

## ***Constitutional Amendments November 7, 2000 Ballot***

Four constitutional amendments will appear on the November 7 ballot. BGR's analysis and its recommendation on the amendment for which BGR took a position are covered in this report.

<b>No.</b>	<b>Description</b>	<b>BGR Position</b>
1.	Authorize the state to establish a corporation to be the state's principal economic development organization (Louisiana Inc.) and to exempt it from civil service. <a href="#">(Go to more information)</a>	<b>No Position</b>
2.	Change state individual income tax brackets, rates, and taxable income base. <a href="#">(Go to more information)</a>	<b>No Position</b>
3.	Prohibit state sales tax on food for home consumption, natural gas, electricity, and water. <a href="#">(Go to more information)</a>	<b>No Position</b>
4.	Authorize local governments to lend, pledge, or donate tax resources to others (including private entities) for industrial enterprises. <a href="#">(Go to more information)</a>	<b>Oppose</b>

[Click here for links to all amendments and companion bills](#)

### **No. 1 Authorize the state to establish a corporation to be the state's principal economic development organization (Louisiana, Inc.) and to exempt it from civil service.**

[\(Act 153, \(SB74\), 2000 First Extraordinary Session\)](#)

#### **BGR Position: No position**

Usually called "Louisiana, Inc.," this amendment would authorize a state-sponsored nonprofit corporation to spearhead Louisiana's economic development efforts. The amendment itself would not create the corporation; it would merely authorize the new entity and exempt it from civil service. A separate statute establishing Louisiana, Inc. and its operational details would automatically go into effect if the amendment passes.

BGR has not undertaken an independent analysis of this amendment, and has no position on it. Although the amendment is important, it does not have a unique effect on local government in the New Orleans metropolitan area, which is BGR's focus.

#### **Links to Additional Information on Amendment No. 1**

[Amendment No. 1 Proposition as It Appears on the Ballot](#)

[Full Text of Legislation Proposing Amendment No. 1, Act 153 \(SB74\)](#) (PDF, 7KB)

[Louisiana, Inc. Statute Triggered by Amendment No. 1, Act 144 \(HB88\)](#) (PDF, 285 KB)

### **No. 2 Change individual state income tax brackets, rates, and taxable income base.**

[\(Act 48 \(HB73\), 2000 Regular Session\)](#)

### **No. 3 Prohibit state sales tax on food for home consumption, natural gas, electricity, and water.**

[\(Act 49 \(HB98\), 2000 Regular Session\)](#)

#### **BGR Position: No Position**

Amendment Nos. 2 and 3 are a package; neither becomes effective unless both pass.

Amendment No. 2 would change the state income tax in three ways:

- Louisiana taxpayers would no longer have the constitutional right to deduct federal income tax payments when computing their state income tax liability.
- Individual income tax brackets and maximum tax rates, which are currently frozen by the constitution, would be revised, but would still be constitutionally protected.
- The state would be able to tax "income" rather than "net income."

Amendment No. 3 would prohibit state sales tax (currently 4%) on food for home consumption, natural gas, electricity, and water. Local sales taxes could still be levied on these items.

The amendments would trigger a number of statutory changes that would increase state individual income tax revenue. The Legislative Fiscal Office estimates that the additional income tax revenue would significantly exceed lost sales tax revenue.

#### **Education Enhancement**

The net additional revenue would not go to the state General Fund. A companion statute, commonly called the "Stelly Bill," dedicates almost all of it to the newly created Education Enhancement Fund, estimated by the Legislative Fiscal Office as follows:

- Fiscal year 2002: \$202 million
- Fiscal year 2003: \$312 million
- Fiscal year 2004: \$357 million

The Stelly Bill requires at least 80% of the fund to be used for pay raises for teachers, post-secondary faculty, other education personnel, or for "other needs of public education." The Legislature would have wide discretion over how the 80% would be distributed among these categories.

The Education Enhancement Fund is not guaranteed "new money" for education. As a statutory dedication, it can be changed by the legislature. Further, in some circumstances, the legislature could offset the fund by decreasing General Fund appropriations to education. At the elementary and secondary level, only minimal offsetting could occur; almost all elementary and secondary school funding is constitutionally protected through the Minimum Foundation Program. At the higher education level, the legislature would have substantial flexibility to reduce discretionary General Fund appropriations to offset new money from the Education Enhancement Fund.

