FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

February 2014

Volume 2, Issue 8

INSIDE THIS ISSUE

2 IT Consolidation
3 Debt Defeasance
3 FY 15 Overcollections Fund & SGF Surplus Resources
4 How the FY 15 Continuation Budget Was Solved
5 OGB 5% Premium Increase
7 FY 14 & FY 15 SGF Fiscal Status Comparison
8 FY 14 Overcollections Fund Transfers Update
8 FY 15 Higher Education Funding
9 FY 15 MFP
10 FY 14 Major Revenue Collections Update
12 FY 15 Medicaid Budget
13 Flow Chart of Overcollections Fund & SGF Surplus Resources utilized in FY 15

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Jodi Mauroner, Section Director
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hostream, Section Director
Alan Boxberger, Fiscal Analyst
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Stephanie Blanchard, Fiscal Analyst
Drew Danna, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

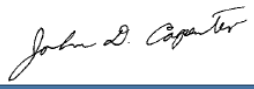
FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback.

This issue focuses on the FY 15 Executive Budget Recommendation that was presented to the JLCB in January 2014. Please be aware that these items are only a handful of FY 15 budget issues our office is currently reviewing and analyzing. However, this edition of the Focus on the Fisc does provide you with a brief look of some of the major issues contained in the FY 15 budget and our preliminary analysis of such topics.

As is the case every year, the LFO is in the process of completing our thorough analysis of the FY 15 Executive Budget and our booklet of information will be made available to members of JLCB and available online on our website in early March. The booklet will lists major programmatic increases/enhancements, reductions and mean of finance swaps that compare funding in the original bill with budgeted amounts from the current fiscal year. Also included will be a listing of significant budgetary issues. This information will be updated as the major money bills move through the legislative process. Our booklet will be made available in advance of House Appropriations Committee hearings on HB 1.

Due to the upcoming legislative session, this will be our last newsletter of FY 14. Look for our next newsletter in Summer 2014.



FOCUS POINTS

Medicaid Trust Fund for the Elderly
Shawn Hotstream, Health & Hospital Section Director, hotstres@legis.la.gov

The Medicaid Trust Fund for the Elderly (MTFE) contains non recurring revenues (with the exception of any interest earned on the corpus of fund revenues) that are utilized for nursing home provider payments as authorized under R.S. 46:2691. The revenues deposited in the fund were initially generated through an intergovernmental transfer (IGT) in which non state public nursing homes provided a state match source to pull down federal matching funds for Medicaid supplemental payments (Upper Payment Limit reimbursement) for eligible expenses in these facilities. State Treasury fund balance documents reflect initial federal receipts of $306 M deposited into the fund in 2001, and reflect total federal receipts in excess of $800 M deposited into the Medicaid Trust Fund for the Elderly from multiple IGT's (not including interest on the corpus of the fund). Specifically, these Statutorily Dedicated revenues are used for annual nursing home rate rebasing, or recalculation of the per day rate paid to certain nursing facilities for Medicaid patients.

FY 15 MTFE Allocation:
The FY 15 Medicaid budget contains $232,916,144 in Statutory Dedicated revenue from the Medicaid Trust Fund for the Elderly. These funds, in addition to other revenue sources allocated for nursing home payments, are used as a state match source to draw federal financial participation. In FY 15, these statutory dedication revenues will draw approximately $380.9 M in federal matching funds.

MTFE Fund Balance:
Based on the FY 15 level of revenue appropriated from the Medicaid Trust Fund for the Elderly (including historical interest

earnings on the fund), the corpus of the MTFE will be almost entirely depleted. In the absence of another IGT program or other funding mechanism generating non state revenue to the fund, significant state general fund support will be required in FY 16 and future fiscal years for nursing home payments and annual increases in the nursing home rates (rate rebasing). The remaining balance of the fund for FY 16 will depend on investment income earnings on the corpus of the fund. As the fund is liquidated, interest earnings are not projected to be earned at the historical level of earnings (see interest earnings below). The projected MTFE fund balances (from state treasury fund statements) and historical investment earnings are reflected below.

$410,860,765	FY 14 beginning MTFE fund balance *(State Treasury Fund Statement)*
($183,505,794)	FY 14 MTFE allocation for nursing home payments
$227,354,971	**FY 15 balance *(not including interest or capital gain earnings or any State Treasury costs for operating the fund)***

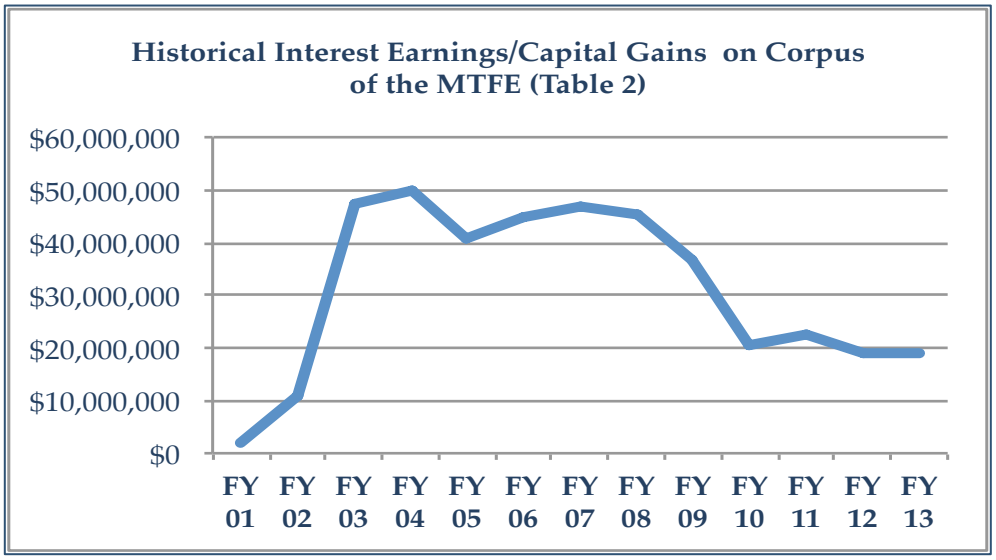
**Information reflected in treasury fund statements indicates approximately $6.7 M in FY 14 investment earnings through January 2014. See Table 2 for a graphical view of the information presented above.*

Based on the FY 15 allocation of revenues from the MTFE, investment earnings in FY 14 to date (trended forward), and assuming investment earnings decreasing annually due to the corpus of the fund decreasing (as reflected in the investment earnings table 1 & 2), the MTFE fund balance will be effectively eliminated for FY 16.

TABLE 1

Fiscal Year	Investment Income
2007	$46.7
2008	$45.1
2009	$36.7
2010	$20.4
2011	$22.6
2012	$18.8
2013	$18.9
2014*	$6.7

**Earnings through FY 14*



Statewide IT Consolidation

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Included within the FY 15 Executive Budget are various adjustments to state agencies related to state IT consolidation initiatives. Based upon these budget adjustments, statewide IT consolidation will result in a statewide SGF savings of at least $22.8 M, a total position reduction of 62 (55 TO positions, 1 Non-TO position & 6 Other Charges positions) and the transfer of 878 TO positions and 9 Other Charges positions from various state agencies into the newly created Office of Technology Services (OTS, 21-815), an ancillary agency contained in the ancillary appropriations bill. According to the Division of Administration (DOA), these 62 positions are currently vacant. The $22.8 M in savings is a result of consolidation of software licenses, hardware maintenance agreements, and staff augmentation contract services, which will result in various savings to professional services and operating services expenditures. *Note: The LFO has requested the DOA provide the specific dollar amount associated with the 62-position reduction. Thus, the total state savings as a result of the consolidation is likely in excess of $22.8 M.*

As mentioned above, the FY 15 Executive Budget transfers 878 TO positions from various state agencies to the OTS. OTS will be the central procurement and provisioning agency for all technology goods and services. Table 3 (page 3) shows the state agencies and number of TO positions being moved into the OTS. The new OTS agency's FY 15 budget is $280 M IAT revenue from these various state agencies. According to the DOA, the original source of funds being utilized by the various state agencies is as follows: $65.2 M SGF, $24.1 M IAT, $49.7 M SGR, $48.6 M statutory dedications, $71.4 M federal funds. Overall, instead of the impacted state agencies funding their IT expenditures with salaries/related benefits for IT employees and/or professional services for IT contracts, these state agencies will be "invoiced" for IT services provided by OTS.

According to the DOA, in future fiscal years there will likely be additional position reductions associated with this initiative as greater economies of scale are realized in various state agencies as non-IT positions doing indirect IT work may no longer be needed due to the creation of OTS.

