



PAYGO – A Tool to Empower the Legislature to Engage In More Responsible Budgeting

PAYGO (or pay-as-you-go), a rule enacted by Congress in 1990 under the Budget Enforcement Act of 1990, proved an effective check on the federal budget process. It is an idea that could provide a responsible budget control mechanism for Louisiana that would empower the Legislature to prioritize budgetary expenditures, tax expenditures, and revenue policy in a way that best provides for the needs of state residents.

Under the federal PAYGO system, new legislation that would increase spending or lower taxes had to be balanced by offsetting reductions in spending for other programs or increased revenue from other sources in order to not add to the deficit. The balance had to hold for the subsequent 5-year and 10-year periods. Before the PAYGO rule was implemented, the federal deficit was \$220 billion in 1990; by 2000, the federal budget had a surplus of \$236 billion. PAYGO expired in 2002, the year Congress enacted President George W. Bush tax cuts. In that same year, the federal budget fell back into deficit — where it remains today.

In February 2010, at President Barack Obama's request, Congress reenacted the PAYGO rule under the Statutory Pay-As-You-Go-Act of 2010. But the new PAYGO rule has broad loopholes that limit its effectiveness. For example, the new PAYGO exempts discretionary spending, including spending on the Iraq and Afghanistan wars, and all emergency spending, including the American Recovery and Reinvestment Act of 2009.

A strong, effective PAYGO rule could be an important part of a balanced approach to resolving Louisiana's current fiscal crisis. Even though Louisiana is constitutionally required to have a balanced budget each year, it still is possible to enact legislation in one year that will throw the budget out of balance in subsequent years. To prevent that from occurring under PAYGO, the state would have to implement a multi-year budgeting system to use with the PAYGO rule. Moreover, it would be important for the multi-year projection to use a current services (baseline) method, which adjusts anticipated costs in future years for inflation and program utilization.

The state already uses a form of baseline budgeting, which means that the budget for the upcoming year is built based upon current laws and policy, but the budget only considers the current fiscal year and the budget year that is before the Legislature for adoption. Nevertheless, going to a multi-year budgeting system would not be entirely foreign to Louisiana's budgeting process. Already, when estimating the cost of proposed legislation, the Legislative Fiscal Office prepares fiscal notes that project costs for five years. Thus, it would not be a giant step for the Division of Administration, the state office responsible for creating the state's budget, to prepare a multi-year baseline budget. Even better would be for the Legislature to increase its fiscal analysis capacity to allow it to prepare its own budgets rather than having to rely on the budgets presented by the Governor. This would enhance the Legislature's critical checks-and-balance role.

If adopted, PAYGO would require the legislative proponent of an appropriation, tax cut, or tax exemption to take responsibility for the consequences of his or her action because it would force disclosure of how the measure will be paid for—in other words, which programs would be cut or whose taxes would be raised—at the beginning of the process when the measure is being considered, not later after it takes effect and subsequent Legislatures have to find room in the budget to pay for it.

Louisiana now spends over \$7 billion a year through the tax code's 450 tax exemptions. That is roughly equivalent to the \$7.7 billion the state raises through various individual and corporate income taxes, sales taxes, and fees that becomes the state general fund portion of the state budget that goes through the regular legislative appropriation process. Many of these tax expenditures are intended to accomplish policy purposes similar to on-budget spending but — unlike state general fund spending — they receive little or no legislative oversight and have been growing in both number and cost in recent years. (For a more complete discussion of the state's tax exemption spending, see *Louisiana's Hidden State Budget*, at www.LABudget.org.) With the state facing a \$1.6 billion shortfall in next year's budget, we can no longer afford to enact back-door spending through the tax code without having a long-term means to pay for these tax breaks and without careful consideration of their long-term cost and their affect on the state's ability to pay for programs vital to the health and welfare of Louisianans and to building our economy. PAYGO would provide a critical tool legislators need to engage in that consideration.

PAYGO does not prevent program expansion or tax reductions. It just ensures that they are enacted and implemented in a fiscally responsible manner.