Because of these features, this amendment should not be considered simply on the basis of its educational funding benefits. While BGR believes that the legislature fully intends to target education with the new revenue, the money would not be insulated from the vagaries of the appropriations process.

### Individual Income Tax

Table 1 shows the combined effect of the two amendments for different income brackets, as estimated by the Legislative Fiscal Office for the 2001 tax year. As a generalization, most taxpayers with a federal adjusted gross income under \$25,000 would experience a net reduction in the total taxes they pay. About half of Louisiana's taxpayers fall below this threshold.

Because businesses are significant utility consumers, they would receive 45% of the benefits of the proposed sales tax reductions, according to Legislative Fiscal Office estimates. To account for this, the sales tax savings shown in Table 1 reflect only the tax reductions benefiting individuals rather than businesses.

**Table 1**  
**COMBINED EFFECTS OF AMENDMENTS 2 AND 3**  
(and Companion Statutes)

Federal Adjusted Gross Income (Individuals)	State Income Tax Increase	Federal Income Tax Savings	Food & Utilities Sales Tax Savings	Net Impact of Tax Proposal	Number of Taxpayers
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\$0 to \$5,000	(\$24)	\$0	\$14	(\$38)	159,143
\$5,000 to \$10,000	\$6	\$0	\$41	(\$35)	200,334
\$10,000 to \$15,000	\$37	\$0	\$64	(\$27)	206,978
\$15,000 to \$20,000	\$76	\$0	\$90	(\$14)	159,917
\$20,000 to \$25,000	\$134	\$2	\$112	\$20	125,610
\$25,000 to \$30,000	\$199	\$6	\$133	\$60	99,513
\$30,000 to \$40,000	\$335	\$19	\$169	\$147	155,305
\$40,000 to \$60,000	\$479	\$40	\$240	\$199	211,859
\$60,000 to \$80,000	\$805	\$90	\$330	\$385	118,841
\$80,000 to \$100,000	\$1,244	\$239	\$380	\$625	55,873
\$100,000 to \$120,000	\$1,699	\$408	\$449	\$842	26,342
\$120,000 to \$140,000	\$2,164	\$588	\$520	\$1,055	13,448
\$140,000 to \$160,000	\$2,507	\$682	\$535	\$1,290	8,222
\$160,000 to \$180,000	\$2,793	\$973	\$582	\$1,237	5,505
\$180,000 to \$200,000	\$3,029	\$1,080	\$608	\$1,342	3,789
Over \$200,000	\$7,261	\$2,588	\$617	\$4,057	20,452
TOTAL TAXPAYERS					1,571,131

Under present law, state taxpayers enjoy a variety of exemptions, credits, and deductions. One notable deduction is for federal taxes paid; that deduction is currently available to all state income taxpayers, regardless of whether they itemize. The new law would curtail this and most other credits and deductions, but would retain some significant exemptions:

- \$4,500 personal exemption for single filers;
- \$9,000 exemption for married persons filing jointly;
- \$1,000 deduction for each dependent;
- The first \$6,000 of retirement income for those 65 or older; and
- All social security, and Louisiana and federal public employees retirement income.

The changes in deductions and exemptions would be statutory, and subject to modification by future legislation. Only tax rates and brackets would be constitutionally protected.

A comparison of current individual income tax rates and brackets to the new structure triggered by the amendment is shown in Table 2. (Corporate tax rates and brackets are not directly affected by the amendments or the resulting statutory changes, but could be changed by future legislation.)

**Table 2  
COMPARISON OF INDIVIDUAL RATES AND BRACKETS**

<b>Existing Tax Brackets (% of net income)</b>				
<b>Filing Status</b>	<b>2%</b>	<b>4%</b>		<b>6%</b>
Single	\$0 to \$10,000	\$10,000 to \$50,000		\$50,000 +
Joint	\$0 to \$20,000	\$20,000 to \$100,000		\$100,000 +
<b>Proposed Tax Brackets (% of adjusted gross income)</b>				
<b>Filing Status</b>	<b>2%</b>	<b>3%</b>	<b>4%</b>	<b>5%</b>
Single	\$0 to \$2,500	\$2,500 to \$5,000	\$5,000 to \$25,000	\$25,000 +
Joint	\$0 to \$5,000	\$5,000 to \$10,000	\$10,000 to \$50,000	\$50,000 +

The proposed amendments and companion legislation contain some elements of what has been popularly called "tax reform:"

- The sales tax that disproportionately affects low-income persons would be reduced.
- The income tax structure would become more progressive.
- The state would depend more on growth-oriented income tax and less on low-growth sales tax. (The food and utilities component of the sales tax has a projected annual growth rate of 1%, while the income tax revenue is projected to grow at 6%.)
- The authorization to tax "income" rather than the more limited "net income" could broaden the tax base.