TABLE 3

FY 15 EXECUTIVE BUDGET ADJ		
Dept	SGF Impact	TO
01-EXEC	$24,519,637	(202)
03-VETS	($19,250)	0
05-LED	($661,130)	(2)
07-DOTD*	$0	(114)
08-CORR	($5,453,734)	(36)
08-DPS*	$0	(132)
08-OJJ	($721,876)	(5)
09-DHH	($26,768,233)	(48)
10-DCFS	($9,638,109)	(112)
11-DNR	($592,083)	(55)
12-REV*	$0	(80)
14-WORK*	$0	(44)
16-WLF*	$0	(10)
17-CIVIL	($400,048)	(4)
19-DOE	($3,064,496)	(34)
21-815 OTS	***$0***	***878***
TOTAL	**($22,799,322)**	**0**
21-815 Other Charges Positions		*9*
Total OTS Positions		**887**

**As a result of the IT Consolidation, these state agencies are still transferring TO positions to the new OTS, but are not being reduced any funding. Whatever FY 14 IT expenditures are currently within these state agencies will be paid to OTS as the new provider of these services.*

Although OTS's FY 15 budget is $280 M, the agency is anticipated to collect $258.9 M in revenues in FY 15. According to the DOA, the $22 M of excess OTS budget authority is being set aside in case other state agencies (boards & commissions, elected officials, etc.) decide to utilize the IT services being offered by OTS in FY 15. In addition, the DOA is currently considering filing legislation to officially create the OTS. *Note: Due to language contained in Act 14 (current year budget), any FY 14 budgetary savings as a result of IT consolidation initiatives will likely be processed via in-house BA-7s. To date, no BA-7s have been approved and processed.*

As has been discussed in previous editions of *Focus on the Fisc*, the DOA issued an RFP for a vendor to provide consulting and IT technology policy, planning and transformation initiatives. The DOA announced in September 2013 that Deloitte Consulting was selected and the contract period is from 11/11/2013-2016 and not to exceed $975,000. Based upon discussions with the DOA and review of the draft contract, Deloitte Consulting will study the state's current IT infrastructure, framework and current statewide IT costs and provide the DOA with a recommended plan for a new consolidated model for delivery of state IT services. The current FY 15 Executive Budget recommendations represent some of the recommendations provided to the DOA by the vendor. The consulting contract includes 2 distinct parts: IT Planning Services ($650,000) and Staff Augmentation Services (up to $325,000).

GENERAL GOVERNMENT

FY 15 Overcollections Fund & SGF Surplus Funds

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Note: Due to the 2014 RLS Funds Bill not being filed yet, the analysis below is based solely on the information presented by the Division of Administration (DOA) to the Revenue Estimating Conference (REC) at its January 15, 2014 meeting and the DOA's FY 15 Executive Budget Presentation and documents.

State Agency (Table 4)	FY 15 Overcollections
Elderly Affairs	$6,521,928
State Library	$1,400,000
DHH	$186,421,281
Higher Education	$39,075,948
Dept. of Education	$4,000,000
TOTAL	**$237,419,157**

The FY 15 budget provides for total Overcollections Fund monies in the amount of $237.4 M. See table 4 for a complete listing of state agencies funded with these resources. As presented by the Division of Administration (DOA) to the REC at its January 15, 2014 meeting, the various anticipated sources that will fund the Overcollections FY 15 budgeted amount are shown in table 5 on the next page.

As presented in table 5 on the next page, all other Overcollections Fund resources above the $237.4 M currently included within the FY 15 budget will be utilized on constitutionally allowable items for REC deemed non-recurring resources. Those items include: $210 M debt defeasance, $51 M Coastal Protection & Restoration Fund, $25 M Budget Stabilization Fund and $14 M Unfunded Accrued Liability. In addition to the $237.4 M of Overcollections Fund resources in the budget, there is approximately $181 M of prior year budget surplus dollars that are utilized in the building of the FY 15 budget. ***Essentially, of the total $514 M of resources available, $447 M play a role in the creation of the FY 15 Executive Budget, while the remaining $67 M are being utilized in other areas ($14 M – UAL, $25 M – Rainy Day Fund, $28 M – FY 14 Supplemental Needs).***

**The FY 13 operating budget was supported by approximately $58.6 M of rescinded SGF recurring and non-recurring capital outlay projects. Of this total amount, Act*

Debt Defeasance as a SGF Revenue Source

Deborah Vivien, Economist, viviend@legis.la.gov

Included in the FY 15 Executive Budget is the one-time availability of $210 M in SGF due to a one-year retirement or defeasance of bonds in advance or in addition to the existing amortization requirements of the state (defeasance). This is essentially a dollar-for-dollar prepayment of FY 15 debt service. The prepayment, which must be completed by the end of FY 14, will allow the prepaid SGF debt service to be available for other uses in FY 15. Using this mechanism, any funds used to pay for the defeasance in FY 14 become spendable as SGF in FY 15. However, since $210 M must be deposited into an escrow fund with a trustee by 6/30/14, cash must be on hand in time to accommodate the defeasance.

Defeasance is an allowable use of non-recurring funds according to the Constitution (Art 7, Sec 10(D)(2)(a)) as long as the debt, including premium and interest, is not payable by the state during that year. Because the defeasance only addresses FY 15 debt service *(continued on page 4)*

597 of 2012 RLS transfers $20,104,310, which is the remaining portion of rescinded Non-Recurring SGF resources, to the Coastal Protection & Restoration Fund. This transaction allows the same amount of recurring revenue flow to be transferred from this fund to the SGF. This transaction never happened due to the legal interpretation by State Treasury of Section 9 of Act 597 of 2012 RLS. It is the LFO's understanding that Section 9 of Act 597 will be amended in the 2014 RLS funds bill when it is filed. Amending this section will allow State Treasury to transfer these funds and ultimately result in allowing the legislature to appropriate the $20,104,310.

payments, this frees up SGF revenue available in FY 15.

From the FY 15 Executive Budget presentation, there are a number of possible pools of money available to pay the defeasance. Some of the potential pools of funds that could be utilized are listed in Table 5 contained in the *FY 15 Overcollections Fund & SGF Surplus Funds* article.

***Depositing non-recurring funds into the Coastal Protection & Restoration Fund is an eligible use of non-recurring revenue. However, there will likely be language in the 2014 RLS funds bill that ultimately allow this $51 M fund deposit to be utilized in the FY 15 operating budget.* Tables 6 and 7 show these resources delineated by non-recurring and recurring resource and how such resources will be utilized in either FY 14 or in FY 15. **In addition, see page 13 of the newsletter for a complete flow chart of how the resources depicted in the tables below are being utilized**.

Use of Anticipated Overcollections Fund Resources & Prior Year SGF Surpluses (in millions) (Table 5)	
REVENUES:	
$31	Various Funds Sweeps
$106	Pharmaceutical settlements
$9	Interest from settlements
$4	Excess SGR (DOA)
$7	Sinking Fund for equipment purchases
$25	Office Facilities Corporation Bond Refunding
$20	Risk Mgmt. Insurance Proceeds
$12	SGF Reversions
$50	New Orleans Convention Center
$32	Revenue Fraud Initiatives
$27	LA Housing Corporation
$10	Debt Recovery
$333	**TOTAL DOA Anticipated Overcollections Fund Resources**
$161	FY 13 Prior Year Surplus
$20	FY 12 Rescinded SGF Surplus Capital Outlay Projects*
$181	**TOTAL SGF Prior-Year Surplus Cash on-hand**
$514	**REVENUES GRAND TOTAL**
EXPENDITURES:	
$14	UAL
$25	Budget Stabilization Fund (Rainy Day Fund)
$51	Coastal Protection & Restoration Fund/FY 15 Budget**
$28	FY 14 Supplemental Bill
$186	FY 15 Executive Budget
$210	Debt Defeasance
$514	**TOTAL Anticipated Use of Funds**

Non-Recurring Resources (Table 6)	
$119	FY 15 Overcollections Fund Revenues
$161	FY 13 Prior Year SGF Surplus
$20	FY 12 Rescinded SGF Surplus (capital outlay)
$300	**TOTAL Non-Recurring Resources**
$14	UAL
$25	Budget Stabilization Fund
$51	Coastal Restoration & Protection Fund
$210	Debt Defeasance
$300	**TOTAL Non-Recurring Expenditures**

Recurring Overcollections Fund Resources (Table 7)	
$214	FY 14 Overcollection Fund Revenues
$214	**TOTAL FY 14 Overcollection Fund Revenues**
$28	FY 14 Supplemental Needs
$186	FY 15 Executive Budget
$51	FY 15 Executive Budget via Coastal Fund
$265	**TOTAL FY 14 & FY 15 Overcollections Fund Expenditures**
	Total Overcollections Fund Expenditures by FY
$28	FY 14
$237	FY 15
$265	**TOTAL**

How the FY 15 Continuation Budget Problem Was Solved

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

At the January 2014 Joint Legislative Committee on the Budget (JLCB), the Division of Administration (DOA) presented the FY 15 Continuation Budget with a projected SGF imbalance of approximately $604.7 M ($604,667,584).

The Continuation Budget is a planning tool that compares projected SGF revenue with projected SGF expenditures necessary to sustain the current year's state operations and service delivery (FY 14) in subsequent fiscal years (FY 15 – FY 18). Projected SGF expenditures attempt to account for employee payroll growth, general and medical inflation, changes in program utilization, funding mandates and changes in federal financing availability. This is not the budget goal for the ensuing fiscal years, and not all of these adjustments are funded each year. However, the continuation budget exercise provides the SGF dollar equivalent of funding decisions the legislature must make to continue the current slate of state government operations, activities and services. The Executive Budget proposal is ultimately the budget goal and incorporates those portions of continuation costs that are supported by the administration as well as any number of administration budget initiatives not contained in the continuation budget exercise. In each fiscal year until the Executive Budget proposal is submitted, the ensuing year's budget is discussed in continuation budget terms.

The LFO compared various budgetary adjustments presented in the FY 15 Continuation Budget, presented in

January 2014, and the FY 15 Executive Budget Recommendation, presented at the same time. Below is a summarized list of SGF decisions that were included in the FY 15 Continuation Budget, but were ultimately not funded with SGF in the FY 15 Executive Budget Recommendation. The list includes SGF decisions made by the administration to close the projected $604.7 M imbalance of SGF.

