

Executive Summary

FY 18 Revenue

The Revenue Estimating Conference (REC) met on 5/16/2017, and while the Conference did not make any change to the FY17 forecast, it did reduce the FY 18 SGF revenue forecast by \$27.4 M relative to the 1/13/2017 forecast. Numerous changes to the forecast were adopted, but the overall reduction was primarily the net of downgrades to corporate and mineral revenue estimates, offset partially by upgrades to individual income tax and vehicle sales tax. A slowly improving labor market and post-August flood spending are exerting positive influence, and higher oil and natural gas prices had been recognized in January. These prices were left largely unchanged in this latest forecast, but more rapid production declines work to reduce mineral revenue. Corporate collections, while ahead of prior year, are still far behind the prior forecast.

Out-year forecasts have to be taken with considerable caution. Oil and natural gas prices are currently forecast to be essentially flat, but are highly uncertain and dependent on a producing country agreement to restrain production, and may not adequately reflect the responsiveness of U.S. shale producers. In addition, while the U.S. economy has begun to exhibit modest strengthening in metrics such as wages and inflation, the state economy has yet to exhibit sustained positive employment growth. Finally, much of the revenue raising legislation enacted in the 2015 and 2016 sessions expires at the end of FY 18, resulting in a sharp drop off in the revenue forecast for FY 19 and beyond.

FY 18 Expenditures

HB 1 Reengrossed increases \$883,239,344 over the FY 17 existing operating budget (EOB) as of 12/1/2016 to \$28,228,122,290 total means of finance. FY 18 total includes a net reduction of \$60,290,928 in state funds (a decrease of \$212,547,715 SGF and \$13,529,755 Statutory Dedications and an increase of \$165,786,542 SGR) and Federal Funds increased \$967,803,473.

In constructing the executive budget recommendation, as per standard practice, DOA made adjustments against the EOB as of 12/1/2016 to modify expenditure authority for identified needs. Once the DOA developed its initial expenditure plan, the remaining shortfall was addressed by applying a pro rata reduction of \$48 M SGF to most state agencies while ensuring that all constitutional requirements were provided with at least the minimum funding level. For most agencies, the pro rata reduction represented 2% of their SGF allocation, but the reduction varied from 0% to 5% and in some cases may have impacted an agency's ability to draw down federal match dollars. There was no SGF pro rata reduction applied to the LA Department of Health (LDH).

House amendments utilized multiple adjustments to reallocate funding across departments. Most significantly, \$146.5 M SGF was freed up through the pushed check write for the 13th payment for managed care. There were also \$31.7 M in expenditure reductions for the Department of Health; reductions to Economic Development debt service of \$9.4 M; and \$7.5 M in means of finance swaps due to the most recent REC forecast. Finally, the House restored certain reductions contained in the Executive Budget recommendations including Veterans Affairs (\$108,252), the Department of Corrections (\$9.7 M), the Department of Children & Family Services (\$3.7 M), and Higher Education (\$18.4 M).

Note: In an effort to compare the proposed FY 18 budget to the existing operating budget including the second mid-year reduction adjustments, the House utilized a baseline appropriation from 3/1/2017, instead of the standard 12/1/2016 date. This comparison results in a SGF increase instead of a SGF decrease when comparing the FY 18 proposed budget to EOB.

Table 1 on Page 2 provides a summary of SGF contained in HB 1 Reengrossed compared to the EOB as of 12/1/2016.

