STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Allocation of Louisiana's Monetary Resources

Staff Study
February 1995

Performance Audit Division

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Legislative Auditor

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Executive Summary

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In allocating Louisiana's monetary resources, there are many obstacles to making state budget and accounting processes work in an efficient manner. During Phase Two of the SECURE effort, the Legislative Auditor conducted further study of two issues relating to state budget and accounting processes.

1. To study revenue dedications and budgetary and accounting conventions to streamline budgeting and planning and thereby allocate Louisiana's monetary resources more efficiently and
2. To analyze the strategic budgeting process to identify obstacles to further implementation.

Our study of these two issues found that:

- There are no criteria for creating or eliminating revenue dedications. However, the elimination of revenue dedications would be difficult because a large number are constitutional dedications. Louisiana has more constitutional dedications than other states.

- Another form of dedication that is more significant to the budget are expenditure mandates. Seventy-three percent of these are constitutional. Therefore, the state has little flexibility in altering this form of dedication.

- Although the Bond Security and Redemption Fund restricts the efficient allocation of resources, it is critical to the state's credit rating. Therefore, the way it operates should not be altered at this time.

- Louisiana has not fully implemented a program budgeting system mainly because of a lack of commitment from the legislature and executive branch personnel.

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Chapter One: Introduction

Report Conclusions

There are many impediments to the efficient allocation of Louisiana's monetary resources. These impediments include numerous revenue dedications and expenditure mandates, cumbersome accounting procedures necessitated by the Bond Security and Redemption Fund, and the lack of a comprehensive and fully functioning program budgeting system.

The number of revenue dedications in Louisiana has increased 150 percent since 1988. This increase can be attributed to the lack of criteria for creating dedicated funds and to the lack of procedures for eliminating inactive and unnecessary dedications. Many of these revenue dedications are constitutionally mandated. Revenue dedications restrict approximately 20 percent of state revenues.

A much larger restriction of state revenues takes the form of expenditure mandates. Expenditure mandates include the Minimum Foundation Program, general obligation debt service, the unfunded accrued liability for the statewide retirement systems, and various consent decrees. Expenditure mandates restrict approximately 53 percent of state general fund revenues. Expenditure mandates would be difficult to abolish.

After taking into account both revenue dedications and expenditure mandates, only 27 percent of state general fund revenues is available to fund remaining general government operations.

The requirements of the Bond Security and Redemption Fund necessitate cumbersome accounting entries and adjustments by the Division of Administration. However, the Bond Security and Redemption Fund serves as a security pledge for current bondholders and also impacts the state's bond rating. Abolishing the fund or reducing the revenues that flow through the fund is not advisable at this time.

Although the legislature mandated that program budgeting be implemented by 1992, the state has failed to do so. Louisiana has made progress in this area, but the state does not have a comprehensive and fully functioning program budgeting system, and legislators continue to make budgetary decisions on a line-item basis. The primary obstacle to full implementation is a lack of commitment by the legislature and executive branch personnel.

Study Initiation and Objectives

Senate Concurrent Resolution No. 17 of the 1994 Third Extraordinary Legislative Session directed the Office of Legislative Auditor to assist the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE). This directive is further described in Appendix A. Specifically, SECURE requested studies in the area of general fiscal relating to state budget and accounting processes. In this report, we address SECURE's Phase One recommendations to:

- Study revenue dedications and budgetary and accounting conventions to streamline budgeting and planning and thereby allocate Louisiana's monetary resources more efficiently and
- Analyze the strategic budgeting process to identify obstacles to further implementation.

The first issue encompasses dedications and debt security measures in Louisiana. The second issue pertains to the program budgeting system in Louisiana.

Background

There are many obstacles to making state budget and accounting processes in Louisiana work in an efficient manner. In some respects, these obstacles hinder effective and efficient financial management. At the same time, some of these obstacles provide the public with the perception that financial resources will be used and continue to be used in a specific manner.

Revenue Dedications and Expenditure Mandates

Revenue dedications are the designation of certain revenues for specific purposes on a continuing basis. Dedicated revenues are not included in the state's general fund, except those revenue dedications that do not have an accompanying special fund. Designated revenues are often included in special funds created by law within the State Treasury. Special funds are normally maintained in separate accounts. The term "earmarked revenue" is often substituted for "dedicated revenue." The two terms mean the same thing. Sometimes revenues are earmarked but are not required by law to be deposited into special funds. These revenues are referred to as self-generated revenues and are not within the scope of this study.

Another form of dedication is **expenditure mandates.** Expenditure mandates are not related to a particular revenue but commit the state in one form or another to pay certain costs from whatever revenue source it may have available in the general fund. In Louisiana, these expenditure mandates are often referred to as non-discretionary expenditures.

Revenue dedications and expenditure mandates can be accomplished by a variety of means. They mainly occur by legal designation in the state constitution or state statutes. They can also be required by external requirements, such as federal laws or rules, court orders, or contractual obligations.

According to our research, revenue dedications and expenditure mandates occur for several reasons, some of which are as follows:

- To establish spending priorities: Establishment of priorities is accomplished by providing a long-term approach to long-term problems by limiting the ability to change priorities each year.
- To protect activities from budget pressures: Dedicating revenues and mandating expenditures are perceived as sources of fiscal strength for the programs that receive such funds.
- To gain support for the passage of a revenue measure: Dedicating revenues or mandating expenditures is one of the most feasible methods available to sell a tax increase or a fee increase to the public.

- To ensure that money is used for a particular purpose: Revenue dedications are devices that tie revenues from a specific tax to the financing of a particular government function.

- To meet the requirements of granting authorities.

- To meet contractual obligations.

In Louisiana, once the legislature establishes revenue dedications as special funds, the State Treasurer's office creates the fund, keeps records of the fund, and monitors the fund to make sure the expenditures have been appropriated. The Office of Statewide Reporting and Accounting Policy within the Division of Administration performs accounting functions relating to the fund. The state's Revenue Estimating Conference estimates the amount of dedications affecting major state revenues using estimates from the Legislative Fiscal Office and the Office of Planning and Budget within the Division of Administration. Some expenditure mandates are determined by formula or through actuarial calculation as part of the budget process.

Exhibit 1-1 on the following page provides an overview of the allocation of Louisiana's monetary resources, excluding federal funds, for the fiscal year 1994-95. It shows the percentages allocated to revenue dedications and expenditure mandates and the percentage remaining. It also details the major expenditure mandates.

As can be seen in Exhibit 1-1, only 27 percent of the state's funds can be used for discretionary purposes. This illustrates one of the disadvantages of dedicating revenues and mandating expenditures. The restrictions reduce budget flexibility and increase the difficulty of adapting budgets to changing economic conditions.

Revenue dedications also hinder comprehensive budgeting in other ways. As cited in our research, these other obstacles are as follows:

- Revenue dedication infringes on policy makers' powers by removing from periodic review of a portion of governmental activities. This situation could result in less accountability for the funds. Also, without periodic review, the need for which the fund was established may have passed.

- Revenue dedication does not always guarantee an adequate level of funding. If additional funding for a program is needed, there is really no rationale for dedicating the revenue in the first place.
- Revenue dedication can affect cash flow. It complicates revenue structures by requiring more elaborate accounting and cash management systems than otherwise would be necessary.
- Revenue dedication can also restrict funding for a program by allowing legislators to feel as though they have already done their part for the program by earmarking money to it.

The national trend since the 1950s has been a substantial decrease in revenue dedications. In 1954, more than half of state tax revenues in the United States were dedicated. By 1988, about one quarter of state tax revenues in the United States were dedicated.

Exhibit 1-1
Allocation of State Revenues in Fiscal Year 1994-95

Description	Amount	Percentage
Estimated Major State Revenues based on November 1, 1994 estimate	$5,774,800,000	100%
Plus: Carry-forward balances	9,390,000	
Less: Estimated revenue dedications (see Exhibit 2-2)	(1,157,700,000)	20%
Subtotal - Amount Available to the State General Fund	**4,626,490,000**	
Less: Mandated (non-discretionary) expenditures		
Constitutional	2,236,429,843	
Maintenance of State Buildings	6,877,930	
Total Loss of Federal Funds	2,138,105	
Debt Service	38,422,170	
Consent Decree	293,090,450	
Federal Mandate	227,537,783	
Legislative Discretion Only	152,076,707	
Contractual Obligation/Statute	97,647,367	
Unemployment Compensation	1,600,000	
Subtotal - Mandated (Non-Discretionary) Expenditures	(3,055,820,355)	53%
Total Remaining for Allocation to General Fund Purposes	1,570,669,645	27%

Source: Prepared by Legislative Auditor's staff based on data provided by the House of Representatives' staff and the Office of Planning and Budget within the Division of Administration. This information has not been audited by the Legislative Auditor's office.

This trend is attributed to the growth in sales and income taxes that are not as likely to be dedicated as are excise taxes. In descending order, the taxes most often dedicated are motor fuel, alcohol, general sales, and tobacco taxes.

According to the National Conference of State Legislature's (NCSL) publication titled *State Budget Actions 1993,* there has been a recent resurgence in earmarking, even though the long-term trend has been for less earmarking. Programs that are currently receiving earmarked revenues include health and social services, education and economic development, children's programs, and highways.

Also, during the 1980s, state control over state budgets tended to diminish. This diminishment of control is a consequence of federal mandates; consent decrees; judicial decisions, especially regarding education and corrections; and state entitlement programs.