Summary Table (Table 8)	FY 15 Cont.	FY 15 Exec. Bud	Difference
SGF Revenues	$8,617,600,000	$8,617,600,000	$0
Total Revenue	**$8,617,600,000**	**$8,617,600,000**	$0
Expenditures:			
General Appropriations	$8,571,562,205	$8,170,776,628	($400,785,577)
Ancillary Appropriations	$0	$0	$0
Non-Appropriated	$410,220,531	$230,220,531	($180,000,000)
Legislative Appropriations	$69,306,971	$69,263,933	($43,038)
Judiciary Appropriations	$147,392,479	$147,338,908	($53,571)
Capital Outlay	$0	$0	$0
Special Acts	$23,785,398	$0	($23,785,398)
Total Expenditures	**$9,222,267,584**	**$8,617,600,000**	**($604,667,584)**
Projected Balance	**($604,667,584)**	**$0**	**$604,667,584**

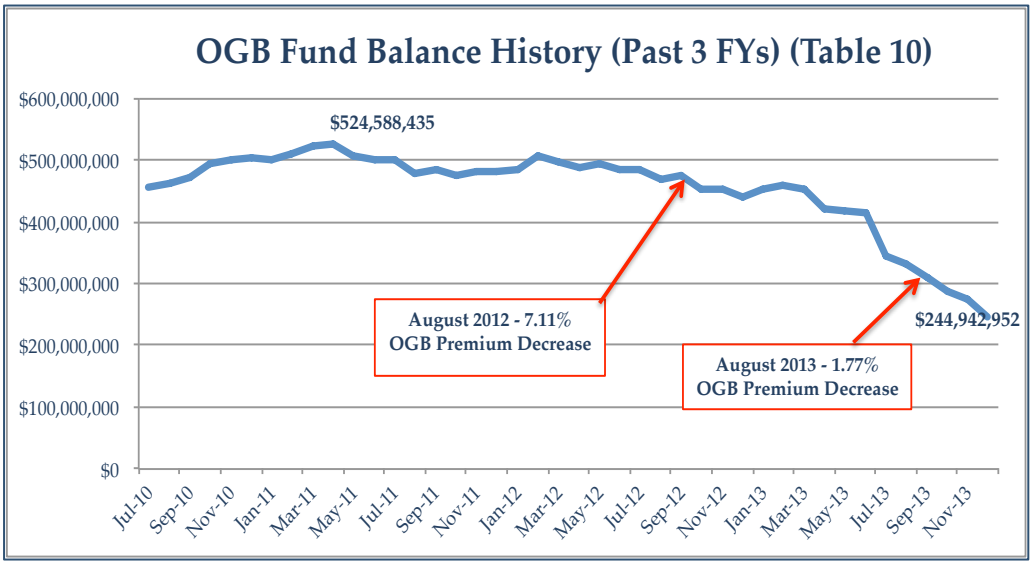
Note: R.S. 39:2(11) defines Continuation budget as follows: "Continuation budget" means that funding level for each budget unit which reflects the financial resources necessary to carry on all existing programs and functions of the budget unit at their current level of service in ensuing fiscal year including any adjustments necessary to account for the increased cost of services or materials due to inflation and estimated increases in workload requirements resulting from demographic or other changes. See tables 8 and 9 that summarize the various budgetary adjustments made by the DOA in preparing the FY 15 Executive Budget, which eliminated the $604.7 M SGF projected SGF imbalance.

Adjustment Summary (Table 9)	5-YEAR ADJ	FY 15 Exec Budget ADJ	Difference
Annualized Merits	$9,312,027	$0	($9,312,027)
New Merits	$29,201,186	$26,520,407	($2,680,779)
Retirement Adj.	$29,687,355	$35,551,933	$5,864,578
Group Insurance Adj	$8,531,350	$4,546,508	($3,984,842)
Attrition	$0	($16,682,629)	($16,682,629)
Personnel Reductions	($1,766,168)	($12,745,602)	($10,979,434)
Inflation	$81,473,901	$0	($81,473,901)
Various MOF Swaps for SGF	$425,801,018	$169,271,401	($256,529,617)
Other Miscellaneous Statewide Adj.	($4,675,682)	$8,434,424	$13,110,106
New & Expanded Programs	$0	$39,024,052	$39,024,052
Various Other SGF Adj.	$178,834,608	$109,857,672	($68,976,936)
Various Other Annualized Adj.	$9,763,124	$6,903,607	($2,859,517)
Non-Recur Other/Technical Adj.	($16,464,680)	($10,481,752)	$5,982,928
Various Workload Adj.	$47,288,967	$46,731,408	($557,559)
Executive Order BJ 2014-1	$0	($4,612,007)	($4,612,007)
Non-Appropriated GO Debt Service	($6,215,881)	($216,215,881)	($210,000,000)
TOTAL	**$790,771,125**	**$186,103,541**	**($604,667,584)**

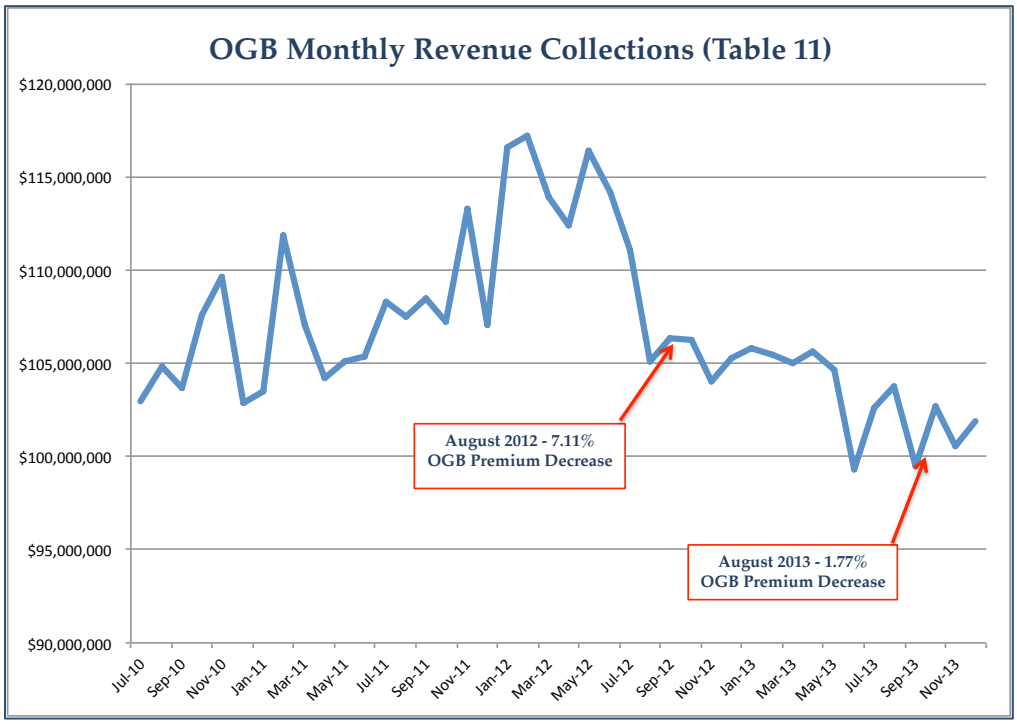
Office of Group Benefits (OGB) 5% Premium Increase

J. Travis McIlwain, Gen. Govt. Section Director,
mcilwait@legis.la.gov

Included within the FY 15 Executive Budget is a 5% increase in OGB premiums for its members that will cost the state $24.2 M ($13.1 M SGF) and will increase the amount paid by its members. According to the Division of Administration (DOA), the 5% increase in premiums will result in a total revenue increase to the OGB in the amount of $56.2 M. The DOA anticipates the $56.2 M to come from: $24.2 M – State agencies, $9.4 M – participating employees and $22.6 M – participating school boards. OGB collected approximately $1.2 B in revenues in calendar year 2013 of which 98% was attributed to premiums. OGB receives its funding from employee contributions (state employee & participating school member and employer contributions (state agencies & school boards). The additional revenues will be utilized to pay for medical claims payments and administrative costs. Based upon the OGB's calendar year 2013 financials, the agency expends approximately 6% of its total revenue collections on administrative costs and the remaining 94% on medical claims payments.



For the past 2 FYs, the budget has included a premium decrease (August 2012 – 7.11%, August 2013 – 1.77%) that has resulted in fewer revenues available for OGB to expend, which has been one of many contributing factors to OGB's fund balance decreasing from approximately $524.6 M in April 2011 to $244.9 M. Table 10 is a representation of the OGB fund from July 2011 to December 2013, while Table 11 (page 6) is an illustration of OGB monthly revenue collections.



Including a premium decrease in the prior two fiscal year's budget allowed state agencies to lower their annual operating costs, thus allowing the state to utilize OGB's fund balance in FY 12 and in FY 13. This situation along with overall medical claims expenditures increasing by approximately 15% has resulted in the decrease in OGB's fund balance. However, due to the TO reorganization of the agency over the past 2 fiscal years, OGB's overall administrative costs have decreased approximately 56% since FY 12. This decrease is due to various TO position reductions and the new third-party administered (TPA) PPO Plan with Blue Cross Blue Shield of LA (BCBS).