Table 1

| SGF Adjustments by State Department | | | |
|-------------------------------------|------------------------|------------------------|------------------------|
| GENERAL APPROPRIATION BILL | SGF EOB (12/1/2016) | SGF HB 1 Reeng | SGF Change |
| Executive | \$133,036,264 | \$164,549,821 | \$31,513,557 |
| Veterans Affairs | \$5,571,247 | \$5,412,631 | (\$158,616) |
| State | \$52,777,651 | \$52,751,889 | (\$25,762) |
| Justice | \$6,818,770 | \$19,021,642 | \$12,202,872 |
| Lt. Governor | \$1,067,306 | \$1,013,636 | (\$53,670) |
| Treasury | \$0 | \$0 | \$0 |
| Public Service Commission | \$0 | \$0 | \$0 |
| Agriculture & Forestry | \$24,908,204 | \$24,767,213 | (\$140,991) |
| Insurance | \$0 | \$0 | \$0 |
| Economic Development | \$16,196,422 | \$13,708,408 | (\$2,488,014) |
| Culture Recreation & Tourism | \$35,891,530 | \$30,796,460 | (\$5,095,070) |
| Transportation & Development | \$0 | \$0 | \$0 |
| DPSC - Corrections Services | \$468,281,871 | \$486,121,029 | \$17,839,158 |
| DPSC - Public Safety Services | \$32,361,099 | \$18,490,506 | (\$13,870,593) |
| DPSC -Youth Services | \$105,679,623 | \$108,591,288 | \$2,911,665 |
| Health | \$2,813,725,201 | \$2,407,148,283 | (\$406,576,918) |
| Children & Family Services | \$161,037,564 | \$173,424,036 | \$12,386,472 |
| Natural Resources | \$9,221,387 | \$9,325,169 | \$103,782 |
| Revenue | \$44,207,089 | \$33,516,165 | (\$10,690,924) |
| Environmental Quality | \$0 | \$0 | \$0 |
| Workforce Commission | \$6,530,496 | \$7,399,887 | \$869,391 |
| Wildlife & Fisheries | \$0 | \$0 | \$0 |
| Civil Service | \$5,354,654 | \$5,242,897 | (\$111,757) |
| Higher Education | \$920,156,357 | \$1,001,891,583 | \$81,735,226 |
| Special Schools & Commissions | \$39,976,683 | \$41,411,928 | \$1,435,245 |
| Education | \$3,524,167,030 | \$3,602,678,479 | \$78,511,449 |
| Health Care Services Division | \$24,664,566 | \$24,171,275 | (\$493,291) |
| Other Requirements | \$499,707,320 | \$487,356,394 | (\$12,350,926) |
| TOTAL | \$8,931,338,334 | \$8,718,790,619 | (\$212,547,715) |

FY 18 Departmental Overviews

The House inserted a language amendment into the Preamble authorizing and directing the commissioner of administration to allocate up to \$17,900,775 in SGF upon approval of an employee compensation plan submitted by the Civil Service Commission to the governor. The commissioner of administration is also authorized to adjust other means of financing necessary to implement the approved plan. The SGF component of these funds was appropriated in HB 1 Reengrossed to 01-107 – Division of Administration, which will in turn be allocated and distributed to the impacted agencies.

The Preamble language was also amended to authorize, urge and request the Governor, acting through the commissioner of administration, to instruct all departments and agencies of the executive branch to implement a deficit avoidance plan in an aggregate amount of at least \$60,000,000. The Commissioner shall report monthly to the Joint Legislative Committee on the Budget on the deficit avoidance plan.

GENERAL GOVERNMENT OVERVIEW

01-111 – Governor’s Office of Homeland Security & the Emergency Preparedness (GOHSEP)

GOHSEP realizes an 80.5% net increase of \$11.7 M SGF appropriation authority above the 12/1/2016 SGF base of \$14.5 M. The agency realizes a net total funds decrease of \$299.7 M, or 23% of total funding, including the aforementioned increase of \$11.7 M SGF offset by decreases of \$11.5 M IAT and \$299.8 M Federal (disaster recovery authority). The SGF growth is due to increased funding required to make installment repayments to FEMA of state match for previous federally declared disasters (approximately \$11.4 M increase over FY 17).

07-276 – DOTD Office of Engineering & Operations

The Engineering & Operations agency realizes a net funds increase of \$1.9 M, or 0.3% growth over EOB, including reductions of \$3 M IAT, \$268,175 SGR and \$4.45 M Federal while being offset by an increase of \$9.6 M Statutory Dedications. HB 1 Reengrossed increases Statutory Dedications – New Orleans Ferry Fund of \$800,000 to the Operations program to provide for operating expenses and security of the Algiers Point/ Canal Street ferry.

