B; Support Fund - \$36.2 M; and EEF - \$482 M, totaling \$1.96 B. The combined revenue generated from investments and royalties for these three funds in FY 24 was approximately \$68 M. This recurring source of funding would no longer be available for future appropriation after the funds' dissolution.

The elimination of the above trust funds as constitutionally protected revenue sources is expected to result in an increase in expenditures of Local Funds to supplant allocations made to educational entities from these funds. However, each entity with employees enrolled in the TRSL will also realize some cost savings, estimated to be \$283.3 M annually (\$207.8 M for the K-12 plan and \$75.5 M for higher education). The LFO cannot quantify the net gain or loss any individual district may realize. The proposed constitutional amendment removes these dedicated funding streams and transfers the remaining balances of the funds to the TRSL for the purpose of paying down a portion of its unfunded accrued liability (UAL).

Additional Standard Deduction for 65+ - Revisions provide that persons age 65+ shall be entitled to an additional standard deduction of a single individual. Using a similar modeling exercise as the one applied to the separately filed Individual Income Tax (IIT) reform companion bill (HB 1), the estimated impact is a decrease of \$30.4 M SGF revenue per year starting in FY 26 and continuing in the out years. In the event that the accompanying IIT companion bill increases the standard deductions in the corresponding statutes to \$12,000/\$25,000, the estimated SGF revenue loss will grow to \$90.4 M per year.

Remove Severance Cap: Revisions eliminate caps on the transfer of certain severance taxes to local governments as well as the total cap on the transfer of severance taxes on commodities other than sulphur, lignite, or timber. Allocations in FY 24 imply that the severance tax provisions included in the proposed amendment would have reduced FY 24 SGF revenues by approximately \$75 M due to the transfer of local allocations. This provision would increase severance tax remittances to parishes by an equal amount, which is considered a dedication in the REC forecast.

Local - Sales Tax prohibition: Revisions prohibit local sales tax on prescription drugs. Total statewide revenue impact is significant but indeterminable. For illustrative purposes, the Louisiana Sales and Use Tax Commission for Remote Sellers reports that it will realize a decrease in local sales taxes collected on behalf of local government due to the exemption of prescription drugs from local sales tax. The Commission estimates a half-year statewide impact of \$4.1 M in FY 25 (the LFO assumes the FY 25 impact to be half this amount, or \$2.05 M since the ballot measure will be on the March 29, 2025 ballot). Beginning in FY 26, the Commission estimates statewide impacts as a reduction of Local Funds revenues totaling \$9.1 M and assumes a 12% growth in the out years, reaching \$12.8 M in FY 29.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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