Note: Although OGB specific personnel costs have decreased, there is no way for the LFO to specifically determine if the new TPA with BCBS of LA for the PPO plan has resulted in actuarial medical claims savings without doing a specific medical procedure comparisons of costs from the OGB's old PPO provider network to the BCBS provider network. This would require the expertise of an actuary. Overall, OGB's total monthly expenditures (administrative & medical claims total) have increased 21% since FY 11 from average total monthly expenditures of approximately $102.1 M/month to approximately $127.5 M/month through December 2013 in FY 14.

Executive Order BJ 2014 - 1

J. Travis McIlwain, Gen. Govt. Section Director,
mcilwait@legis.la.gov

On January 15, 2014, the Governor issued Executive Order BJ 2014 – 1, which provides a limited hiring freeze. The order provides for the freeze to achieve at least a $7 M SGF savings in FY 14. Exemptions to the executive order include higher education, direct patient care and direct public safety positions including positions within the Office of Juvenile Justice, new law enforcement cadet classes in Wildlife & Fisheries and LA State Police. As has been done previously, the FY 14 budget will likely be reduced within the impacted budget units in aggregate amount of at least $7 M SGF in the FY 14 Supplemental Appropriations Bill during the upcoming Regular Legislative Session.

Included within the FY 15 Executive Budget Recommendation is an annualized SGF savings of $4.6 M and a TO reduction of 88 positions due to EO BJ 2014-1. The specific savings in the current year (FY 14) will likely not be made known until the FY 14 Supplemental Appropriations Bill is filed.

FY 14 & FY 15 SGF Fiscal Status Comparison

J. Travis McIlwain, General Govt. Section Director,
mcilwait@legis.la.gov

Table 12 (page 7) is an illustration comparing the current FY 14 SGF Fiscal Status Statement to the FY 15 SGF within the Executive Budget Recommendation.

** The FY 14 Fiscal Status Statement provided by the DOA for the January 2014 JLCB meeting still includes $25.6 M of fiscal note values for two bills from the 2013 RLS as the bills were introduced. As those two bills were enacted, their fiscal notes were only $5.4 M but the status statements were never changed to reflect that reality. This resulted in a positive SGF bottom line rather than a negative one for the first half of FY 14. Now that the REC has met, those enacted values should be incorporated into the base SGF forecast that starts the status statement, and the $25.6 M amount should removed from the statement.*

GENERAL FUND FISCAL STATUS STATEMENT COMPARISON
FY 14 & FY 15 COMPARISON (In Millions) (Table 12)

GENERAL FUND REVENUE	FY 2014 EOB	FY 2015 EXEC. BUDGET	Difference
Revenue Estimating Conference, January 15, 2014	$8,315.900	$8,617.600	$301.700
Revenue Estimating Conference, August 9, 2013 (CF BA-7s)	$21.781	$0.000	($21.781)
Act 14 of 2013 (General Appropriation Bill) - Transfer of Funds	$4.202	$0.000	($4.202)
Act 420 of 2013 (Funds Bill) - Transfer of Funds	$33.702	$0.000	($33.702)
* Acts 423 and 425 of 2013 - tax credit suspension/elimination	$0.000	$0.000	$0.000
Total Available General Fund Revenue	**$8,375.585**	**$8,617.600**	**$242.015**
* *Fiscal impact of these Acts have been incorporated into the FY 14 SGF adopted forecast*			
APPROPRIATIONS AND REQUIREMENTS			
Non-Appropriated Constitutional Requirements			
Debt Service	$324.678	$138.463	($186.216)
Interim Emergency Board	$1.758	$1.758	$0.000
Revenue Sharing	$90.000	$90.000	$0.000
Total Non-Appropriated Constitutional Requirements	**$416.436**	**$230.221**	**($186.216)**
Appropriations			
General (Act 14 of 2013)	$7,767.734	$8,170.777	$403.043
Ancillary (Act 44 of 2013)	$0.000	$0.000	$0.000
Judicial (Act 64 of 2013)	$147.339	$147.339	$0.000
Legislative (Act 74 of 2013)	$69.264	$69.264	$0.000
Capital Outlay (Act 24 of 2013)	$0.000	$0.000	$0.000
Total Appropriations	**$7,984.337**	**$8,387.379**	**$403.043**
Total Appropriations and Requirements	**$8,400.773**	**$8,617.600**	**$216.827**
General Fund Revenue Less Appropriations and Requirements	**($25.188)**	**$0.000**	**$25.188**
Other Adjustments			
Carryforwards adjustments under consideration	$0.000	$0.000	$0.000
FY 13 Revenue not Carried Forward into FY 14	($0.412)	$0.000	$0.412
Total Other Adjustments	($0.412)	$0.000	$0.412
General Fund Revenue Less Appropriations and Requirements after Other Adjustments	($25.600)	$0.000	$25.600

Act 420 of 2013 Update (FY 14 Overcollections Fund & SGF Transfers)
J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Act 420 of the 2013 RLS provides for the transfer of various funds and resources into either the Overcollections Fund and/or SGF for FY 14 appropriation. Act 420 of 2013 specifies that such SGF fund transfers will not occur until the FY 14 appropriations have been met. Tables 13 & 14 (page 8) represent outstanding Overcollections Fund and SGF transfers to date. Transfers into the SGF listed in Table 14 (page 8) are included in aggregate in the monthly SGF fiscal status statement presented by the DOA to JLCB. Table 15 (page 8) shows FY 14 Overcollections Fund EOB and expenditures to date.

FY 14 OC Fund Rev. Sources (Table 13)	Anticipated	Collected & Transferred To Date	Left to Collect
FY 14 Beginning Balance	$22,738,497	$22,738,497	$0
Hospital Lease Payments	$140,250,000	$45,171,136	$95,078,864
Legal Settlements	$64,771,871	$23,487,600	$41,284,271
Sale of Pointe Clair Farms	$12,000,000	$12,000,000	$0
Sale of Baton Rouge State Office Bldg.	$10,250,000	$0	$10,250,000
Sale of Southeast Hospital Property	$17,840,000	$0	$17,840,000
Sale of Wooddale Towers	$350,000	$335,325	$14,675
Sale of Hart Parking Garage Property	$2,180,000	$0	$2,180,000
Sale of Various WLF Properties	$2,000,000	$2,000,000	$0
Sale of Greenwell Springs Hospital Property	$0	$0	$0
Sale of Pines Campus Property	$0	$0	$0
Sale of Southern Oaks Addiction Recovery Property	$0	$0	$0
Sale of Bayou Region Property	$0	$0	$0
Sale of MDC Apartment Property	$0	$0	$0
LDR Fraud Initiative	$20,000,000	$11,557,770	$8,442,230
Excess FEMA Reimbursements	$19,950,000	$0	$19,950,000
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$23,141,193	$5,143,307
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$0	$2,000,000
Self Insurance Fund	$16,000,000	$16,000,000	$0
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$0	$1,988,106
2% Fire Insurance Fund	$2,358,715	$0	$2,358,715
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$0	$48,298
Compulsive & Problem Gaming Fund	$57,071	$0	$57,071
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$1,000,000	$0
Mega-Project Development Fund	$11,300,000	$11,300,000	$0
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$25,019	$0
Penalty & Interest Fund	$1,541,440	$1,541,440	$0
Riverboat Gaming Enforcement Fund	$8,605,392	$0	$8,605,392
Transfer from fund to SGF	($5,000,000)	$0	($5,000,000)
TOTAL	$413,257,388	$187,239,900	$226,017,488

SGF Transfers (Table 14)	Anticipated	Transferred to Date	Remaining
Adult Probation & Parole Officer Retirement Fund	$2,000,000	$1,390,308	$609,692
Penalty & Interest Account	$4,158,560	$4,158,560	$0
Community & Family Support System Fund	$22,227	$22,227	$0
DOJ Debt Collection Fund	$212,838	$0	$212,838
Energy Performance Contract	$471,564	$317,388	$154,176
Entertainment Promotion & Marketing	$152,951	$152,951	$0
Environmental Trust	$2,487,146	$2,487,146	$0
Health Care Facility Fund	$847,641	$847,641	$0
LA Filmmakers Grant Fund	$225,638	$225,638	$0
LA Life Safety & Property Protection Trust Fund	$144,435	$0	$144,435
Medical & Allied Health Prof. Ed Scholarship	$106,920	$0	$106,920
Right to Know Fund	$175,500	$0	$175,500
Small Business Surety Bonding Fund	$1,900,000	$1,900,000	$0
Tax Commission Expense Fund	$48,978	$48,978	$0
Tobacco Tax Health Care Fund	$233,334	$0	$233,334
Variable Earnings Transaction Fund	$18,405	$18,405	$0
Vital Records Conversion Fund	$4,243	$4,243	$0
Riverboat Gaming Enforcement Fund	$5,800,000	$0	$5,800,000
Overcollections Fund	$5,000,000	$0	$5,000,000
Medical Assist. Program Fraud Detection Fund	$7,021,271	$0	$7,021,271
Higher Ed Initiatives Fund	$267	$0	$267
Private Investigator Examiners Fund	$76	$0	$76
LA Fire Marshal Fund	$791,745	$0	$791,745
2% Fire Insurance Fund	$1,878,117	$0	$1,878,117
TOTAL	$33,701,856	$11,573,485	$22,128,371