According to a rough draft of a survey done by NCSL, 1993, Louisiana dedicated 15.4 percent of its tax revenues in fiscal year 1993. Only the major state tax dedications that are included for review by the Revenue Estimating Conference were reported to NCSL by the Legislative Fiscal Office. This was done to facilitate an "apples to apples" comparison with other states. Also, to ensure comparability, NCSL did not include in total tax revenues the lottery fund, the mineral settlement fund, and DHH provider fees. These items are normally included as dedications by the Revenue Estimating Conference. The survey shows that Louisiana's 15.4 percent is well below the national average of 22.8 percent, as calculated by NCSL. As shown in Appendix B, there are 35 states that dedicate more tax revenues than Louisiana.

Louisiana's 15.4 percent is also well below NCSL's southeastern regional average of 25.7 percent. The southeastern average includes the 12 states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. However, when one omits from the 1993 southeastern total the states of Alabama and Tennessee (whose dedicated revenue figures of 87.0 percent and 60.2 percent, respectively, skew the average), the resulting 10 state average of 18.1 percent is not substantially higher than Louisiana's 15.4 percent.

NCSL also calculated the proportion of state tax revenue dedicated by state for the fiscal years 1954, 1963, 1979, 1984, 1988, as well as 1993. The southeastern average has, for the reported years, fallen throughout the period, and the national average has shown a general decline. Since 1984, however, the percentage of Louisiana's tax revenues that are earmarked has increased by over two and a half times, from approximately 4 to 15 percent (following a precipitous decline between 1963 and 1979). In recent years, therefore, Louisiana is bucking the regional and national trends toward a declining percentage of earmarked tax revenues.

Securing State Debt in Louisiana

Louisiana's debt security measures further hamper the efficient allocation of Louisiana's monetary resources. The Bond Security and Redemption Fund (BSRF) was created during the passage of the 1974 Constitution for the purpose of securing the state's debt. This fund receives all public monies that are deposited into the State Treasury, with a few exceptions. After debt obligations are met, all monies flow into the state general fund, except as otherwise provided by law.

Some state officials maintain that Louisiana's financial management, budgetary, and legislative reporting is complicated by the way the constitutional provision is administratively carried out. This is because some revenues that have been obligated to finance specified programs by the appropriation process are credited to the BSRF before being credited to the programs. This procedure allows certain funds to be obligated more than once and leads to double counting, which must be adjusted for financial reporting purposes. The accounting adjustments must be made at the end of every fiscal year by the Division of Administration when preparing the Comprehensive Annual Financial Report.

Program Budgeting

Efficient allocation of Louisiana's resources also depends on the state's recent conversion to a program budgeting system. Legislation passed during the 1987 Regular Session required Louisiana to adopt a program budgeting system beginning in the fiscal year 1988-89. The program budgeting system was to be fully implemented by the fiscal year 1991-92.

Program budgeting is a budget system that focuses on program objectives, program achievements, and program cost effectiveness.

Program budgeting is concerned with outcome or results rather than individual items of expenditure. Because program budgeting places emphasis on program effectiveness, it is critical for state agencies to develop indicators that measure performance and/or accomplishment. Policy development, strategic planning, operational planning and budgeting, and performance accountability are key elements of Louisiana's program budgeting system.

The Office of Legislative Auditor issued a performance audit titled *Louisiana's Planning, Budgeting, and Program Evaluation System* in February of 1995. This report focuses on Louisiana's program budgeting system. Because program budgeting impacts the allocation of Louisiana's monetary resources, obstacles to the full implementation of program budgeting identified in that audit are reiterated in this report. The primary obstacle is the lack of commitment to the process by the legislature and executive branch personnel.

Scope and Methodology

This report is a staff study and not a performance audit. Preliminary work began in August 1994 and work was concluded in February 1995.

This study focused on SECURE's Phase One recommendations to:

- Study revenue dedications and budgetary and accounting conventions to streamline budgeting and planning and thereby allocate Louisiana's monetary resources more efficiently and
- Analyze the strategic budgeting process to identify obstacles to further implementation.

To address the first study objective, we obtained and reviewed the information listed on the following page. We did not audit the information that was provided to us.

- Louisiana constitutional and statutory provisions
- Related departmental policies, procedures, and other data
- Media news articles
- SECURE Phase One issue paper and final report
- Issue papers prepared by legislative staff
- Periodical articles
- National Conference of State Legislatures' 1988 study of "Earmarking State Taxes"
- Studies conducted by other states and organizations

We also interviewed officials in the State Treasurer's office; the state's Financial Advisor; officials at the State Bond Commission; officials at the Division of Administration, including the Office of Planning and Budget; and staffs of the Legislative Fiscal Office, Senate Office of Fiscal Affairs and Policy Development; House Fiscal Division; and House of Representatives.

For work relating to revenue dedications, we summarized and compared data on dedicated revenues in all 50 states obtained from NCSL. This data was in draft format and was not audited by us. This summarized data is reproduced as Appendix B and Appendix C.

We performed a preliminary analysis of various published financial data relating to the amount of Louisiana's revenue dedications and expenditure mandates. We performed other procedures that we considered necessary to fulfill our objective.

For a summary of the scope and methodology used to address the second study object, please refer to the performance audit report titled *Louisiana's Planning, Budgeting, and Program Evaluation System*, which was issued by the Office of Legislative Auditor in February of 1995.

Report Organization

The remainder of this report is organized into three additional chapters and four appendixes.

- **Chapter Two** addresses revenue dedications and expenditure mandates.
- **Chapter Three** addresses debt security.
- **Chapter Four** addresses obstacles to implementation of program budgeting.
- **Appendix A** contains the details for the initiation of this study.
- **Appendix B** contains a comparison of the 50 states' proportion of revenues dedicated.
- **Appendix C** contains a comparison of the 50 states' number of constitutional verses statutory revenue dedications.
- **Appendix D** contains agency responses to this report.

Chapter Two: Revenue Dedications and Expenditure Mandates

Chapter Conclusions

Seven years ago, measures were taken in Louisiana to eliminate revenue dedications to increase cash flow to the state general fund. Some revenue dedications could not be eliminated at that time. For those eliminated, almost 12 percent have since been reestablished.

The past elimination of dedications has not stopped the growth of new dedications. Since 1988, there has been a 128 percent increase in the number of new dedicated funds. Overall, there has been a 150 percent increase in the total number of revenue dedications. This increase can be attributed to the lack of criteria for creating dedicated funds. Also, there are no procedures to eliminate inactive or unnecessary dedications.

Information relating to the actual dollar amount of revenues credited to each dedicated fund is incomplete, inconsistent, and difficult to understand. The Revenue Estimating Conference does not currently consider all revenue dedications in its work.

Establishing criteria for creating dedications and procedures for eliminating dedications could free up general fund revenues, improve cash flow, and simplify accounting. However, the elimination of revenue dedications would be difficult due to the large number of dedications that are constitutionally mandated. Other states have fewer constitutional revenue dedications than Louisiana.

Expenditure mandates constitute a much greater portion of the budget than do revenue dedications. Most of Louisiana's expenditure mandates are constitutional in nature. Others originate in statute or by consent decree, court order, settlement, or federal mandate. Those expenditure mandates required by state law could be changed through legislative action. There also may be flexibility for change in some of the other expenditure mandates. However, these other types of expenditure mandates are not significant in amount and eliminating them would not have a great impact.

Dedications Have Been Eliminated in the Past

There were serious cash flow problems in Louisiana in 1987. Accordingly, an examination was conducted by various state financial advisors to find revenue dedications that could be eliminated. As a result of the review, legislation was enacted and a total of 146 revenue dedications were eliminated, but another 73 could not be eliminated. However, since that time almost 12 percent of these dedicated funds have been recreated.

A comprehensive review of each revenue dedication was performed in 1987 to determine what dedications could be eliminated. A comprehensive report on dedicated funds administered by the State Treasury was prepared by the Legislative Fiscal Office in December 1987. The report identified and described 219 funds mandated by the constitution, revised statutes, and/or rules or regulations.

Act 5 of the 1988 First Extraordinary Session, which was signed on March 28, 1988, abolished 146 of the 219 dedicated funds effective July 1, 1988. Appropriations for these funds for the next fiscal year were to be made as self-generated fees from the state general fund. A report listing the funds to be abolished was issued. This report was based on a consensus opinion of a group composed of representatives of the Senate staff, the Legislative Fiscal Office, the State Treasurer's office, and the Division of Administration.

The impact of Act 5 was estimated to be a reduction of the state general fund indebtedness by approximately $139 million. However, the actual results, according to the House of Representatives staff, was a $152 million reduction in state general fund indebtedness. According to an official from the State Treasurer's office, the main reason for the passage of the act was to increase cash flow to the state general fund during a period of financial crisis.

Several exemptions listed in Act 5 ruled out the elimination of some of the 219 funds. These exemptions included those funds constitutionally established, protected, or not required to be deposited to the State Treasury. Other funds that were exempted were judicial funds and funds connected with the satisfaction of a final judgment, settlement, order, award, or compromise. Exempted funds also included those required as a condition of an agreement, such as a court order or contract.

Several of the abolished dedications have been reestablished by subsequent act. According to data provided by the State Treasurer's office, 17 of the 146 abolished dedications, or about 11.6 percent, have been reestablished. These funds were restored within five years of their abolishment.

New Dedications Have Proliferated

Even though steps were taken to abolish revenue dedications seven years ago, there has been a 128 percent increase in the number of new dedications. This increase is attributed to the lack of criteria for establishing dedicated funds and the lack of procedures to eliminate inactive or unnecessary dedications. Because the state has not enacted a process for creating and eliminating revenue dedications, general fund revenues are tied up, cash flows are hampered, and the accounting processes are more complicated.

The past elimination of dedications has not stopped the growth of new dedications. The State Treasurer's office prepared the data used in Exhibit 2-1 on the following page. This exhibit shows the number of dedicated funds in existence from the time funds were abolished in fiscal year 1988 through January 1995.