08A – DPSC Corrections Services

Corrections Services will realize a net funds increase of \$31.7 M, or 6.1% growth over EOB, including increases of \$17.8 M SGF, \$9.1 M IAT and \$4.8 M SGR. Significant FY 18 funding adjustments include: 1) \$8.3 M IAT from GOHSEP for the replacement of 2 pumps needed to pump water into the Mississippi River at La State Penitentiary – provided by a grant through FEMA’s Hazard Mitigation Program; 2) \$4.8 M SGR to move the Angola Rodeo on budget; and 3) \$21.4 M SGF to fund general operating needs across the department that are supplemental needs in FY 17 – this adjustment should align the department’s base SGF authority to account for unfunded needs that have resulted in expenditure obligations crossing fiscal years in recent history. The \$21.4 M SGF adjustment includes \$9.3 M for supplies based on projected needs that have been historically underfunded, \$4.7 M for overtime, \$5.7 M for increased costs of Hepatitis C medications, and \$1.7 M for an increase in general pharmaceutical supplies.

08B – Public Safety Services

Public Safety Services realizes a \$13.9 M SGF decrease, or a 42.9% reduction to the 12/1/2016 SGF base of \$32.4 M. The agency realizes a net total funds reduction of \$8.5 M, or 1.8% of total funding, including decreases of \$13.9 M SGF, \$21 M Statutory Dedications, and \$1.2 M Federal while being partially offset with an increase of \$27.6 M SGR. HB 1 Reengrossed adds 50 additional T.O. positions to facilitate a state police cadet academy during FY 18.

The EOB SGF budget of \$32.4 M was primarily associated with an appropriation meant to mitigate effects arising from the elimination of the Debt Recovery Fund pursuant to Act 11 of 2016 1st Extraordinary Session. Additionally, \$11.4 M of the base SGF budget was related to a one-time IAT expenditure to GOHSEP to fund upgrades to the LA Wireless Information Network (LWIN). The remaining portions of Public Safety Services SGF base appropriation provided for a State Police Cadet Academy (\$5.1 M) and the balance for general State Police operations (\$15.9 M). Of the \$18.5 M SGF appropriated in HB 1 Reengrossed, approximately \$8.1 M was to backfill reductions to various statutorily dedicated funds as a result of changes to the REC forecast.

HB 1 Reengrossed provides \$4.8 M Statutory Dedications – Oil Spill Contingency Fund to the Traffic Enforcement Program for the LA Oil Spill Coordinator’s Office to appropriate revenues recognized and adopted at the latest meeting of the REC on 1/13/2017. The adjustment adds 8 T.O. positions to coincide with increased operating capacity in the LA Oil Spill Coordinator’s Office associated with the statutory dedication increase.

08C – DPSC Youth Services

Youth Services will realize a net funds increase of \$2.9 M, or 2.4% growth over the 12/1/2016 SGF base of \$105.7 M. HB 1 Reengrossed provides \$7.2 M SGF to provide funding to the Central/Southwest Region Program for expenses associated with the opening, staff training, partial-year operation, and other necessary costs at Acadiana Center for Youth (ACY). This level of funding will likely provide for opening three of the six dorms, which will accommodate 24-36 youth and will employ approximately 45% of the total staff needed for full capacity (55 of 124). The anticipated opening of ACY is April 2018. The agency also realized other significant reductions from its 12/1/2016 existing operating base including \$4.3 M SGF associated with annualization of the 2nd FY 17 Mid-year Budget Reduction, and the initial executive budget reduction of \$2.1 M SGF associated with balancing statewide expenditures to projected revenues in the January 13th REC forecast.

12-440 – Department of Revenue

The Department of Revenue will realize a net funds increase of \$212,235, or 0.2% growth over EOB, including an increase of \$11 M SGR while being partially offset by reductions of \$10.7 M SGF and \$85,000 Statutory Dedications. The SGF appropriation represents a 24.3% reduction to the 12/1/2016 SGF base of \$44.21 M. The appropriation includes an increase of \$1.53 M SGF and 20 T.O. positions to provide personal services budget authority for additional auditors within the Tax Collection Program.