Schedule (Table 15)	Agency Name	FY 14 EOB	FY 14 Exp. To Date	Unexpended
01-111	Governor's Office of Homeland Security & Emergency Preparedness	$21,250	$21,250	$0
01-112	Military Department	$500,000	$0	$500,000
04-DOJ	Attorney General	$4,563,971	$996,762	$3,567,209
07-DOTD	Transportation & Development	$36,000,000	$7,542,296	$28,457,704
08-DPS	State Police	$84,796	$80,271	$4,525
11-DNR	Natural Resources (Judgment)	$4,104,286	$4,104,286	$0
12-REV	Revenue Department	$3,950,000	$2,201,833	$1,748,167
19-LSU	LSU Board of Supervisors	$143,575,155	$37,001,011	$106,574,144
19-LSUHCSD	Healthcare Services Division	$20,000,000	$4,446,945	$15,553,055
19-SU	Southern University Board of Supervisors	$27,466,779	$11,047,176	$16,419,603
19-UL	University of LA Board of Supervisors	$104,952,012	$15,948,134	$89,003,878
19-BOR	LA Board of Regents	$5,917,489	$899,201	$5,018,288
19-LUMCON	LA Universities Marine Consortium	$977,910	$148,600	$829,310
19-LCTCS	LA Technical & Community Colleges Board of Supervisors	$56,709,705	$14,485,857	$42,223,848
19-BESE	Board of Secondary & Elementary Education	$69,405	$10,547	$58,858
20-945	State Aide to Local Governments	$3,720,247	$2,705,858	$1,014,389
20-950	Judgments/Special Acts	$6,495,602	$3,639,446	$2,856,156
TOTAL		$419,108,607	$105,279,473	$313,829,134

EDUCATION

FY 15 Higher Education Funding

Charley Rome, Fiscal Analyst, romec@legis.la.gov

Table 16	FY14 w/o Hospitals	FY 15	Change FY14 w/o Hospitals to FY15
SGF	$524,340,934	$900,075,117	$375,734,183
IAT	$14,093,574	$14,985,191	$891,617
SGR	$1,278,597,027	$1,373,431,742	$94,834,715
ST DED	$590,669,343	$231,982,145	($358,687,198)
FED	$105,132,730	$101,532,604	($3,600,126)
TOTAL	**$2,512,833,608**	**$2,622,006,799**	**$109,173,191**

Table 16 reflects the recommended budget for FY 15 compared to the FY 14 Existing Operating Budget (EOB). *The table removes funding for the following hospitals from the FY 14 EOB for higher education: Shreveport Medical Center, E. A. Conway Medical Center, and H. P. Long Medical Center. The table removes funding for these hospitals from higher education's FY 14 budget to provide a consistent funding comparison because the hospitals were privatized and are funded in DHH's budget in FY 15.*

Student Scholarship for Education Excellence Program (SSEEP)
Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov

The Student Scholarship for Education Excellence Program (SSEEP) was created in 2008 to offer a quality education for all LA children, particularly for those children in school systems that have been declared to be in academic crisis in Orleans Parish. The program provided eligible students with state funded scholarships to attend participating non-public or public schools that meet the program requirements. The program was expanded in FY 13 to include students in all parishes statewide.

FY 14 budget totals $43.1 M SGF. There are 6,775 students enrolled in the program with an average student tuition of $5,311.

The FY 15 recommended budget totals $46.1 M in SGF reflecting a $3.03 M increase. There is a corresponding decrease in the MFP of $6.9 M as a result of these students moving out of the MFP and into the SSEEP. The total student enrollment is projected at 8,130 with an average tuition of $5,577.

State support for the institutions of higher learning is essentially at a standstill level.

Institutions
The budget includes a MOF swap replacing $294.3 M in Overcollections Funds with SGF. While the FY 14 line item appropriations totaling $47.5 M were eliminated, new funding in a like amount has been recommended. This includes $7 M SGF and $33 M from the Overcollections Fund for a total $40 M enhancement for the Workforce and Innovation for a Stronger Economy (WISE) Fund. According to an announcement by the Governor on January 21, 2014, the money in the fund will be made available to state research institutions that produce nationally recognized commercial research and to state colleges and universities that partner with private industry to produce graduates with 4 and 5 STAR job ready degrees. To receive funds, institutions will have to partner with private industry by recruiting at least a 20% private match in cash or in-kind, such as technology and equipment. No additional information is available at this juncture on how the funds would be allocated to the various institutions.

Additionally, $2 M SGF is appropriated for Science, Technology, Engineering & Math (STEM) program at Universities in the Southern System and facility and technology upgrades at Grambling State University and $6.1 M from the Overcollections Fund to address equity for some schools, which have experienced rapid growth in recent years. No information is available on which schools would be impacted and to what extent, however the Board of Regents anticipates it will be able to provide projections in the near future.

Finally, the budget includes a total increase of $87.7 M in SGR for tuition increases in accordance with LAGrad Act Performance Agreements. Institutions are impacted by several issues in determining the extent to which these funds can be fully generated; some institutions are close to the SREB tuition cap and may not be able to raise the full 10% amount, some institutions have seen fluctuations in enrollment which reduce the amount generated, and some institutions may choose not to impose the full 10% increase in order to maintain access for low income students. Further analysis will be required to determine the extent of these and other impacts.

TOPS/GO GRANTS
For FY 15, TOPS is funded at $235 M; $158.4 M SGF and $76.7 M from the TOPS Fund. This reflects an increase of $17.6 M primarily associated with tuition increases. A means of financing swap replaces non-recurring TOPS Fund with SGF ($67.3 M). GO Grants remain funded at the current level of $26.3 M.

FY 15 Minimum Foundation Program (MFP)
Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov

The Minimum Foundation Program (MFP) provides for an equitable distribution of state funds to local school districts. The MFP constitutes the major source of state funding to local schools. For FY 14, the MFP is funded at $3.5 B ($3.3 B in SGF and $262.9 M in Statutory Dedications from the SELF ($107.3 M) and Lottery Proceeds Fund $155.6 M). The 2.75% increase was not included in the FY 14 MFP. However, the SGF amount cited above includes a line item appropriation of $69 M that provided additional funds to be allocated in the same manner as the MFP formula. At least 50% of the increase in funds from this appropriation was to be used for teacher pay raises; and at least 70% was to be used on Instruction in accordance with the Department of Education's (DOE) 70% Instructional Expenditure Requirement.

In August 2013, the State Board of Elementary & Secondary Education (BESE) convened the MFP Task Force to provide an advisory recommendation for the 2014-2015 MFP. The Task Force, represented by a cross-section of education stakeholders, met between September and December to discuss various issues relative to the formula including costs, local revenue availability and funds distribution. The Task Force adopted the final recommendations in December. The Task Force concluded that a long- term study should be undertaken, led and/or supported by financial and policy experts to restructure the MFP for greater clarify, accountability, efficiency and effectiveness. In terms of the 2014-2015 MFP, the Task Force recommended increases for: 1) Career Education to provide funding to target career courses that align with the state's economy and projected workforce needs; 2) Special Education to

double the size of the High Risk Pool to provide additional targeted funds for serving such students; including $4 M to fund students with "tier three" disabilities. 3) Course Choice to provide subsidies for those courses such as dual enrollment, TOPS Core, Advanced Placement, career and technical courses provided in professional or technical college settings and remedial programs; and 4) Technology to assist schools in attaining the technology readiness goals established by the DOE; and; 5) 2.75% Adjustment to fund increases related to retirement, salaries, special education, and technology, among other costs; further that use of such increase be unrestricted.

While BESE will not consider these recommendations until the March 2014 meeting, the FY 15 Executive Budget does include additional funding of $12 M in SGF to provide for the first 4 recommendations of the Task Force. The 2.75% adjustment is not included in the FY 15 Executive Budget.

The FY 15 MFP recommendation totals $3.54 B; $3.25 B of which is SGF and $292.1 M in Statutory Dedications from the SELF ($118.9 M) and Lottery Proceeds Fund ($172.3 M). Along with the $12 M increase for MFP Task Force recommendations, adjustments include an increase of $25.6 M in SGF to support the projected net student increase of 5,354 students and a reduction of $6.8 M to reflect the transfer of 1,355 from the MFP to the Student Scholarship for Education Excellence Program (SSEEP) (Scholarship Program). Finally, SGF was reduced by $29.2 M and replaced with Statutory Dedications from the SELF and the Lottery Proceeds Fund pursuant to the most recent Revenue Estimating Conference projections.