Exhibit 2-1 shows a 150 percent increase in the number of dedicated funds from fiscal year 1988 through January 1995. This exhibit includes revenue dedications recreated after Act 5 of 1988. According to a State Treasury official, there are actually about 300 funds in the State Treasury. The 195 funds in Exhibit 2-1 represent those funds that affect state revenues and are the most time consuming from an accounting standpoint.

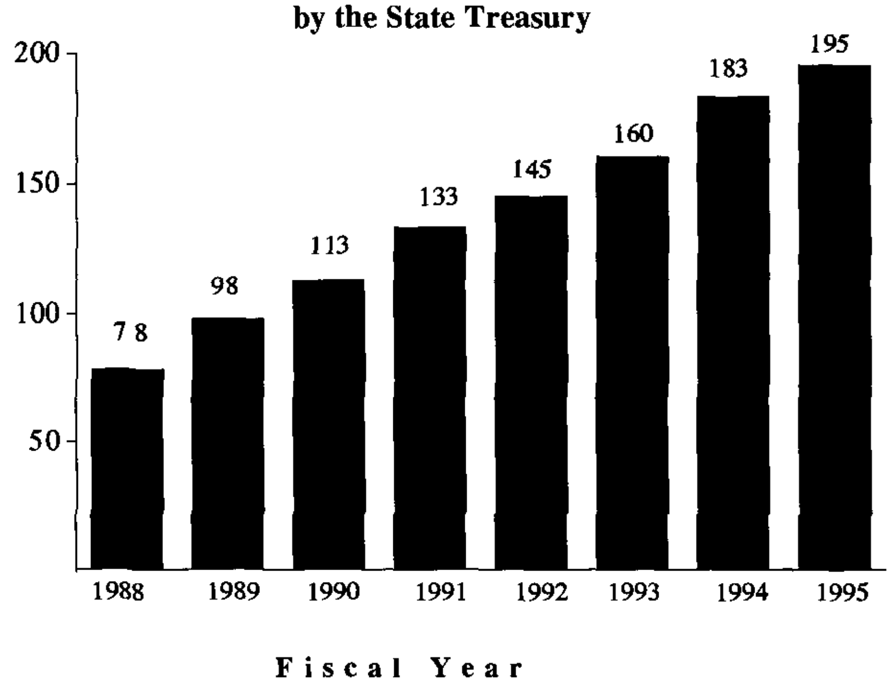
There are no criteria established for creating dedicated funds. A State Treasury official acknowledged that the number of dedicated funds has escalated because there are no criteria for creating dedicated funds. This official also said that the public gains a degree of comfort in knowing that funds for specific purposes exist and that they can determine the balances of these funds.

According to one source in our research, three criteria should be used to determine whether revenues should be dedicated or deposited into the state general fund. Those three criteria are as follows:

- **Management Oversight:** Earmarking is advantageous when it facilitates greater accountability of a program to the public than would be true under general fund support.
- **Internal Coherence:** Earmarking should be employed only when a clear economic link can be established between a revenue base and the program it supports.
- **Comprehensibility:** Earmarking is an efficient approach to finance programs that are economically self-sufficient.

This source further stated that there are few clear guidelines by which to evaluate earmarking. One of the main criteria given for dedicating revenue is the perception that the dedication is a source of fiscal strength for the program that receives such funds. However, we found in our research that this reason is arguable. According to a Minnesota study, there was no essential difference found in comparing the functional

Exhibit 2-1
Number of Dedicated Funds Maintained by the State Treasury



Source: Prepared by Legislative Auditor's staff from a similar chart prepared by the State Treasurer's office in January of 1995. This information has not been audited by the Legislative Auditor's office.

distribution of revenues both during a period of earmarking and after it was abolished. Another source said that while the practice of dedicating revenues for highways is a popular one, there is no evidence that this practice improves the conditions of highways.

There are no procedures to eliminate inactive or unnecessary dedications. A State Treasury official also agreed that the net increase in the total number of funds can be attributed to the lack of legal procedures for the state treasurer to eliminate inactive or unnecessary dedications. Dedications cannot be eliminated until the legislature either eliminates them or takes some other action.

A common problem with dedications, as cited in many publications, is that dedication statutes tend to remain in force after the need for which they were established has passed. There are, however, ways to address this problem. In our research, we learned that in 1987, Montana enacted a bill requiring the biennial review of all earmarked accounts to determine whether they merit continued existence.

Establishing criteria for creating dedications and procedures for eliminating dedications could free up general fund revenues, improve cash flow, and simplify accounting. A big problem is that many dedications are created as portions of existing revenue sources that are going to the general fund and that support general governmental operations. Consequently, this creates a problem in funding all of the other areas of government.

From a State Treasury official's perspective, some measures have been taken to help improve cash flow. However, there is still a need for further improvement because of the creation of so many special funds. Also, there is extensive accounting procedures associated with some of the funds.

Information on Dedications Needs Improvement

It is difficult to analyze revenue dedications that could be eliminated with the financial information that is currently available. The information is inconsistent, incomplete, and difficult to understand. Some revenue dedications are included in the Revenue Estimating Conference and some are not. Also, all the revenue dedications are not clearly disclosed on the state's external financial report. Typically, the reason revenues are dedicated is to provide the public with a separate accounting. Because such data and information is not readily available, the public is not receiving this accountability.

Current information on all dedications is incomplete, inconsistent, and difficult to understand. As part of this study, we attempted to obtain and analyze information on the dollar amount of revenues credited to each dedicated fund for the fiscal year ended June 30, 1993[1]. We found that the information available was not consistent between sources and did not always include all dedicated funds. Two state officials commented that it is difficult to determine the actual amount of dedications as it depends on who is looking at it and how they are looking at it. Special funds are generally established to give the public an administrative accounting of the activities of the fund. However, this may not be the case in Louisiana.

Not all dedications are included in the Revenue Estimating Conference. The Legislative Fiscal Office and the State Budget Office provide estimates of revenues and some dedications to the Revenue Estimating Conference. Each office independently prepares an estimate of the revenue. The Revenue Estimating Conference meets at least four times a year to review and revise these estimates for both the current fiscal year and the ensuing fiscal year. The revisions are made because appropriations are based on the official forecasts by the Revenue Estimating Conference. As the budget year concludes, the estimate is adjusted to actual results.

The Revenue Estimating Conference does not include all dedications in its estimates. Of the 195 special funds that the State Treasury accounted for in fiscal year 1994-95, only 29 dedications are estimated by the Revenue Estimating Conference. However, this represents about 82.5 percent of the total dedicated revenues appropriated from special funds. According to various state officials, this is because the Revenue Estimating Conference decided to estimate only those dedications that affect major state revenues and that might have a material impact on general fund revenues, such as the lottery. According to a Legislative Fiscal Office official, the procedures for revenue dedications included in the Revenue Estimating Conference have evolved over time and are not systematic.

[1] Data for the fiscal year ended June 30, 1994, was not available at the time we did our analysis.

The House of Representatives staff say that there are a lot of dedications that the Revenue Estimating Conference does not estimate because they are not material to the general fund and would be too time consuming to individually estimate. Also, the Revenue Estimating Conference generally deals only with revenues in which the agency has no control over the use of the collections. However, a constitutional amendment passed in 1993 further defined dedicated funds, so the Revenue Estimating Conference will need to start estimating some of those revenue dedications that are currently excluded.

Reporting of dedicated revenues in the state's external report is not a straightforward matter. The Comprehensive Annual Financial Report (CAFR) represents the state's external financial statements. The CAFR is a detailed financial report that is intended for users who need a broad range of information. Although the CAFR is prepared in accordance with generally accepted accounting principles, the reporting of dedicated revenues is not obvious. Instead, dedicated revenues are reported in various fund types and in various statements and schedules. One must have a detailed knowledge of how the CAFR is compiled to know how all dedicated revenues are reported.

More complete and consistent information on dedications is needed to aid in the determination of which dedications should be eliminated. From a layman's perspective, such information is currently not available to determine all dedications that may need to be eliminated.

Louisiana Has More Constitutional Revenue Dedications Than Other States

Another obstacle in the elimination of revenue dedications in Louisiana is the fact that a large percentage of Louisiana's revenue dedications are constitutional. On the contrary, other states have a smaller percentage of revenue dedications.

The elimination of revenue dedications in Louisiana would be difficult because many of the dedications are constitutional in nature. Thirteen of the 29 major dedications estimated by the Revenue Estimating Conference for fiscal year 1994-95, or 45 percent, are dedicated by a constitutional provision. Exhibit 2-2 on page 19 lists these 29 major dedications and highlights the 13 constitutional dedications.

Of the remaining 166 dedicated funds, not included in the Revenue Estimating Conference, 9 are constitutionally dedicated.

Constitutional earmarking is more restrictive than statutory earmarking. According to our research, earmarking state taxes is usually statutory, but motor fuel taxes often are earmarked constitutionally. From the perspective of fiscal policy, the difference between the two processes lies in the difficulty of enacting or amending an earmarking provision. It is easier for a governor and the legislature to enact or revise statutory earmarking than constitutional provisions, which may require a super majority vote in the legislature and popular approval.

Other states have fewer constitutionally dedicated revenues than Louisiana. As shown in Exhibit 2-3 on page 20, the proportion of constitutional dedications in other states is 14.3 percent. The average number of constitutional dedications for each state is 1.6. For other southeastern states (excluding Louisiana), the proportion of constitutional dedications is 16.2 percent, and the average number of constitutional dedications is 1.9.