Despite these elements, the constitutional amendments proposed are clearly not comprehensive tax reform. If the amendments are approved, Louisiana would still rely heavily on a 4% sales tax, and the income tax rates and brackets would still be frozen in the constitution. Important issues — tax reform at the local level and the reduction or elimination of the homestead exemption to name only two — are not addressed by the proposed amendments.

### BGR AND TAX REFORM

BGR is a long-standing supporter of tax reform, both at the state and local level. BGR enthusiastically supported the sweeping package of tax reforms proposed by Governor Roemer in 1989, and has consistently supported a variety of other tax reform measures. Specific BGR positions

have included:

- Eliminating homestead exemptions on municipal millage in New Orleans, consistent with how other municipalities in the state are treated.
- Lowering the homestead exemption on a statewide basis.
- Reforming nonprofit exemption administration. (See BGR's report, [Property Tax Exemption and Assessment Administration in Orleans Parish](#), December 1999.)
- Authorizing local earnings or "piggy-back" local personal income taxes on the state income tax with voter approval.
- Reducing dependence on regressive sales taxes.

## Rationale for BGR Taking No Position

BGR acknowledges that the amendments afford limited tax reform by partially shifting the state's tax base from low-growth, regressive sales taxes on necessities to more progressive, growth-oriented income taxes. Also, more resources would go into education. However, in the absence of more disciplined efforts to reduce state spending, pumping more money into the state's coffers is a concern.

BGR recognizes the strategic and political arguments both for and against the amendments, in addition to fiscal policy considerations. If these amendments pass, the legislature's and the public's appetite for tax reform may be satiated enough to discourage future efforts. On the other hand, defeat of the amendments could deter elected leaders from taking the political risk of sponsoring significant fiscal reform legislation in the future. For these reasons, BGR takes no position on Amendment Nos. 2 and 3.

### Links to Additional Information on Amendment Nos. 2 and 3

[Amendment No. 2 Proposition as It Appears on the Ballot](#)

[Amendment No. 3 Proposition as It Appears on the Ballot](#)

[Legislation Proposing Amendment No. 2, Act 48 \(HB73\)](#) (PDF, 7KB)

[Legislation Proposing Amendment No. 3, Act 49 \(HB98\)](#) (PDF, 7KB)

"Stelly Bill" Legislation Triggered by Amendment Nos. 2 and 3

[Original Bill, Act 37 \(HB295\), 2000 Regular Session](#) (PDF, 28KB) (PDF, 28KB)

[Amended Bill, Act 23 \(HB30\), 2nd 2000 Extraordinary Session](#) (PDF, 9KB)

## **No. 4 Authorize local governments to lend, pledge, or donate tax resources to others (including private entities) for industrial**

## **enterprises.**

[\(Act 152 \(HB9\), First 2000 Extraordinary Session\)](#)

### **BGR Position: Oppose**

Article 7, Section 14 of the Louisiana Constitution prohibits the loan, pledge, or donation of public funds, but it also lists ten exceptions to this prohibition. The exceptions range from contributions to pension systems to the donation of asphalt by the state to local governments. Amendment No. 4 would add an eleventh exception: local governments could lend, pledge, or donate certain tax resources directly to private individuals and companies.

The proposed amendment has restrictions. First, the tax resources must be "tax revenues dedicated to industrial or economic development, or the proceeds of bonds secured by these revenues." Second, the recipient has to agree to locate or expand in the donating local government's area, and agree in writing to hire "some minimum number" of local residents. Third, the agreement must be approved by the State Bond Commission.

Several taxes dedicated to industrial or economic development in the New Orleans area would probably be covered by the amendment:

1. The New Orleans 1.25 mill tax for economic development (\$1.82 million dollars in 1999).
2. The 20 mill tax within the boundaries of the New Orleans Business and Industrial District (NOBID) in New Orleans East (\$259,000 in 1999; expires after 2001).
3. A three-eighths percent sales tax in St. John the Baptist Parish for economic development (\$1.93 million in 1999).
4. The portion of the St. Tammany Parish hotel/motel tax dedicated to economic development (amount unknown).