20-451 – Local Housing of State Adult Offenders

Local Housing of State Adult Offenders will realize a net increase of \$18.2 M, or 11.6% growth over EOB, including an increase of \$20.5 M SGF while being partially offset by a reduction of \$2.3 M Statutory Dedications. HB 1 Reengrossed adjusts the agency’s base SGF budget authority to account for unfunded needs that have resulted in expenditure obligations crossing fiscal years in recent history.

HEALTH OVERVIEW

House amendments restored \$237 M in SGF Schedule 09 LA Department of Health (LDH) preamble cuts contained in HB 1 Original of the 2017 2ES. Total funding for LDH with House amendments is reflected in Table 2 below.

Table 2

| DEPARTMENT OF HEALTH | | | | | | |
|---|------------------------|--------------------------|-------------------------|-------------------------|------------------------|-------------|
| TOTAL MEANS OF FINANCE | | | | | | |
| | FY 16 | FY 17 | FY 18 | FY 18 | Change | |
| | <u>Actual</u> | <u>EOB⁽¹⁾</u> | <u>Exec Budget</u> | <u>HB 1</u> | <u>Amount</u> | <u>%</u> |
| | | | | <u>ReEngrossed</u> | | |
| MEANS OF FINANCE | | | | | | |
| General Fund | \$2,481,088,826 | \$2,813,725,201 | \$2,576,724,967 | \$2,407,148,283 | (\$406,576,918) | -14.4% |
| Interagency Transfers | \$324,441,305 | \$303,563,914 | \$303,622,368 | \$304,380,150 | \$816,236 | 0.3% |
| Fees & Self-generated Revenues | \$239,757,016 | \$405,101,512 | \$399,784,214 | \$510,153,985 | \$105,052,473 | 25.9% |
| Statutory Dedications | \$543,111,476 | \$713,618,626 | \$861,060,681 | \$842,350,843 | \$128,732,217 | 18.0% |
| Federal Funds | \$5,929,485,774 | \$8,256,084,995 | \$10,070,164,283 | \$9,498,535,452 | \$1,242,450,457 | 15.0% |
| Total Means of Finance | \$9,517,884,397 | \$12,492,094,248 | \$14,211,356,513 | \$13,562,568,713 | \$1,070,474,465 | 8.6% |
| Authorized Positions | 5,502 | 5,732 | 5,788 | 5,794 | 62 | 1.1% |
| AGENCY | | | | | | |
| Jefferson Parish Human Services Authority | \$17,850,720 | \$18,702,183 | \$18,398,658 | \$18,442,999 | (\$259,184) | -1.4% |
| Florida Parishes Human Service Authority | \$16,912,790 | \$19,028,398 | \$18,488,684 | \$18,572,882 | (\$455,516) | -2.4% |
| Capital Area Human Services District | \$26,074,490 | \$25,847,213 | \$25,650,607 | \$25,734,805 | (\$112,408) | -0.4% |
| Developmental Disabilities Council | \$1,666,195 | \$1,987,518 | \$2,062,425 | \$2,062,425 | \$74,907 | 3.8% |
| Metropolitan Human Services District | \$26,368,604 | \$26,883,308 | \$25,893,907 | \$25,933,764 | (\$949,544) | -3.5% |
| Medical Vendor Administration | \$247,742,567 | \$410,316,767 | \$523,535,861 | \$523,410,861 | \$113,094,094 | 27.6% |
| Medical Vendor Payments | \$8,317,394,056 | \$11,006,859,366 | \$12,607,975,617 | \$11,950,698,596 | \$943,839,230 | 8.6% |
| Office of the Secretary | \$74,503,650 | \$83,588,629 | \$78,807,564 | \$78,807,564 | (\$4,781,065) | -5.7% |
| South Central LA Human Services Authority | \$20,373,967 | \$21,952,879 | \$21,984,045 | \$22,068,243 | \$115,364 | 0.5% |
| Northeast Delta Human Services Authority | \$12,831,625 | \$15,066,923 | \$13,698,005 | \$13,782,203 | (\$1,284,720) | -8.5% |
| Office of Aging and Adult Services | \$39,585,052 | \$47,608,990 | \$50,843,739 | \$51,421,355 | \$3,812,365 | 8.0% |
| LA Emergency Response Network Board | \$1,832,920 | \$1,649,515 | \$1,626,153 | \$1,626,153 | (\$23,362) | -1.4% |
| Acadiana Area Human Services District | \$15,770,488 | \$18,671,647 | \$17,912,628 | \$17,996,826 | (\$674,821) | -3.6% |
| Office of Public Health | \$326,832,179 | \$377,621,204 | \$387,961,090 | \$387,961,090 | \$10,339,886 | 2.7% |
| Office of Behavioral Health | \$201,096,473 | \$230,157,284 | \$226,156,050 | \$233,370,067 | \$3,212,783 | 1.4% |
| Office for Citizens w /Dev Disabilities | \$133,328,667 | \$144,780,249 | \$151,377,632 | \$151,442,438 | \$6,662,189 | 4.6% |
| Imperial Calcasieu Human Services Authority | \$9,585,516 | \$11,574,981 | \$11,009,763 | \$11,093,961 | (\$481,020) | -4.2% |
| Central LA Human Services District | \$14,005,837 | \$15,083,052 | \$14,845,250 | \$14,929,448 | (\$153,604) | -1.0% |
| Northwest LA Human Services District | \$14,128,601 | \$14,714,142 | \$13,128,835 | \$13,213,033 | (\$1,501,109) | -10.2% |
| Agency Total | \$9,517,884,397 | \$12,492,094,248 | \$14,211,356,513 | \$13,562,568,713 | \$1,070,474,465 | 8.6% |