Based on our review, the five most common revenues that other states constitutionally dedicate, in rank order, are as follows:

- Motor fuel taxes (described as gasoline and special fuels taxes in some states),
- Motor vehicle registration fees,
- Severance taxes,
- Property taxes, and
- Sales taxes

Procedurally statutory dedications could be easily eliminated in Louisiana. The elimination of constitutional dedications would be more difficult. In our research, we noted that many states have tapped unused balances that have accumulated over many years in statutorily earmarked funds. Such actions would have been much more difficult, if not impossible, if the funds had been earmarked constitutionally.

Exhibit 2-2
Major Dedicated Taxes, Licenses, and Fees and Constitutional Dedications
As Estimated for the Fiscal Year 1994-95
(Expressed in Millions)

	Dedicated Revenue	Estimate		Dedicated Revenue	Estimate
1	Gasoline - Port of New Orleans	$0.5	16	Sales Tax - Economic Development	$8.0
2	Gasoline - Lake Charles Harbor	1.0	17	Tourism Promotion District	12.0
3	Transportation Trust Fund (TTF)	379.3	18	Louisiana Recovery District	143.5
4	TTF - Motor Vehicle License	26.3	19	Excise License - 2% Fire Insurance	7.6
5	TTF - Aviation Tax	5.0	20	Excise License - Fire Marshall Fund	3.6
6	Motor Fuels - TIMED[1]	95.2	21	Excise License - LSU Fire Training	1.0
7	Motor Vehicle License Highway #2	9.1	22	Environmental Trust Fund	2.0
8	Severance Tax - Parishes	28.1	23	Insurance Fees	10.0
9	Royalty - Parishes	24.0	24	Bond Reimbursement Paid by Others	21.1
10	Royalty - Attorney General	5.0	25	Video Draw Poker	43.6
11	Wetlands Fund	5.0	26	Riverboat Gaming Enforcement	37.1
12	Royalty - Mineral Audit Settlement	44.2	27	Lottery Proceeds Fund	107.0
13	Wildlife and Fisheries - Texaco Settlement	0.9	28	Supervision and Inspection Fee	3.6
14	Mineral Stabilization Trust Fund	0.0	29	DHH Provider Fees	69.9
15	Quality Education Support Fund	64.0		**Grand Total**	**$1,157.7**

Note (1): Constitutional dedications are denoted by shading.
Note (2): The Revenue Estimating Conference does not estimate the Conservation Fund, even though it is material, because all revenues in the fund go to the agency.

Source: Prepared by Legislative Auditor's staff from data provided by the House of Representatives staff, Division of Administration - Office of Statewide Reporting and Accounting Policy, and the State Treasurer's office. *The estimates were determined by the Revenue Estimating Conference on* November 1, 1994, and have not been audited by the Legislative Auditor's office.

[1] The debt portion of the TIMED account is constitutional.

Exhibit 2-3
Summary of the Number of Constitutional and Statutory Dedications in Other States

	Number of Statutory Dedications	Number of Constitutional Dedications	Number of Both Statutory and Constitutional Dedications	Total Number of Dedications
Total All States	423	74	12	517
Average All States	9.19	1.6	0.26	11.43
Proportion of Total	81.8%	14.3%	2.3%	98.4%
Total of Southeastern States	109	21	0	130
Average of Southeastern States	9.9	1.9	0	11.81
Proportion of Total	83.8%	16.2%		100.0%

Note: The NCSL regional alignment of the other Southeastern States include Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

Source: Summarized by Legislative Auditor's staff from information provided by the NCSL for the fiscal year-end 1993. These figures have not been audited by the Legislative Auditor's office. See Appendix C for a summary by state and other notes of explanation.

Expenditure Mandates Greatly Restrict the Efficient Allocation of Monetary Resources

Expenditure mandates hinder the efficient allocation of Louisiana's monetary resources more so than do revenue dedications. In addition, to further complicate this matter, a *considerable portion of the expenditure mandates are* constitutional and many others are governed by very restrictive requirements. Because of this, the state has little flexibility to change or eliminate expenditure mandates.

Expenditure mandates take up a much greater portion of the budget than do revenue dedications. As shown previously in Exhibit 1-1, revenue dedications account for 20 percent of state taxes, licenses, and fees. Expenditure mandates, also referred to as non-discretionary expenditures, account for 53 percent of state revenues. Therefore, any attempt to change the allocation of Louisiana's monetary resources would need to include consideration of expenditure mandates.

Most of Louisiana's expenditure mandates are *constitutional in nature. The remaining expenditure* mandates are governed by other restrictive requirements. *The expenditure mandates detailed in Exhibit 1-1 can be further* broken down as shown in Exhibit 2-4 on the following page.

Similar to revenue dedications, the majority of expenditure mandates are constitutional in nature. Constitutional expenditure mandates account for 73 percent of all non-discretionary spending. The primary expenditure mandates include the following:

- Constitutional Mandates:
  - Minimum Foundation Program (MFP)
  - General obligation debt service
  - Unfunded accrued liability (UAL)[2]
- Non-Constitutional Mandates:
  - Consent decrees

The MFP alone accounts for almost 56 percent of all of expenditure mandates. According to a document prepared by the Senate Office of Fiscal Affairs and Policy Development, each year, a new MFP formula is established by the Board of Elementary and Secondary Education and must be approved by a majority of the legislature. If the legislature does not approve the new formula, then the current formula remains in effect. In funding the formula, the governor can propose a reduction in the money appropriated; however, this must be approved by two-thirds of the elected members of each house. Because a two-thirds vote from each house is required, any proposed change to the funding of the MFP would be difficult to enact.

General obligation debt service is another expenditure mandate that would be difficult to change. General obligation debt service represents 12 percent of the expenditure mandates and is constitutionally protected. It is paid from the constitutionally-created Bond Security and Redemption Fund, which assures bondholders of having first call on state funds in case of default. The Bond Security and Redemption Fund is further discussed in Chapter 3. We do not recommend any changes to the Bond Security and Redemption Fund at this time.

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[2] The UAL does not show up as a line item on Exhibit 2-4. It is implicitly included in the exhibit.

Exhibit 2-4
Mandated (Non-Discretionary) Expenditures for Fiscal Year 1994-95

Constitutional		
Minimum Foundation Program	$1,707,474,142	
Debt Service (general obligation debt only)	376,300,000	
Revenue Sharing	90,000,000	
Salaries and Related Benefits of Elected Officials	36,006,049	
Interim Emergency Board	12,600,000	
Election Costs	10,485,498	
Supplemental Education Assistance	3,564,154	
Subtotal Constitutional	$2,236,429,843	73%
Consent Decree		
Department of Corrections	$289,411,162	
Department of Education	3,679,288	
Subtotal Consent Decree	$293,090,450	9%
Federal Mandates		
DHH - Mandatory Medicaid Payments and Federal Safe Drinking Water Act	$141,327,466	
DSS - Aid for Dependent Children Grant, JOBS, and Shared Cost for JOBS and AFDC	86,210,317	
Subtotal Federal Mandates	$227,537,783	7%
Legislative Discretion Only		
Judgements	$75,900,000	
Legislative Appropriations Bill (not including salary and related benefits)	43,497,531	
Judicial Appropriations Bill (not including salary and related benefits)	32,679,176	
Subtotal Legislative Discretion Only	$152,076,707	5%
Contractual Obligation/Statute		
Department of Education - Professional Improvement Program	$49,928,307	
Retirement Systems	37,469,060	
Federal Retiree Tax Refunds Income	9,720,000	
Department of Transportation and Development	530,000	
Subtotal Contractual Obligation/Statute	$97,647,367	3%
Debt Service (other than general obligation debt)	$38,422,170	1%
Maintenance of State Buildings	$6,877,930	2%
Total Loss of Federal Funds	$2,138,105	0%
Unemployment Compensation	$1,600,000	0%
Grand Total (shaded areas)	**$3,055,820,355**	**100%**

Source: Prepared by Legislative Auditor's staff based on data provided by the Division of Administration - Office of Planning and Budget. Information is for the existing operating budget as of November 30, 1994. This information has not been audited by the Legislative Auditor's office.

Another type of expenditure mandate that is not explicitly evidenced in Exhibit 2-4 is the unfunded accrued liability of the statewide retirement systems. The UAL was addressed constitutionally when voters approved the amendment requiring the elimination of the $7 billion liability over a 40-year period. The retirement systems are constitutionally authorized to warrant the State Treasury at the end of the fiscal year if the legislature fails to provide funding for the year's normal cost and amortization payment on the UAL existing on June 30, 1988 (i.e., the initial UAL). The initial UAL must be fully funded by the year 2029.

The fixed cost of the UAL is funded as a percentage of payroll for administrative convenience. For fiscal year 1993-94, the net UAL payment for the three unfunded systems was $357.5 million. This figure was derived by the Legislative Actuary. According to the actuary, it would be a significant undertaking to determine the true cost of the UAL to the general fund. For instance, for the Louisiana State Employees' Retirement System, the UAL is financed first by an agency's self-generated revenues before it is taken out of the general fund appropriation. However, the actuary said that the Division of Administration - Office of Planning and Budget uses a formula to estimate the total cost, which includes the normal cost and the UAL cost, of the state's contribution from the general fund. Exhibit 2-5 shows the breakdown on funding from the general fund for the fiscal year 1995 for the three unfunded systems.

Exhibit 2-5
Estimated Cost of the State's Contribution From The General Fund for the Fiscal Year 1995

	Louisiana State Employees' Retirement Systems	**Teachers' Retirement System of Louisiana**	**State Police Pension and Retirement System**
Total Cost	**$200,343,645**	**$389,958,940**	**$19,994,229**
Total General Fund Cost	$137,387,205	$266,417,131	$19,994,229
Percent of Cost Funded From General Fund	68.58%	68.32%	100.00%

Source: Prepared by Legislative Actuary using data obtained from the Office of Planning and Budget.