### **Rationale for BGR Position**

The intent to foster economic development is admirable, but the amendment is seriously flawed. It is essentially the same amendment that BGR opposed (and the voters defeated) in 1990. BGR opposes it this time as well, for essentially the same reasons.

The amendment is devoid of guidelines for granting a loan, pledge, or donation, such as a requirement for a cost/benefit analysis, a reasonable minimum number of jobs, or a minimum length of time the jobs would endure. The proposal is silent with regard to penalties for non-performance. Although the proposed amendment requires State Bond Commission approval, it provides no guidelines for this approval. The proposed amendment does not, for example, prohibit one parish or municipality from "raiding"

another — a situation that could result in no job gain or even a net loss for Louisiana as a whole.

To the extent that economic development incentives of this type are desirable, the issue would be more appropriately addressed by enacting clear constitutional guidelines and by delegating authority to the legislature to implement those guidelines by statute.

The absence of guidelines in the proposed amendment opens the door to favoritism, political patronage, and ill-conceived decisions. Accordingly, BGR opposes Amendment No. 4.

#### Links to Additional Information on Amendment No. 4

[Amendment No. 4 Proposition as It Appears on the Ballot](#)

[Legislation Proposing Amendment No. 4, Act 152 \(HB9\)](#) (PDF, 10KB)

### Amendment Propositions as They Appear on the Ballot

NOTE TO VOTERS: The ballot itself will not show the actual text of the proposed amendments. Instead, the ballot will have only summary descriptions of the amendments that the legislature directed to be printed on the ballot. The propositions as they will appear on the ballot are provided below.

To view the legislation proposing the amendments and related statutes that would be triggered by the amendments passing, see the list below the ballot text.

#### Proposition

#### Ballot Text

**Amendment No. 1**  
**Act 153 (SB 74)**  
**2000 1st Extra Session**

To authorize the creation and abolishment, by law, of a corporation as a central source principal economic development organization of the state; to provide for the creation, administration, and powers, duties, and functions of such entity; to exempt such entity from civil service; to authorize such entity to engage in cooperative endeavors for economic development purposes and to receive state funds as appropriated by the legislature for economic development purposes. (Amends Article XII, Section 12)

**Amendment No. 2**  
**Act 48 (HB 73)**  
**2000 Regular Session**

To eliminate the constitutional requirement for a state income tax deduction for federal income taxes paid, to eliminate the current limitation on individual income tax rates, and to provide that the state individual and joint income tax schedule of rates and brackets shall never exceed the rates and brackets set forth in Title 47 of the Louisiana Revised Statutes on January 1, 2001. (Amends Article VII, Section 4(A))

<b>Amendment No. 3</b> <b>Act 49 (HB 98)</b> <b>2000 Regular Session</b>	To provide that food for home consumption, natural gas, electricity, and water shall be exempt from any sales and use tax levied by the state or by a statewide political subdivision. (Adds Article VII, Section 2.2)
<b>Amendment No. 4</b> <b>Act 152 (HB 9)</b> <b>2000 1st Extra Session</b>	To authorize local governments to loan, pledge, or donate certain revenues dedicated to economic or industrial development to persons, associations, or corporations which agree to locate or expand industrial operations in the area and agree to hire a certain minimum number of local residents. (Amends Article VII, Section 14(B))

### **Links to Additional Information on Constitutional Amendments on the November 7 Ballot**

#### Amendment No. 1

[Amendment No. 1 Proposition as It Appears on the Ballot](#)

[Amendment Language](#)

[Full Text of Legislation Proposing Amendment No. 1, Act 153 \(SB74\)](#) (PDF, 7KB)

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#### Amendment Nos. 2 and 3

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[Amended Bill, Act 23 \(HB30\), 2nd 2000 Extraordinary Session](#) (PDF, 9KB)

#### Amendment No. 4

[Amendment No. 4 Proposition as It Appears on the Ballot](#)

[Amendment Language](#)

[Legislation Proposing Amendment No. 4, Act 152 \(HB9\)](#) (PDF, 10KB)

Louisiana Legislature Home Page (<http://www.legis.state.la.us/>)

BGR is a private, nonpartisan, nonprofit citizen-supported research organization founded in 1932 and dedicated to informed public policy-making and the effective use of public resources in the New Orleans metropolitan area.

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