(1) Budgeted as of December 01, 2016.

Medicaid: After providing funding to restore Schedule 09 preamble cuts, House amendments allocated approximately \$30.2 M in SGF cuts to Medical Vendor Payments (\$76.7 M total funding). Specific reductions were allocated to Clawback funding, Severe Combined Immunodeficiency (SCID) Screening, certain Mental Health Rehabilitation Services, and the Pediatric Day Healthcare Program. In addition, House amendments eliminated funding in Medical Vendor Payments (MVP) budgeted for a prior managed care payment obligation (13th checkwrite). Total funding for Rural Hospitals for FY 18 is reduced by \$4 M (\$1.5 M SGF). An additional \$4.4 M in funding is included in the Payments to Private Providers Program for filling various waiver slots; specific waivers referenced in the amendment include the New Opportunities Waiver, Children’s Choice Waiver, and the Residential Options Waiver.

Department of Children & Family Services (DCFS): House action increased total DCFS funding to \$775,652,881, which is a total increase in funding of \$66.3 M (\$13.1 M SGF; \$33.7 M IAT; \$420,000 SGR; \$300,000 Statutory Dedications; and \$18.8 M Federal) over the FY 17 existing operating budget (EOB). Compared to the EOB, the department’s SGF has increased by \$13.1 M. The increase in funding will be used in the Child Welfare division to increase childcare workers, purchase vehicles to transport children, restore positions to the Supplemental Nutrition Assistance Program (SNAP), and the development of Comprehensive Child welfare Information System (CCWIS).

DCFS State General Fund

| | |
|--------------------------------------|----------------|
| EOB (12/1/2016) | \$160,238,967 |
| Executive Budget | \$179,747,547 |
| HB 1 ReEngrossed | \$173,424,036 |
| Difference Exec Bud vs. HB 1 ReEngr. | (\$ 6,323,511) |
| Difference EOB vs. HB 1 ReEngr. | \$13,185,069 |

EDUCATION OVERVIEW

The Minimum Foundation Program (MFP): The FY 18 recommended funding totals \$3,717.7 B (including \$3.459 B SGF, \$154.5 M Lottery Proceeds Fund and \$104.2 M SELF Fund). This includes an adjustment of \$18 M for an anticipated increase of 4,031 students and a \$5.1 M adjustment based on changes to the local tax base. Additionally, there is a \$32.2 M MOF swap replacing Statutory Dedications with SGF due to reductions in Lottery Proceeds funds (\$26.6 M) and SELF funds (\$5.6 M) based on the most recent REC forecast. The FY 18 MFP does not include increases to the base per pupil amount, which remains at \$3,961. Enhancements to the FY 17 MFP include High Cost Services (\$8 M) and Supplemental Course Allocations (\$10 M) as well as Emergency Assistance (\$7.5 M) for certain city, parish, or other public school systems or schools which experienced a significant loss of students as the result of the recent natural disaster.