The Louisiana prison system has been operating under a federal consent decree since 1983. The consent decree is not a constitutional mandate. The consent decree represents another nine percent of total expenditure mandates. The federal court has been carefully monitoring the state's activity relative to the state's prison system to insure that adequate funding is maintained and provided to meet the mandates of the court order. According to the House of Representatives staff, the state has a degree of flexibility in how it allocates funds to meet the court's goal of providing a safe, stable, and constitutional prison environment. The amount is subject to adjustment, especially since the court is moving toward a standard based on independent accreditation. Thus, this mandate may be somewhat easier to change than the others. Some cuts have been made in this area, according to the House of Representatives staff; however, the dollar amounts involved are not as significant, thus any changes would not have a great impact.

The laws for the remaining 23 percent of the expenditure mandates, totaling approximately $682 million, could possibly be revised to allocate Louisiana's resources more efficiently. However, doing so may still be difficult in light of the requirements surrounding some of these mandates.

Matters for Legislative Consideration

The legislature may wish to consider the following:

1. Legislatively establishing criteria for creating dedicated funds.

2. Enacting legislation that would give the State Treasurer's office the authority to eliminate inactive
   or unnecessary dedications.

3. Taking other action that would free up some of the general fund to better allocate Louisiana's monetary resources. For instance, earmarking need not be excessively rigid; it could be adjusted by the legislature. Earmarked revenues could also be made subject to minimums and

maximums, with excesses going to the general fund and shortfalls being made up from the general fund. The legislature could also subject earmarking to sunset provisions, whereby they are automatically reviewed at certain time intervals to determine if they should be continued.

Recommendation

1. The Division of Administration and/or the State Treasurer's office should annually prepare information on the amount of revenues credited to each revenue dedication for which a special fund has been established. This can be a separate report or incorporated into the state's Comprehensive Annual Financial Report.

Chapter Three: Securing State Debt

Chapter Conclusions

The Bond Security and Redemption Fund (BSRF) restricts the efficient allocation of resources. However, the fund is fundamental to the state's credit rating. Louisiana has the lowest bond rating in the nation. The BSRF is a mechanism the state uses to assure bondholders that, despite the low rating, the state will repay its debt.

Any proposed changes to the BSRF could further weaken the state's already weakened financial condition. Altering the BSRF could also subject the state to litigation for breach of contract.

The state should not consider altering the way the BSRF operates or modifying the revenues that flow into the fund at this time.

Louisiana's Debt Security Measures are Vital to the State's Credit Rating

Louisiana currently has the lowest bond rating in the nation. However, Louisiana's bonds still trade better on the market than the rating indicates because of the bondholders' perception that Louisiana's financial resources are allocated in a specific manner. This perception is guided by the existence of the BSRF. At the same time, the BSRF is viewed by some state officials as a hindrance to the efficient allocation of Louisiana's monetary resources.

The BSRF restricts the efficient allocation of monetary resources, but it is essential. In Chapter One, we described how the BSRF restricts the efficient allocation of monetary resources by necessitating cumbersome accounting entries and adjustments so that revenues will not be double counted on the state's financial statements. On the other hand, the state's financial advisor says that the BSRF is a prerequisite to the maintenance of Louisiana's current credit bond rating. The state's bond rating is important because it is a reflection of a governmental entity's ability to repay debt on time and in full.

The bond rating establishes the interest rate a bond issue of a governmental entity will pay. A lower rating is considered a greater risk that necessitates a higher interest rate to the bondholders. A higher interest rate results in a more costly bond issue and also affects the state's cash flow. The state's financial advisor helps the state borrow at the most cost-effective rate.

Louisiana has the lowest bond rating in the nation. Of the 41 states that issue general obligation bonds, Louisiana's rating is number 41, according to Moody's rating service. The ratings used by Moody's are as follows:

- **Aaa:** This is Moody's highest rating. Bonds with this rating carry the lowest degree of investment risk and carry numerous protective elements. These are generally referred to as high grade bonds.
- **Aa:** Bonds in this category are judged to be of high quality and are generally known as high grade bonds.
- **A:** Bonds in this category possess many favorable investment attributes and are considered to be upper medium grade obligations.
- **Baa**: This category reflects medium grade obligations. Bonds in this grouping are neither highly protected nor poorly secured.
- **Ba**: Bonds in this category are judged to have speculative elements and their future cannot be considered as well assured.
- **B:** Bonds with this rating generally lack characteristics of a desirable investment.
- **Caa:** These bonds are of poor standing. Such issues may be in default or may possess elements of danger with respect to principal or interest.
- **Ca:** These bonds represent obligations that are highly speculative.
- **C:** Bonds in this category are the lowest rated class of bonds. They have extremely poor prospects of ever attaining any real investment standing.

Moody's has rated Louisiana's bonds as Baa1. Bonds rated as Baa1 are considered medium grade obligations that are neither highly protected nor poorly secured. Bonds with this rating appear to have adequate interest payments and principal security for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Moody's says that bonds in this category lack outstanding investment characteristics and, in fact, have speculative characteristics as well.

Standard and Poor's, another rating service, gives Louisiana a bond rating of A. With this rating, Louisiana is ranked number 40 of the 41 states that issue general obligation bonds. Standard and Poor's definition of ratings differs somewhat from Moody's. The Standard and Poor's rating definitions are as follows:

- **AAA:** Debt in this category has the highest rating assigned. Capacity to pay principal and interest is extremely strong.
- **AA:** Bonds in this category have a very strong capacity to pay interest and repay principal. They differ slightly from AAA bonds.
- **A:** Debt in this category has a strong capacity to pay interest and repay principal. However, these bonds are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
- **BBB:** Bonds in this category are regarded as having an adequate capacity to pay interest and repay principal. However, adverse economic conditions or changing circumstances are likely to weaken this capacity to pay.
- **BB, B, CCC, CC, and C:** Bonds in these categories are described as speculative.

Because of Louisiana's low bond rating, the state has to acquire guarantee insurance to enhance the state's bond rating. Guarantee insurance is a rating enhancement mechanism that guarantees the payment of principal and interest. The price of the bond insurance is reflected in the interest rate paid on the bond issue. This mechanism increased Louisiana's bond rating for the general obligation bonds issued in April of 1994 to the highest rating given by both rating services. According to the state's financial advisor, the enhancement to the state's rating with acquisition of the bond insurance lowered the interest rate by five basis points and saved the state $1.25 million over the life of the issue.

The BSRF is a mechanism the state uses to assure bondholders that despite the low rating, the state will repay its debt. There are four factors that the rating services consider when determining a governmental entity's rating. With each factor there are several indicators that the rating services review for rating determination. No single factor is considered more important than the others. The four factors used by the rating services in assigning bond ratings to entities are as follows:

- Economic factors
- Debt factors
- Financial factors
- Administrative factors

Exhibit 3-1

Factors That Impact a Bond Rating

Economic factors relate to the economic conditions of the community. These are important because debt repayment ability is ultimately derived from the economic base of the governmental entity. The rating agencies review economic indicators such as demographics, tax base, and employment.

Debt factors relate to the amount of debt an entity has outstanding. Various measures of debt are evaluated, such as current debt servicing burden, pledged security, and debt structure.

Financial factors involve an analysis of various financial indicators, such as cash position, accounting and reporting methods, and surplus and shortfall plans.

Administrative factors basically address financial management. Some of the elements relating to financial management that are examined are degree of professionalism, authority, governmental accounting practices, and debt management.

Source: Summarized by Legislative Auditor's staff from information obtained from Standard and Poor's rating services.

According to the state's financial advisor, the BSRF is considered a positive element in the rating services' review of both the debt and administrative factors.

We reviewed the bond indenture for a recent bond issue and noted that the operation and pledge of the BSRF is described in at least seven different places in the document. Thus, the fact that Louisiana has the BSRF as a "security blanket" is stressed to potential users of the bond indenture, which includes the rating services.

Furthermore, both the director of the State Bond Commission and the state's financial advisor say that the BSRF gives bondholders a perception that all of Louisiana's revenues are first pledged to secure the bonds. Accordingly, the bondholders can look to the BSRF in the event there is a decline in revenues. The director of the State Bond Commission also said that when the state was in a financial crisis, this perception about the BSRF helped maintain some integrity and kept the state's bond rating from going into a junk bond status. According to the State Bond Commission director, the market's perception of the BSRF has helped Louisiana's bonds trade better than the rating.

Modifying the BSRF May Be Undesirable

The state has been put on a credit watch "negative" by Standard and Poor's Corporation. Any proposed modification to the BSRF could further negatively impact the state's credit rating. Changing the way the BSRF is administratively carried out may not be cost beneficial and is not recommended by the state's financial advisor.

Any proposed change to the BSRF should consider the state's current financial status and the amount of outstanding debt already pledged to the BSRF. The Division of Administration has a pending request for an Attorney General's opinion on the validity and necessity of passing certain types of revenues through the BSRF. As previously described, the current practice allows certain revenues to be obligated twice, which requires adjustment by Division of Administration accounting personnel for financial reporting purposes. Elimination of these accounting entries and adjustments would help Division of Administration staff to streamline their activities. However, the division has not received a response from the attorney general. We were not able to obtain an opinion from the attorney general.

According to the state's financial advisor, the state's credit ratings are to a degree in some jeopardy. The state's financial condition has been weakened by the loss of disproportionate share funding from the federal government for the Medicaid program. Also, the lack of funding for risk management claims (i.e., the large legal liability for lawsuits against the state[1]) is of concern to the credit rating agencies. Finally, the state's generally unstable revenue picture is cited as a cause for concern among the bond rating agencies. A change in the BSRF would be perceived as a further weakening of the state's already weak credit rating.