REVENUE

Major Revenue Collections Summary, January 2014, FY 14 (Adjusted For Amnesty Receipts)
Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

Seven cash months of collections have been received since this fiscal year began, with approximately the first month's worth of those collections posted back to FY 13 for certain revenues. Thus, for many revenues, six accrual months have actually been collected for FY 14. Five of these months have included amnesty receipts that have been backed out of this report to obtain a more accurate assessment of current base collections activity. The FY 14 Forecast Growth Rate is the projected growth as of the 1/15/14 REC meeting. Major receipts' collection performance so far is:

MAJOR REC REVENUE SUMMARY, FY 2013-14
January 2014, Adjusted For Amnesty Receipts

Revenue Source	Current Month *	% Chg Same Month PY	FYTD (Jul - Jun) *	% Chg FYTD PY cash **	% Chg FYTD PY acc **	FY14 Forecast	FY14 Forecast Growth Rate
Income	$378.7	-6.9%	$1,870.1	1.9%	0.9%	$2,811.5	2.1%
Sales, General	$254.1	0.6%	$1,536.9	0.9%	2.9%	$2,609.9	1.1%
Corporate	-$9.5	-67.6%	$10.5	-91.3%	-46.8%	$279.5	-16.9%
Severance	$64.8	-8.3%	$487.1	1.8%	1.1%	$850.5	0.4%
Royalty	$34.5	-11.8%	$287.3	10.8%	5.2%	$524.1	7.3%
Gaming	$51.2	-7.1%	$339.8	0.3%	0.3%	$623.1	0.7%
Sales, Vehicle	$26.6	-17.9%	$203.9	6.3%	5.4%	$355.6	3.0%
						1/15/14 REC	

* millions of $

** cash = July through June collections, acc = July through June less accrual to prior year

Income tax had a strong finish to FY 13, coming in at a 10.8% growth rate, with much of that occurring during the spring filing/payment period. The 5/15/13 REC captured much of this but actual performance still bested that forecast. Across much of the country this surge has been attributed to the acceleration of income into 2012 in order to avoid federal tax increases effective 1/1/13. This attribution was supported by withholdings collections that finished with a more normal 5.7% growth. This suggests that this surge should not be expected to continue through FY 14. Through January, collections are only 0.9% to 1.9% ahead of prior year, and only the single month of September has shown any outsized growth this fiscal year. The forecast growth rate for FY 14 is modest, but current collections are below that forecast. In addition, the FY 13 surge will have to be controlled for and it will be difficult for collections this spring to beat those of last year. It is possible that even this modest growth forecast will not be exceeded. The growth forecast for FY 15 is 4.3%; also a modest forecast. However, it is double the rate for FY 14, and weak current performance implies a reduced base from which to grow. Thus, the FY 15 forecast may also be in jeopardy.

Sales tax experienced a second year of essentially no improvement in FY 13, finishing with only 0.1% growth. This further suggests that the income tax finish is not likely to be a sustained event, and continues to suggest cautious conditions within households and businesses. Collections through January have been 0.9% to 2.9% ahead of prior year, but this is also essentially due to the single month of September. December holiday sales were weak, as evidenced by the year-over-year rise of only 0.6% in January receipts. The forecast growth rate for FY 14 is only 1.1%, but year-to-date growth performance has steadily declined and is actually below that forecast on a cash-month basis. Thus, the FY 14 forecast for this tax may also be in jeopardy. In addition, while the growth forecast for FY 15 is only 1.4%, the possibility of a weaker than anticipated base in the current year calls into question the FY 15 forecast, as well.

Vehicle sales tax finished strong in FY 13 with 10.2% growth (essentially the same as the growth in FY 12), and collections have done well this fiscal year until January receipts. This latest month was weak enough to cut the year-to-date growth rates, both cash and accrual, by nearly half. A bad month for collections is not a trend, and the sharp weakness exhibited in January receipts may only reflect an aberration. However, we do have to be aware that this narrow big-ticket sector can turn on a dime, and optimism for continued double-digit growth has to be tempered. The FY 14 growth forecast is modest at only 3%, but this one weak month dropped actual performance close to that and, if not met, an obvious problem for FY 15 occurs, as well.

Corporate tax collections looked very strong through much of FY 13, but then abruptly dropped off in the accrual period at the end of the year, finishing 10.1% behind the prior year and below the modest forecast for the year. Once again the tax proved that the monthly collections say little about what the annual total will be. The forecast growth rate for FY 14 is for 16.9% absolute drop in collections, while year-to-date growth through January is 47% to 91% behind the prior year. With amnesty receipts backed out, only the month of November (when returns under extension are typically reconciled) has bested the prior year. Thus, it seems that the big net payment period of April – June will have to be relied upon to reach the FY 14 forecast for this tax. Another drop of 4% is forecast for FY 15, but optimism for even that result is questionable at this point.

Severance tax was essentially flat in FY 13 (-0.1% growth), but this was still better than the expectation of a larger drop. Spot oil prices for state crude averaged $109/bbl in FY 13, compared to the forecast price of $94/bbl, explaining much of the good performance. For FY 14, the oil price forecast is currently $99.80/bbl, and the natural gas severance tax rate is also lower in FY 14 at 11.8¢/mcf (down from 14.8¢/mcf in FY 13). The dollar forecast calls for only 0.4% revenue growth, a seemingly easy forecast to achieve or beat. However, collections through January are only 1.1% to 1.8% ahead of prior year, with year-to-date growth performance steadily declining much of the year. What optimism had existed for this tax and forecast earlier in the fiscal year has deteriorated, and this forecast also appears in jeopardy for FY 14.

Royalty receipts also finished FY 13 better than expected but still down 5.2% compared to the prior year. In the current year, gas prices have remained weak, except for some strength related to recent cold weather, and oil prices have been fairly stable. While collections through November were well ahead of forecast growth, they have disappointed in the last two months. Year-to-date performance has dropped off considerably, and on an accrual basis is now below forecast growth. Optimism for these receipts has also deteriorated, and the FY 14 forecast for royalty receipts may be in jeopardy, as well.

Gaming receipts from riverboats, video poker, and racetrack slots finished FY 13 at 0.9% growth; modest growth but better than FY 12. Collections accelerated through September, primarily on the strength of riverboats, but have fallen back since then in all three sectors. The riverboat segment is the only component exhibiting positive growth, but it has had negative months, as well. The forecast growth rate for these three components as a group is modest at less than 1%, and is currently being beaten only by riverboat. This has not been enough to keep the combined group over forecast, though. Sustained positive spending growth across these discretionary consumer sectors as a group has yet to be observed, and the current forecast is not quite being met.

Overall, collections for FY 13 finished stronger than expected by some $175 million, reflecting 2.6% revenue growth from FY 12. While a positive experience, that growth is actually a deceleration from the growth in FY 12 of 3.8%, and from FY 11 of 8.3%. In addition, the excess collections included surprise components that may not be sustained in FY 14. The largest gain was in personal income tax reflecting a surge in the spring due to a likely one-time acceleration of income for federal tax purposes. Mineral revenue gains were actually smaller declines than expected and price stability means the outlook is tempered for growth. The good news on sales tax also involved smaller than expected declines rather than consistent positive growth. FY 13 performance also surprised on the upside in various agency receipts (a catchall for numerous unspecified receipts), which may increase a forecast moving average but cannot be relied upon for a sustained higher level of collections. Premium tax also finished well in FY 13, although new credits were passed in the 2013 session that will affect that tax in FY 14 and beyond. Finally, corporate tax disappointed in FY 13, and cannot be relied upon for growth in FY 14.

As for FY 14, cautious optimism that may have existed in the early months of the fiscal year has evaporated with the removal of amnesty data from corporate receipts, and weak base receipts in other taxes. General sales tax has been weak all year, and a sharp slowdown in vehicle sales taxes may be beginning. Personal income tax has been volatile but exhibiting underlying weakness, as well, especially in the important withholding component. Mineral revenue growth has slowed markedly, and gaming is essentially flat. General fund earnings are also running well behind forecast. Only the

premium tax is a material general fund contributor that is still well ahead of forecast, but in total is not nearly large enough to offset other weakness. Forecasts for the current year are generally very modest, but the collections trend is not one of strengthening. This is worrisome for the current year and the ensuing year, as well. The spring is where much of the annual forecast will be met or not for much of the collections base, especially corporate tax and increasingly personal income tax. Upside surprises can happen, as evidenced by the 2012 spring, but the weakness exhibited so far this fiscal year means the spring has to be that much stronger just to make forecast, much less to give optimism for upward revisions to the forecasts for next year and beyond.