Department of Education (DOE): FY 18 funding totals \$1,625 B (including \$144 M SGF, \$263.2 M IAT, \$57.4 M SGR, \$14.6 M Statutory Dedications and \$1,145 B Federal). This represents a total net reduction of \$8.2 M. Funding for the Student Scholarship for Educational Excellence Program (SSEEP) remains at a standstill level (\$39.8 M). Public LA 4 Program remains at a standstill level of \$77 M (\$36.6 M SGF and \$40.4 M TANF). Non-public LA 4 (NSECD) is reduced by \$450 K for total funding of \$6.9 M.

Special Schools & Commissions: The FY 18 budget also includes \$4.5 M in new funding for the Thrive Academy (\$2.3 M SGF, \$233,582 Federal and \$1.9 M IAT). This new state school was authorized by Act 672 of 2016 to provide educational and residential services to at-risk students in the state. Thrive currently serves 140 students in grades 6 through 11, primarily in the Baton Rouge and surrounding areas.

Higher Education: HB 1 Reengrossed recommends a FY 18 budget of \$2,637.6 B, for a total net increase of \$45.7 M from EOB (including \$81.7 M SGF increase and reductions of \$24 M Statutory Dedications, \$3 M IAT, and \$9 M SGR).

Significant adjustments include the restoration of SGF (\$18.3 M) which was reduced as part of the Executive Budget statewide reductions implemented to address the SGF shortfall, as well as Statutory Dedication reductions based on the most recent REC forecasts (\$11.2 M). A \$12.8 M reduction out of the Tobacco Tax Health Care Fund for the Health Science Center is now appropriated directly to the LA Cancer Research Center in 20-945 State Aid to Local Government Entities. Additionally, \$2.185 M SGF has been reallocated to the formula for distribution to all institutions; these funds had been allocated to certain institutions outside of the funding formula, (including \$250 K for Grambling State University, \$185 K for University of LA at Lafayette, \$750 K for the Southern University Board and \$1 M for Southern Ag Center). The Higher Education Funding Formula currently allocates funds based on the following components: a pro-rata or base funding share (70%), cost share (15%) and outcomes share (15%). The BOR has indicated a goal to increase the portion of total funding allocated to institutions utilizing outcomes metrics, however, the BOR has not yet provided information on any changes to the allocation ratios that may be proposed for FY 18.

House action reduced the Board of Regents Administration Program SGF by \$1.3 M in order to fund a restoration of mental health rehabilitation services in the Department of Health. This represents a 9.3% reduction to their SGF budget of \$14.9 M.

TOPS: Funding for FY 18 totals \$291.3 M (\$233.3 M SGF and \$57.9 M Statutory Dedications) which represents full funding of projected need. GO Grant funding is anticipated to remain at a standstill level (\$26.4 M).

FY 18 Revenue Measures

House Concurrent Resolution 11 of the 2016 First Extraordinary Session created the Task Force on Structural Change in Budget & Tax Policy. The Task Force's charge was to evaluate budget and tax reforms, and to make recommendations of changes to the state's tax laws in an effort to modernize and enhance the efficiency and fairness of the state's tax policies for individuals and businesses, as well as to examine the structure and design of the state budget and make recommendations for long term budgeting reforms. The Task Force submitted its recommendations on 11/1/2016. A number of specific pieces of legislation reflecting those recommendations were filed for consideration in the legislative session, as well as numerous bills restricting and enhancing tax credits and exemptions, including broad-based business activity taxes. To date, no revenue measures, material in size relative to the budget as a whole, have been passed.