Even if the state's weakened financial condition did not exist, a reduction of revenues flowing through the BSRF might be perceived by bondholders as a breach of contract. According to the state's financial advisor, this is because the BSRF is described in every state bond issuance and, therefore, constitutes an implied, if not real, contract with the bondholder. Altering current procedures associated with the BSRF may result in litigation against the state by bondholders.

The state's financial advisor recommended two approaches the state could possibly take if seriously considering modifying the revenues flowing through the BSRF. The two approaches are as follows:

- The state may need to refund all outstanding debt secured by the pledge to the BSRF. This approach may not be feasible because federal tax laws prohibit the refunding of more than one bond issue sold after 1986. In addition, the state constitution only allows refunding of general obligation bonds at the same or a lower effective interest rate. Therefore, this requirement may not be achievable in the market.

- The state could try to obtain bondholder consent to a change in security. However, identifying all bondholders may be an impossible task. Also, such action would not be without cost.

[1] This amount is substantial and partially relates to the lack of a liability cap for the state. Refer to the $75.9 million figure for judgments in Exhibit 2-4.

Finally, the state's financial advisor said that if the BSRF did not already exist, it would not be needed to secure the state's debt because of the constitutional pledge described in Chapter One. However, the fund does exist and has legal meaning to the bondholders. Therefore, in the advisor's opinion, the state should not consider reducing the pledge of the BSRF in any way. Based on the work done in this study, we do not recommend any change at this time.

Chapter Four: Obstacles to Implementation of Program Budgeting

Chapter Conclusions

Information in this chapter is taken directly from the performance audit report titled *Louisiana's Planning, Budgeting, and Program Evaluation System*. This report was issued by the Office of Legislative Auditor in February of 1995.

Despite the legal requirements set forth in Louisiana Revised Statutes Title 39, Louisiana has not implemented a comprehensive and functioning program budgeting system. Although certain elements of that system are currently in place, others have not been fully implemented or are not functioning as specified by law. The legislature continues to make budgetary decisions on a line-item basis.

Numerous obstacles inhibit the state's transition to a program budgeting system. The primary obstacle is the lack of commitment from the legislature and executive branch personnel.

The State Has Not Fully Implemented a Program Budgeting System

Although the legislature mandated that implementation of program budgeting be completed by 1992, the state has failed to do so. Louisiana has not developed a single, overall plan that establishes long-term statewide policy. Less than half of the executive branch departments have submitted strategic plans to the Office of Planning and Budget (OPB). Some of the state departments have not updated their operational plans annually, as required. State departments have also not updated their reports of program evaluations and performance monitoring activities since 1986. As a result, the state does not have a fully functioning program budgeting system.

To carry out the legislature's mandate to implement program budgeting, OPB has developed management processes for policy development, strategic planning, operational planning and budgeting, and performance accountability. OPB provides information on these processes to each executive branch agency through its Strategic Management Manual for the State of Louisiana (MANAGEWARE). This manual contains detailed chapters on the key elements of the state's strategic management process.

According to MANAGEWARE, strategic management is the process by which an organization is positioned so that it can prosper in the future. The goal of strategic management is to link vital management functions into one organized process. As such, strategic management allows the state to determine where it currently is, where it wants to go, how it plans to get there, and how to measure progress toward that goal. The strategic management process in Louisiana relies on policy development, strategic planning, operational planning and budgeting using the program budgeting approach, and performance accountability.

Policy development. At present, Louisiana does not have a single, overall plan that establishes long-term statewide policy. Instead, policy goals tend to change every four years with the election of the governor. There is no linkage between statewide goals and departmental goals. As a result, agency activities are carried out independently and are not coordinated with an overall vision of where the state wants to go.

Policy development involves the process of setting policy and selecting a definite course of action to carry out that policy. Policies should reflect values and provide guidance toward the attainment of goals and objectives. In Louisiana, state policies are formulated by the governor, legislature, and other elected state officials. At the beginning of each gubernatorial term, the governor expresses his visions, goals, policies, and priorities for the state. These statements generally relate to broad policy areas such as education, economic development, the environment, infrastructure, and public safety. Ultimately, these policies are communicated to executive branch state departments for incorporation into departmental strategic plans.

OPB produces an annual State-of-the-State report to provide information on government performance to the public. This report includes state trends, rankings, and departmental activities in major functional areas such as education, economic development, or the environment. The State-of-the-State report, however, does not reflect the overall policy goals of the state.

In several other states that have implemented program budgeting systems, independent entities have been created to formulate statewide policies. The state of Oregon is an acknowledged leader in this area. Through its Benchmarks Project, Oregon has developed a statewide strategic plan. With extensive citizen involvement, the state has articulated its goals for the future.

Following the development of a statewide strategic plan, the Oregon Legislature created the Oregon Progress Board to translate the strategies identified in the strategic plan into measurable performance goals for the state. These goals revolve around "benchmarks" or measurements of agency performance. The idea behind the benchmarks is that they allow the state to measure where they currently are and set goals for where they would like to be in the future. The Oregon Progress Board identified over 250 benchmarks in its report to the 1993 legislature.

Because Louisiana has not established long-term, statewide policy goals for the future and has chosen instead to formulate policy every four years with the election of a governor, the state's goals may change with each administration. Because of the linkage between planning processes, statewide goals should feed directly into the strategic plans developed by individual departments. When they do not, agency activities are carried out independently and not necessarily in conjunction with overall policies that have been established for the state.

Strategic planning. Although Louisiana law does not specifically require state departments to engage in strategic planning, it encourages them to do so by authorizing OPB to assist departments in planning activities. We found that several state departments have not submitted strategic plans to OPB even though some of them, according to OPB personnel, were actually engaged in strategic planning. Without strategic planning documents, operational planning of individual departments may lack specific direction.

Strategic planning is a process that sets goals for the future and strategies for achieving those goals, with an emphasis on how best to use resources. Strategic planning relies on careful consideration of an organization's capacities and environment and leads to significant resource allocation decisions. Although MANAGEWARE states that the strategic planning process is flexible, strategic plans should cover the four-year administrative term of the governor. Individual departments may, however, develop strategic plans that cover longer periods of time.

According to MANAGEWARE, the strategic plan is to be completed down to the program level within each state department. After a department's strategic plan has been approved by the head of the department, it is to be submitted to OPB. The governor and the Commissioner of Administration use the strategic plans to support long-range planning approaches to decision making and management. The appropriate legislative committees also receive copies of the strategic plans.

We found that only 9 executive branch departments, or 43 percent, have submitted strategic plans to OPB. Because operational planning is guided by strategic planning, it is critical for state departments to complete their strategic plans. Without a strategic planning document, the operational planning of a department may lack specific direction. According to staff at OPB, a department's operational plan is only as good as its strategic plan.

Operational planning and budgeting. Although state departments are required by OPB to update their operational plans each year, all departments have not done so. Five state departments (24 percent) did not submit any new information to OPB in their most recent operational plans. Since performance indicators must be updated annually to be effective, program performance could not be measured for these state departments.

Operational planning and budgeting is a task-by-task scheduling of operations and the allocation of resources to implement strategies and accomplish objectives. Operational planning and budgeting are guided by strategic plans. More specifically, they concentrate on how to implement the strategic plan on an operational basis. Operational plans are based on a continuation of the prior year budget amounts and include objectives, strategies, and performance indicators. Although there is no prescribed format for an agency to use when completing its operational plan, MANAGEWARE does provide a suggested format as well as key elements that should be included in the operational plan.

OPB requires performance indicators to be reported for actual expenditures in the prior budget year, requested budget expenditures in the current budget year, and budget expenditures for the current budget year based on a continuation of the prior year budget amounts. According to OPB budgeting instructions, performance indicators are to be presented in a tabular format.

We found that all of the state's executive branch departments submitted operational plans to OPB for fiscal year 1994-95. However, even though OPB requires each department to update its operational plan on an annual basis, all departments have not done so. We found that five departments (24 percent) submitted operational plans or parts of operational plans that were copies of the previous year's document. In effect, those agencies did not submit any new information to OPB for those applicable parts of the plans.

We also found that several state departments did not follow the guidelines provided by OPB for completion of their operational plans. Specifically, some departments did not provide performance indicators for all years required, while others discussed their performance and accomplishments in narrative rather than tabular format as required in OPB's budgeting instructions. Finally, several departments submitted significant numbers of performance indicators in their operational plans that were either altered or not used by OPB in the state's executive budget.

Performance accountability. Executive branch state departments have not completed required reports on evaluations of programs and activities since 1986. OPB has not completed formal progress review meetings since 1992. Failure to complete these activities has led to the inability to measure the results of the state's policies and programs.

Performance accountability measures the performance of policies, plans, and programs. The policy development, strategic planning, and operational planning and budgeting processes all incorporate accountability. Accountability includes the periodic review of the strategic plan and the regular monitoring of policies, programs, and operational plans. Accountability examines the extent to which strategies have been implemented and compares actual results to expected results. According to MANAGEWARE, performance accountability is a means of judging policies and programs by measuring their outcomes against agreed-upon standards. A performance accountability system provides the framework for measuring results, not merely processes or workloads.

There are two reporting activities relating to performance accountability. They are the completion of reports required by Act 160 of 1982, and the conducting of progress review meetings. Act 160 reports are to be completed by department undersecretaries while the progress review meetings are to be completed by OPB. The purpose of the Act 160 reports is for state departments to evaluate their programs and activities. OPB has chosen to conduct the progress review meetings as a means of overseeing departmental activities in the area of performance accountability. In the progress review meetings, OPB examines the operational performance and strategic progress of each department.