HEALTH & HOSPITALS

FY 15 Medicaid Budget

Shawn Hotstream, Health & Hospitals Section Director, hotstres@legis.la.gov

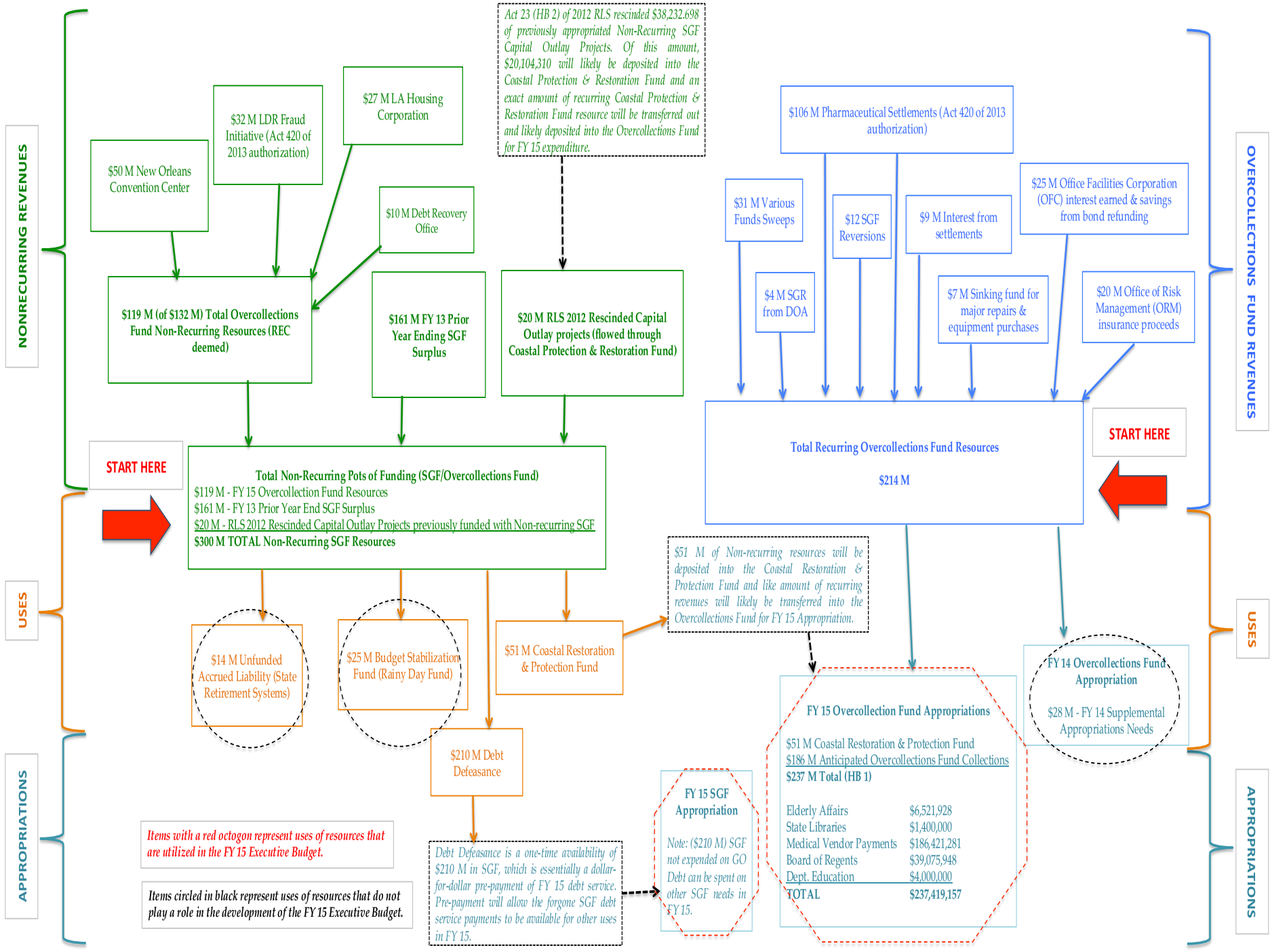
The Medicaid Budget Request and Continuation Budget reflect in excess of $500 M in additional State General Fund (SGF) need to fully fund current and projected Medicaid expenditures for FY 15. The most significant factors contributing to the need for additional SGF include the replacement of non-SGF revenue sources used as state match, a decrease in the Federal Medical Assistance Percentage (FMAP) from 62.96% to 62.06%, and projected utilization increases in pharmacy and within the Private Provider program. A decrease in the FMAP and replacement of non-SGF revenue used as match sources in FY 14 are being requested as means of finance swaps just to maintain FY 14 base services in the Medicaid program (additional SGF added will not result in additional Medicaid expenditures over the base Medicaid budget). The significant items requested are reflected below:

SGF need associated with significant items requested in Medicaid for FY 15
$200 M - Amnesty revenue replacement
$56.8 M - FMAP changes
$52.7 M - Replacing other non-SGF revenue sources used as match or revenues not materialized in FY 14
$19.1 M - Pharmacy growth
$56.3 M - Private Provider utilization growth
$30.8 M - Mandated costs associated with Applied Behavior Analysis services
$10.9 M - Clawback
$25.1 M - Long Term Care Personal Care Services (LT-PCS) Enrollment Growth

The FY 15 Executive Budget reflects a decrease of $61.6 M in SGF. Although SGF support decreased, total funding for Medicaid (Medical Vendor Payments) in FY 15 increased by $348 M. The State General Fund decrease is largely the result of adding approximately $240 M more in non-state general fund match sources than utilized in FY 14 (additional Amnesty revenues and Overcollections Fund revenues). The FY 15 Executive Budget partially solved the SGF need with the following various adjustments.

$186.4 M - Increased statutory dedicated funding (reduced SGF by a like amount) from the Overcollections Fund used as state match
$262.4 M - Added $263 M in additional Amnesty revenues to be used as state match
$56.8 M - Added SGF to address FMAP decrease
$51.6 M - Replacing other non-SGF revenue sources with SGF
$17.6 M - Pharmacy growth
$6.4 M - Private Provider utilization growth
$10.1 M - Mandated costs associated with Applied Behavior Analysis services
$10.9 M - Clawback
$9.9 M - Long Term Care Personal Care Services (LT-PCS) Enrollment Growth
$4.4 M - Alvarez and Marsal SGF reduction as a result of implementing certain efficiencies
$6.9 M - SGF savings associated with DHH efficiencies (implementing a triage rate, eliminating payments for elective deliveries before 39 weeks, and managed care savings through implementation of a retrospective payment system)

Note: The Department of Health and Hospitals requested $157 M in total funding ($56.3 M SGF) for projected private provider utilization in the FY 15 Budget Request for Medicaid. The Executive Budget recommends approximately $16 M ($6.4 M) for FY 15, or approximately $140 M less than requested.


NONRECURRING REVENUES
$50 M New Orleans Convention Center
$32 M LDR Fraud Initiative (Act 420 of 2013 authorization)
$27 M LA Housing Corporation
$10 M Debt Recovery Office
$119 M (of $132 M) Total Overcollections Fund Non-Recurring Resources (REC deemed)
$161 M FY 13 Prior Year Ending SGF Surplus
Act 23 (HB 2) of 2012 RLS rescinded $38,232,698 of previously appropriated Non-Recurring SGF Capital Outlay Projects. Of this amount, $20,104,310 will likely be deposited into the Coastal Protection & Restoration Fund and an exact amount of recurring Coastal Protection & Restoration Fund resource will be transferred out and likely deposited into the Overcollections Fund for FY 15 expenditure.
$20 M RLS 2012 Rescinded Capital Outlay projects (flowed through Coastal Protection & Restoration Fund)
START HERE
Total Non-Recurring Pots of Funding (SGF/Overcollections Fund)
$119 M - FY 15 Overcollection Fund Resources
$161 M - FY 13 Prior Year End SGF Surplus
$20 M - RLS 2012 Rescinded Capital Outlay Projects previously funded with Non-recurring SGF
$300 M TOTAL Non-Recurring SGF Resources
USES
$14 M Unfunded Accrued Liability (State Retirement Systems)
$25 M Budget Stabilization Fund (Rainy Day Fund)
$51 M Coastal Restoration & Protection Fund
$210 M Debt Defeasance
$51 M of Non-recurring resources will be deposited into the Coastal Restoration & Protection Fund and like amount of recurring revenues will likely be transferred into the Overcollections Fund for FY 15 Appropriation.
APPROPRIATIONS
Items with a red octogon represent uses of resources that are utilized in the FY 15 Executive Budget.
Items circled in black represent uses of resources that do not play a role in the development of the FY 15 Executive Budget.
Debt Defeasance is a one-time availability of $210 M in SGF, which is essentially a dollar-for-dollar pre-payment of FY 15 debt service. Pre-payment will allow the forgone SGF debt service payments to be available for other uses in FY 15.
FY 15 SGF Appropriation
Note: ($210 M) SGF not expended on GO Debt can be spent on other SGF needs in FY 15.
FY 15 Overcollection Fund Appropriations
$51 M Coastal Restoration & Protection Fund
$186 M Anticipated Overcollections Fund Collections
$237 M Total (HB 1)
Elderly Affairs $6,521,928
State Libraries $1,400,000
Medical Vendor Payments $186,421,281
Board of Regents $39,075,948
Dept. Education $4,000,000
TOTAL $237,419,157
OVERCOLLECTIONS FUND REVENUES
$106 M Pharmaceutical Settlements (Act 420 of 2013 authorization)
$31 M Various Funds Sweeps
$12 SGF Reversions
$9 M Interest from settlements
$25 M Office Facilities Corporation (OFC) interest earned & savings from bond refunding
$4 M SGR from DOA
$7 M Sinking fund for major repairs & equipment purchases
$20 M Office of Risk Management (ORM) insurance proceeds
Total Recurring Overcollections Fund Resources
$214 M
START HERE
USES
FY 14 Overcollections Fund Appropriation
$28 M - FY 14 Supplemental Appropriations Needs
APPROPRIATIONS

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

January 2014

Volume 2, Issue 7

INSIDE THIS ISSUE

2 FY 14 SGF Fiscal Status Statement

3 Act 420 Update: Overcollections Fund

3 $4.2 M Alvarez & Marcel Contract

4 BP Oil Spill Settlements & Grants

7 LA Community & Technical College System (LCTCS)

10 Public Hospital Retiree Costs in FY 14

11 FY 15 proposed health care funding constitutional amendments

11 DCFS: Modernization Projects

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Jodi Mauroner, Section Director
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hostream, Section Director
Alan Boxberger, Fiscal Analyst
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Stephanie Blanchard, Fiscal Analyst
Drew Danna, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

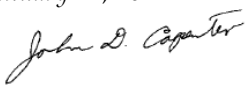
Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. Our next issue will be completed next month and will solely focus on the FY 15 Executive Budget, which is being released on Friday, January 24, 2014.



