

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 706** HLS 16RS 871

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 3, 2016 2:49 PM	Author: HODGES
Dept./Agy.: LA Education Quality Trust Fund	Analyst: Alan M. Boxberger
Subject: Allows for use of a portion of the Education Quality Trust	

FUNDS/FUNDING

EG INCREASE SD EX See Note

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Allows for a use of a portion of the Louisiana Education Quality Trust Fund when there is a projected deficit

Present law establishes the LA Education Quality Trust Fund (Permanent Trust Fund) and deposits certain mineral revenue from the Outer Continental Shelf owed to the state from the US government, known as 8(g) monies, and requires that 25% of recurring mineral revenue, 25% of interest income, and 75% of capital gains be deposited into the fund. Present law prohibits any appropriation out of the Permanent Trust Fund. Proposed law authorizes the use of up to 10% of the interest income, realized capital gains, and dividend income deposited into the Permanent Trust Fund if there is a deficit in the current year due to a decrease in the official forecast, and authorizes the use of like amounts if the official forecast of recurring money for the next fiscal year is less than the forecast of such money in the current year, and limits use of the fund to offset any reductions in expenditures for elementary, secondary and higher education purposes. Proposed law requires consent by concurrent resolution of 2/3 of elected members in each house and limits the amount that can be used in the current and subsequent fiscal year to 10% of certain monies deposited in the current year.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	SEE BELOW					
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

Proposed law may result in an increase in statutory dedication expenditures from the LA Education Quality Trust Fund (Permanent Trust) for elementary, secondary and/or higher education purposes to the extent the legislature authorizes the use of such monies when the state is in a deficit posture by 2/3 vote of each house. Proposed law does not specify how the funds shall be allocated between K-12 and higher education agencies if in the event those entities realize a reduction of expenditure authority due to a projected deficit.

Proposed law is the statutory companion to the constitutional amendment proposed in HB 577.

As of 1/27/16 the Permanent Trust balance totaled \$1,199,940,825. Deposits between 2010 and 2016 totaled approximately \$198 M (\$30.6 M royalties and \$167.1 M investment earnings). For illustrative purposes, earnings from interest income, realized capital gains, and dividend income deposited into the Permanent Trust over the past five years averaged approximately \$25.7 M annually, ranging from \$10 M to \$49 M. The 10% allowable allocation of these monies would have provided between \$1 M and \$4.9 M to offset any projected deficits (see table on Page 2). Authorization of appropriations from the Permanent Trust as the result of a projected deficit would make up to 10% of these funds available to replace decreasing appropriations to elementary, secondary and higher education.

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REVENUE EXPLANATION

To the extent that the LA Education Quality Trust Fund (Permanent Trust) is utilized pursuant to the provisions of proposed law, realized capital gains, interest earnings and dividend income earned on investment of the Permanent Trust and deposited into the LA Education Quality Trust Fund (LEQTF) for appropriation would be reduced by an indeterminable amount. LEQTF funds may be used only for educational purposes and are allocated 50% to elementary and secondary education and 50% to higher education. Current appropriations are approximately \$25 M each. The Board of Regents uses funds to operate four constitutionally authorized programs. The Board of Elementary and Secondary Education (BESE) distributes approximately \$23.5 M to local school systems for approved programs. Shrinking the corpus in the Permanent Trust Fund would result in a decline in investment revenues available for appropriation.

Allowing withdrawals from the trust fund would extend the time it will take the fund to reach the \$2 B fund balance, at which time deposits of recurring revenues would revert to the state general fund. This impact to the SGF is anticipated to occur beyond the time period reflected above.

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}

Evan Brasseaux

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CONTINUED EXPLANATION from page one:

EXPENDITURE EXPLANATION CONTINUED FROM PAGE 1

Deposits into the Permanent Trust Fund (interest, capital gains and dividend sources only) over the past five fiscal years:

<u>Earnings</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>
Interest	\$8,051,791	\$8,222,134	\$ 7,583,214	\$ 7,141,537	\$6,679,105
Capital Gains	\$1,422,921	\$5,308,143	\$34,573,360	\$39,754,227	\$ 216,581
<u>Dividends</u>	<u>\$1,524,398</u>	<u>\$1,294,699</u>	<u>\$ 1,743,095</u>	<u>\$ 2,384,288</u>	<u>\$2,968,557</u>
TOTAL	\$10,999,111	\$14,824,976	\$43,899,669	\$49,280,051	\$9,864,244
10% Availability	\$1,099,911	\$1,482,498	\$4,389,967	\$4,928,005	\$ 986,424

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