Based on interviews with OPB staff, we found that none of the state departments had completed the Act 160 reports since 1986. In follow-up interviews we conducted with department personnel, they all stated that they were not familiar with the Act 160 reports. This unanimous comment is significant because all of the department representatives we interviewed had been involved with program budgeting in their departments for over two years.

We also found that, according to an official at OPB, their staff has not conducted the progress review meetings since 1992. According to this official, the formal review process was discontinued by the new administration. This official did state, however, that OPB has conducted limited site visits at selected agencies over the past two years. We reviewed documentation showing that OPB conducted site visits at 13 executive branch departments over this two year period.

Obstacles Inhibit Full Implementation

Despite its mandate to implement a program budgeting system, the legislature continues to make budgetary decisions using the traditional, line-item method of budgeting. Legislative staff we interviewed said that numerous obstacles inhibit full implementation, and the legislature lacks commitment to the process. Likewise, departmental staff we interviewed expressed little interest in program budgeting or performance measurement. A comprehensive program budgeting system cannot operate in Louisiana without the full commitment of these parties. Without their commitment, substantial time and resources are being spent on a system that has yet to be fully implemented.

Legislative staff we interviewed stated that there are numerous problems with the implementation of Louisiana's program budgeting system. First, the performance indicators currently in use tend to reflect processes rather than outcomes.

To assess program performance, outcome measures are needed. Second, the data needed to support a program budgeting system is not available in a central database. To make resource allocation decisions, the availability of reliable data is critical. Third, the accuracy of existing performance measures has not been determined. Without accurate information, the system lacks credibility and is not used. Finally, there is a lack of commitment to the process by some of those who are responsible for making it work. This lack of commitment is primarily due to the problems outlined above.

We also conducted interviews with planning and budgeting staff in each of the three executive branch state departments selected for detailed examination. Staff in these departments confirmed that there is little interest in performance measurement activities and program budgeting at the department level. As a result, their commitment to the process is also lacking.

Matters for Legislative Consideration

Three things should be considered by the legislature to promote an effective program budgeting system. They are to:

1. Legislatively mandate the preparation and periodic updating of a statewide strategic plan. An independent entity should be formed to prepare this plan. The entity should be required to obtain extensive statewide citizen input so that the plan contains the vision of where citizens want to go as a state in the future. The Oregon Progress Board could be used as a model.
2. Legislatively mandate the preparation and periodic updating of strategic plans.
3. Enforce the mechanisms that have already been established for implementing a program budgeting system, through the specific recommendations listed on the following page.

Recommendations

1. The newly created entity discussed previously should develop a statewide strategic plan. This plan should project the state's goals over the next 10 to 20 years. Strategic planning is crucial to the development of agency operational plans.
2. All state departments should complete their operational plans on an annual basis. The departments should ensure that performance indicator data remains consistent over time and is updated regularly.
3. All department heads should complete the Act 160 reports on an annual basis. These reports are useful because they require state departments to evaluate their programs and activities.
4. OPB should complete the progress profile reviews. These reviews are important in that they allow OPB to examine the operational and strategic performance of each department.

Appendix A

Study Initiation

Appendix A: Study Initiation

The Louisiana Legislature established the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) through Senate Concurrent Resolution (SCR) 192 in the 1993 Regular Legislative Session. The council was created to develop recommendations to improve the financial future of the state and the quality of life of its citizens. The resolution provided for the council to be composed of 27 members representing state and local government, private industry, education, labor, and special interest groups.

The SECURE effort has thus far consisted of two phases of study. In Phase One, SECURE contracted with the consulting firm of KPMG Peat Marwick (KPMG) to conduct a preliminary study of various facets of state government. In response to a directive in SCR 192, the Louisiana Legislative Auditor dedicated 35 members of his staff to work under the direction of KPMG.

During Phase One, staff from KPMG and the Office of Legislative Auditor conducted studies of Personnel and Benefits, Organization and Staffing, and State Cash Management Practices. The staff also conducted policy analyses on a variety of topics. These policy analyses identified areas with potential opportunities for immediate financial savings and issues with possible long term impacts that warranted further study. SECURE issued a report containing its recommendations to the legislature before the 1994 Regular Legislative Session. The Phase One report resulted in the passage of several concurrent resolutions and a constitutional amendment designed to improve the efficiency of state government operations.

The legislature reauthorized SECURE in the 1994 Third Extraordinary Legislative Session (SCR 17) to continue its efforts in developing recommendations to improve the financial future of the state and the quality of life of its citizens. The composition of the council was increased from 27 to 30 members. This continuation of efforts became known as Phase Two of the SECURE project.

In Phase Two, the legislature again directed the Office of Legislative Auditor to provide services to the project and SECURE again contracted with KPMG. The scope of the work in Phase Two was to continue some studies begun in Phase One and to conduct other new studies. The Phase Two agenda consists of two performance audits, a tax policy and fiscal model analysis, and follow-up of various issues identified in the Phase One work. SECURE divided the individual study items between the Office of Legislative Auditor and KPMG and assigned the following Phase Two projects to the Office of Legislative Auditor:

- Performance Audit of Planning, Budgeting, and Program Evaluation
- Performance Audit of State Purchasing Practices
- Follow-up to Phase One Performance Audit of Personnel and Benefits
- Further study of Corrections and Justice
- Further study of General Fiscal
- Further study of General Government
- Further study of Infrastructure

This report addresses the area of general fiscal relating to state budget and accounting processes.

Appendix B

Proportion of Dedicated Revenue to Total Tax Revenue for the 50 States

Appendix B: Proportion of Dedicated Revenue to Total Tax Revenue for the 50 States

Rank	State	Total Tax Revenue (in millions)	Total Dedicated Revenue (in millions)	Proportion Dedicated to Total
1	Alabama	$4,703.30	$4,090.10	86.96%
2	Montana	1,051.00	676.30	64.35%
3	Tennessee	5,267.70	3,168.50	60.15%
4	Nevada	2,138.80	1,217.90	56.94%
5	Utah	2,414.70	1,323.60	54.81%
6	South Dakota	653.10	306.80	46.98%
7	New Mexico	2,834.20	1,122.70	39.61%
8	Michigan	12,866.30	5,078.10	39.47%
9	Massachusetts	9,929.80	3,882.60	39.10%
10	New Jersey	15,203.00	5,885.00	38.71%
11	Illinois	12,999.00	4,204.00	32.34%
12	Washington	8,284.20	2,491.40	30.07%
13	Arizona	5,084.50	1,514.20	29.78%
14	Florida	14,238.60	3,936.20	27.64%
15	Missouri	5,481.40	1,452.60	26.50%
16	Indiana	6,783.50	1,788.50	26.37%
17	Mississippi	3,048.40	790.40	25.93%
18	Virginia	7,398.80	1,825.70	24.68%
19	Kansas	3,359.50	828.70	24.67%
20	North Dakota	688.40	151.10	21.95%
21	Iowa	3,427.00	748.10	21.83%
22	Oregon	3,498.10	740.80	21.18%
23	Nebraska	1,862.40	394.00	21.16%
24	Oklahoma	3,934.10	828.20	21.05%
25	Texas	17,010.70	3,580.70	21.05%

Rank	State	Total Tax Revenue (in millions)	Total Dedicated Revenue (in millions)	Proportion Dedicated to Total
26	Idaho	$1,451.00	$302.30	20.83%
27	Colorado	3,122.70	636.60	20.39%
28	California	48,300.00	9,086.00	18.81%
29	West Virginia	2,404.10	450.60	18.74%
30	North Carolina	9,013.00	1,671.10	18.54%
31	South Carolina	4,046.80	706.60	17.46%
32	Ohio	12,245.00	2,132.10	17.41%
33	Maryland	6,775.30	1,176.10	17.36%
34	Wyoming	586.70	99.70	16.99%
35	Minnesota	8,353.10	1,335.70	15.99%
36	Louisiana	5,077.20	781.10	15.38%
37	New Hampshire	1,066.10	151.60	14.22%
38	Arkansas	3,122.70	399.20	12.78%
39	Vermont	797.20	99.80	12.52%
40	Maine	1,762.20	205.30	11.65%
41	Pennsylvania	16,151.20	1,783.10	11.04%
42	Connecticut	6,486.50	655.90	10.11%
43	Wisconsin	7,564.80	693.80	9.17%
44	New York	29,815.50	2,488.00	8.34%
45	Alaska	1,451.30	120.30	8.29%
46	Delaware	1,560.80	100.90	6.46%
47	Georgia	8,346.40	500.00	5.99%
48	Hawaii	1,359.90	69.10	5.08%
49	Rhode Island	1,359.90	69.10	5.08%
50	Kentucky	5,332.10	208.30	3.91%
Total All States		$341,712.00	$77,948.50	22.81%
Average All States		$6,834.24	$1,558.97	
Total of Southeastern States		$71,999.10	$18,527.80	25.73%
Average of Southeastern States		$5,999.93	$1,543.98	
Southeastern Total without AL and TN		$62,028.10	$11,269.20	18.17%

Note: The NCSL regional alignment of Southeastern States includes Alabama, Arkansas, Florida, Georgia, Virginia, and West Virginia.

Source: Summarized by Legislative Auditor's staff from information provided by the NCSL for the fiscal year 1993. This information has been audited by the Legislative Auditor's office. We were unable to obtain similar data for expenditures mandates, as such information was not readily available.

Appendix C

Number of Statutory and Constitutional Dedications by State

Appendix C: Number of Statutory and Constitutional Dedications by State

State	Number of Statutory Dedications	Number of Constitutional Dedications	Number of Both Statutory and Constitutional Dedications (3)	Total Number of Dedications
Alabama	12	6	0	18
Alaska	10	0	0	(f)10
Arizona	24	1	0	25
Arkansas	14	2	0	16
California	1	0	3	(a)6
Colorado	8	4	0	(b)13
Connecticut	5	0	0	5
Delaware	6	0	0	6
Florida	20	3	0	23
Georgia	0	4	0	4
Hawaii	4	0	0	(c)5
Idaho	9	3	0	12
Illinois	18	0	0	18
Indiana	10	0	0	10
Iowa	6	0	0	6
Kansas	13	1	0	14
Kentucky	4	0	0	4
Maine	3	2	0	5
Maryland	7	1	0	8
Massachusetts	6	1	0	7
Michigan	6	2	1	9
Minnesota	10	1	0	11
Mississippi	9	0	0	9
Montana	13	0	3	16

State	Number of Statutory Dedications	Number of Constitutional Dedications	Number of Both Statutory and Constitutional Dedications (3)	Total Number of Dedications
Nebraska	13	0	0	13
Nevada	9	6	1	16
New Hampshire	0	1	0	1
New Jersey	12	0	3	15
New York	8	0	0	8
North Carolina	7	1	0	8
North Dakota	9	2	0	11
Oklahoma	16	0	0	16
Oregon	10	5	0	(g)17
Pennsylvania	9	6	0	15
Rhode Island	3	0	0	3
South Carolina	12	0	0	12
South Dakota	12	1	0	13
Tennessee	15	0	0	15
Texas	9	9	0	(d)19
Utah	0	6	0	(e)7
Vermont	5	0	0	5
Virginia	7	0	0	7
Washington	30	1	0	31
West Virginia	9	5	0	14
Wisconsin	7	0	0	7
Wyoming	3	0	1	4
Total All States	423	74	12	517
Average All States	9.19	1.6	0.26	11.43
Proportions All States	81.8%	14.3%	2.3%	98.4%
Total of Southeastern States (1)	109	21	0	130
Average of Southeastern States	9.9	1.9	0	11.81
Proportions Southeastern States	*83.8%*	*16.2%*	*0%*	*100.0%*

Notes:

(1) The NCSL regional alignment of the other Southeastern States include Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

(2) The NCSL could not provide data for Missouri, New Mexico, and Ohio.

(3) Some states categorize their dedications as both constitutional and statutory.

(a) Two taxes are dedicated both by statute and voter initiative.

(b) Statutory/Constitutional information was not provided for one tax.

(c) One tax is dedicated by citizen initiative on the tax form.

(d) Statutory/Constitutional information was not provided for one tax.

(e) Statutory/Constitutional information was not provided for one tax.

(f) The Alaska Constitution prohibits dedicated taxes.

(g) Statutory/Constitutional information was not provided for two taxes.

Source: *Summarized by Legislative Auditor's staff from information provided by the NCSL for fiscal year 1993. This information has not been audited by the Legislative Auditor's office.*

Appendix D

Agency Responses

TREASURER OF THE STATE OF LOUISIANA

MARY L. LANDRIEU
TREASURER

P.O. BOX 44154
BATON ROUGE 70804
(504) 342-0010

February 22, 1995

Mr. David K. Greer, CPA, CFE
Performance Audit Director
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804

Dear Mr. Greer:

We would like to thank you for the opportunity for our office to express our concerns and recommendations in the areas of revenue dedications and debt management addressed in your report.

We agree with your report that dedication of state revenues to special funds creates cash flow problems and complicates an already complex accounting process. An additional concern we have is that dedications redirects up to fifty (50%) percent of the state's investment earnings away from the general fund. This further restricts the legislature's discretion in the appropriations process.

In Chapter Three, Securing State Debt, we wholeheartedly agree that proposed changes to the Bond Security and Redemption Fund would be detrimental to the state's financial health in the bond market.

Again, thank you for the opportunity to provide input into the areas of dedications and debt management covered in this report. We congratulate you on a job well done.

Sincerely,

Don J. Hutchinson
First Assistant

DJH:gkh

LOUISIANA HOUSE OF REPRESENTATIVES
OFFICE OF ECONOMIC AND BUDGET POLICY

William G. Black
Adviser

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Baton Rouge, Louisiana 70804
(504) 342-0347

February 22, 1995

Mr. David K. Greer
Performance Audit Director
Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: Allocation of Louisiana's Monetary Resources.

Dear Mr. Greer:

On behalf of Speaker John Alario and the House of Representatives, I would like to thank you for the opportunity to participate in this review and to respond to the findings and issues presented in the above captioned staff study. This response will address the recommendations related to the dedication of revenues and expenditure mandates. It does not address the discussion of the Bond Security and Redemption Fund, since the study recommends no changes. This response also does not address the chapter on program budgeting since this report has already been released.

Matters for Legislative Consideration

You recommend that the Legislature may wish to consider establishing criteria for creating dedicated funds. While no formal criteria exist, my experience suggests that proposals to dedicate tax revenues are generally well discussed and debated before they become law. These debates include fiscal and substantive information that addresses many questions implicit in the criteria listed in your study. Reducing this process to a checklist of fixed criteria could serve to limit, rather than enhance, discussion concerning the value of particular revenue dedications.

You also recommend giving the Treasurer's office the authority to eliminate inactive or unnecessary dedications. The Treasurer's views on special funds are valuable and are often solicited when considering dedications. Such information also would be useful in a periodic review of dedications. However, a decision to change or modify statutory funding mechanisms is clearly a policy decision that goes beyond the Treasurer's fiduciary duties. The power to abolish or modify any statutory dedication should remain solely with the Legislature.

In the third Matter for Legislative Consideration, I concur with your suggestion concerning a "sunset" review of statutory dedications to determine their usefulness. On a less formal basis such review already exists. Two recent examples of statutory tax dedications illustrate the extent of this continuing review. The sales tax dedication for Economic Development dates from 1986. The Legislature abolished it with Act 5 of the First Extraordinary Session of 1988. In 1991, Legislation recreated and increased this dedication, and in 1993 legislation reduced the fund balance and rescinded the increase. The dedication will expire under its own terms at the end of FY 1995. The Tourism Promotion District became law in 1990 with a five-year life. In 1994 the Legislature capped the amount of sales tax available for tourism each year, and by separate legislation, renewed the district and its taxing authority.

These examples show that the Legislature does review and revise dedications based on changing conditions. However, a periodic "sunset" review of all statutory dedications could strengthen this process and provide better budgetary oversight for agencies that spend these dedicated funds.

Again, thank you for the opportunity to participate in this review. Should you have questions or need to discuss this response, please feel free to contact me.

Sincerely,

William G. Black
Adviser

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

EDWIN W. EDWARDS
GOVERNOR

RAYMOND J. LABORDE
COMMISSIONER OF ADMINISTRATION

February 17, 1995

Mr. David K. Greer, CPA, CFE
Performance Audit Director
Office of Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Greer:

Re: Allocation of Louisiana's Monetary Resources

The Division of Administration appreciates the opportunity to have participated in the aforementioned study and the opportunity to respond to the report findings. In general, with the exception of the Chapters and issues dealing with Program Budgeting, the Division of Administration concurs in the reporting findings, conclusions and recommendations; however, there are certain items we either do not concur with or feel additional clarification is necessary.

The report fails to represent that the move to reduce the number of dedicated funds (i.e. Act 5 of 1988 First Extraordinary Session) was initiated by the Division of Administration. The report states that "the main reason for passage of the act was to increase cash flow to the state general fund during a period of financial crisis." While that was certainly a factor, the Division of Administration for a number of years had attempted to have the number of dedicated funds reduced, the fiscal crisis of 1988 allowed a concentration on reducing all dedicated funds, not just those having a cash flow fiscal impact.

The report states on page 17 "Reporting of dedicated revenues in the state's external report is not a straightforward matter. The Comprehensive Annual Financial Report (CAFR) represent the state's external financial statements. The CAFR is a detailed financial report that is intended for users who need a broad range of information. Although the CAFR is prepared in accordance with generally accepted accounting principles, the reporting of dedicated revenues is not obvious. Instead, dedicated revenues are reported in various fund types and in various statements and schedules. One must have a detailed knowledge of how the CAFR is compiled to know how all dedicated revenues are reported." The CAFR is indeed a broad range information source which is compiled in accordance with generally accepted accounting and reporting principles and reflects legislative mandates as well. The legislatively imposed fund and dedications activity necessarily makes the CAFR a complicated document and one which cannot possibly include all desired informational items for every reader. The report fails to indicate that a yearly CAFR - Supplementary Information Volume is issued which includes the data indicted above. (Note: this seems to make the Recommendation under Chapter 2 a moot issue.

Under matter for Legislative Consideration it is stated that legislation should be enacted to give the State Treasurer's office the authority to eliminate inactive or unnecessary dedications. While we concur the Treasurer has an extremely important fiduciary role in fund management, it is the Executive Office that has operational responsibilities for these funds and their ultimate utilization, therefore, any such legislation should incorporate both entities in a decision making process.

We are disappointed in the recommendations regarding the Bond Security and Redemption Fund. We concur with the problem issues relating to BSRF, however, the reality is that it does create problems, many of which are enumerated within the report. The closure on this subject indicates a willingness to accept the status quo rather than address the problem and attempt alternative solutions which provide benefit to the state as well as the investment community. It is our hope that this issue will not be laid to rest permanently.

Finally, we are not providing any responses on Chapter Four as we feel our response on the recently issued performance audit on this area addressed the pertinent issues on this matter.

Again, we appreciate the opportunity to participate in this review. Should you have any questions, or require clarification please contact Mr. Whitman Kling, Assistant Commissioner at (504) 342-7085.

Sincerely,

Raymond J. Laborde

Raymond J. Laborde
Commissioner of Administration

RJL/wjk