FOCUS POINTS

Revenue Estimating Conference Meeting: January 15, 2014
Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The Revenue Estimating Conference (REC) met on Wednesday, January 15, 2014 and revised the traditional base revenue forecasts for the current fiscal year (FY 14) and subsequent fiscal years (FY 15 – FY 18). The adopted SGF forecast reduced expected receipts for FY 14 by $34.7 M. For FY 15 the nominal forecast was increased by $78.4 M, however the forecasts for the two years treat certain major receipts differently. Hospital lease payments and GO Zone bond reimbursements are treated as SGF revenue in FY 15 and beyond, whereas they are dedicated through the Overcollections Fund in FY 14. A new revenue source, LA1 tolls, is also brought into the forecast for the first time as general fund revenue in FY 15, as well. Adjusting for those differences in treatment results in a FY 15 SGF forecast reduction of $94.5 M. These may be new resources for the general fund, but the expenditures they currently support will now have to be brought into the general fund means-of-finance budget. In terms of growth, the FY 14 official forecast now projects 0.5% more revenue ($38.3 M) than actually collected in FY 13, and 1.5% more revenue ($128.7 M) in FY 15, on an equal treatment basis. While in all years the baseline is reduced, year-over-year growth projections are still positive. A drop in general fund growth to 0.5% occurs again in FY 16 as $356 M of general fund mineral revenue is diverted to the Budget Stabilization Fund (as per Act 420 of 2013). Since this is a one-time event, growth bounces back to 5.9% in FY 17, then settles to 2.1% in FY 18. The base tax revisions were adopted and designated as recurring revenue.

With respect to the major general fund revenues, FY 14 decreases were made to corporate receipts ($60.5 M), the general sales tax ($46.9 M), and the vehicle sales tax ($12.8 M). These reductions generally carry out through the forecast horizon. Considerable discussion involved the weakness in corporate tax receipts and the possible affects of the recent tax amnesty program on those receipts. Reductions were made in response to the weak base collections and in anticipation of suppressed base collections resulting from the acceleration of collections participating in the amnesty program. While the timing and magnitude of that suppression affect is debatable and ultimately unknown, some effect is generally acknowledged to occur. The forecasts incorporate such an effect. Beyond the corporate tax, of continued significance is the fact that the general sales tax has still failed to gain traction, and is in the third consecutive year of essentially no growth. Since the forecast involves values without any inflation adjustment, no growth or very low growth implies inflation-adjusted drops in spending in the economy; at least spending on goods and services subject to state sales tax. While growing internet sales probably dampen our tax collections, there is no consistent pattern of similar experience in other states, and it seems unlikely that LA would be an abnormally high user of remote purchasing. At the same time as general sales taxes are anemic, the vehicle sales tax is exhibiting its fourth year of double digit growth (although the first of those years was the bounce back from the recession year of FY 10, and the forecast simply reduces the positive growth rate of the fourth year). It might be the case that strong vehicle purchases explain some of the weakness in general sales tax by diverting income from general purchases, but this also seems insufficient to fully explain the general sales tax weakness.

There were some increases to major general fund revenue sources for FY 14 including the personal income tax ($25.4

M), severance tax & royalty receipts ($44.1 M), and the excise license tax on insurance premiums ($24.6 M). Unfortunately, the income tax increases equate to only a 2% annual growth rate reflecting anemic growth in that tax, as well. Last year's strong finish appears attributable to taxpayer's shifting income into 2012 to avoid federal tax increases starting in 2013. Given that, any positive growth in FY 14 from that elevated base is sign of underlying strength, should it materialize as now forecast. Similarly modest growth is expected going forward though, reflecting a caution concerning a possible reduction in the responsiveness of the income tax to personal income. Mineral revenue upgrades largely reflect a higher oil price projection of $99.80/bbl in FY 14 (up nearly $5 from the forecast of last May). For FY 15 the projection is $95.80/bbl; about $1 higher than the previous adopted forecast. Finally, a larger insurance premium tax base appears to be developing in the state; likely from both premium increases and the state's Bayou Health program bringing new premiums into the tax base.

In addition to the traditional base revisions discussed above, this meeting of the REC was the first one to incorporate statutory dedications and self-generated revenue in a comprehensive way, as called for by Act 419 of 2013. Revisions for FY 14 carry-forwards and a few other items, required of Act 419, have been adopted by the REC in three meetings this fiscal year without consideration of traditional tax base revisions or the totality of dedications and fee revenue. In this latest meeting, additional adjustments to FY 14 were adopted along with total forecast projections for FY 15. Considerable discussion was held on the methods and consequences of implementing the Act. The conference was concerned that adopting projections of dedications and fees may constrain budgeting of the programs and purposes that are supported by those revenues, requiring repeated REC meetings to adjust particular projections. This seemed unnecessary to the conference since expenditures from these revenues are already self-limited by the amount of funds actually collected by these dedications and fees. Thus, the conference opted to adopt the higher of the two projections presented for the dedications and fees brought into the REC process by Act 419. This would allow program operations to be budgeted, subject to the actual collections constraint, as currently done, and minimize the necessity for repeated REC meetings to adjust projections for revenue sources, the policy for which has already been made to forego all the associated revenue to their enacted purposes. The conference directed staff to make necessary corrections and adjustments consistent with the adopted motions. Those results will add some $500 M of revenue to the nearly $2 B of statutory dedication revenue already considered by the REC, and $400 M of self-generated fee revenue to the official forecast for FY 14. For FY 15 an additional $1.2 B is added to the REC $1.9 B of statutory dedication revenue, and $2.3 B of self-generated fee revenue is added. The FY 15 amounts added as the result of Act 419 represent full annual receipts expected, while the Act 419 FY 14 amounts represent only the incremental additions from what was already budgeted for FY 14. Once this transition year is complete, full annual estimates for each year will presumably be adopted at each REC meeting. With the exception of two particular statutory dedications the Act 419 additions to the forecast were adopted and designated as recurring revenue.

The conference engaged in considerable discussion involving the funds associated with the 2013 Tax Amnesty Fund, and those associated with the Overcollections Fund. In the case of the tax amnesty, the associated funds are already receipts of the state ($381.6 M of cash receipts) and the discussion revolved around the recurring versus nonrecurring nature of these monies. Ultimately, for FY 14 the conference accepted $200 M of amnesty receipts as already budgeted and adopted $172 M as receipts available above and beyond that. For FY 15 the conference adopted an estimate of $122.3 M of amnesty receipts resulting from the second phase of the program slated for the fall of 2014. Both of these amounts were designated recurring. With regard to the Overcollections fund, much of the resources anticipated for the fund in the FY 14 budget are yet to be received by the fund. Discussion revolved around the likelihood of receipts in FY 14 as well as additional receipts from a new list of sources in FY 15. The recurring versus nonrecurring nature of these potential resources was also a focus of discussion. Ultimately, the conference accepted $419 M of Overcollections Fund resources as already budgeted and adopted an estimate of $214 M to be received in FY 14, and designated this amount as recurring. For FY 15 an estimate of $132 M of receipts was adopted and designated as nonrecurring.

FY 14 SGF Fiscal Status Statement—The FY 14 fiscal status statement provided by the DOA for the January 24, 2014, JLCB meeting still includes $25.6 M of fiscal note values for two bills from the 2013 RS as the bills were introduced. As those two bills were enacted, their fiscal notes were only $5.4 M but the status statements were never changed to reflect that reality. This resulted in a positive SGF bottom line rather than a negative one for the first half of FY 14. Now that the REC has met, those enacted values should be incorporated into the base SGF forecast that starts the status statement, and the $25.6 M amount should removed from the statement. In fact, the total of all of the bills affecting SGF revenue that were enacted in the 2013 RS was -$3.725 M for FY 14 (only two of the bills enacted had positive fiscal notes that sum to the +$5.4 M correct figure relevant to the status statement entry in question). Thus, if all 2013 RLS revenue bills are correctly incorporated, the removal of the $25.6 M figure results in a SGF bottom line of -$57.175 M.

Of the -$3.725 M of FY 14 revenue session actions, $1 M is attributable to a new dedication of sales tax to the Telecommunications Fund for the Deaf (Act 300 of 2013) and $2.725 M is attributable to all other bills enacted. If only the -$1 M dedication effect is incorporated into the REC SGF forecast (as evidenced by its inclusion in the REC list of statutory dedications that divert revenue from the general fund) then an additional $2.725 M reduction to the SGF bottom line is required. In this case, the FY 14 SGF bottom line is -$59.9 M.

GENERAL GOVERNMENT

Act 420 of 2013 Update (Overcollections Fund)

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Act 420 of 2013 provides for the transfer of various funds and resources into either the Overcollections Fund and/or SGF for FY 14 appropriation. Tables 1 & 2 represent outstanding Overcollections Fund and SGF transfers to date. *Transfers into the SGF listed in Table 2 are included in aggregate in the monthly SGF fiscal statement presented by the DOA to JLCB.* Table 3 illustrates that based upon LFO analysis, the Overcollections Fund could be approximately $5.9 M short in FY 14. This assumes that all anticipated collections listed in Table 3 will be collected at the anticipated levels and that current EOB, as shown in Table 4, will be completely expended in FY 14.

FY 14 OC Fund Rev. Sources (Table 1)	Anticipated	Collected & Transferred To Date	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$27,269,009	$112,980,991
Legal Settlements	$64,771,871	$0	$64,771,871
Sale of Pointe Clair Farms	$12,000,000	$12,000,000	$0
Sale of Baton Rouge State Office Bldg.	$10,250,000	$0	$10,250,000
Sale of Southeast Hospital Property	$17,840,000	$0	$17,840,000
Sale of Wooddale Towers	$350,000	$335,325	$14,675
Sale of Hart Parking Garage Property	$2,180,000	$0	$2,180,000
Sale of Various WLF Properties	$2,000,000	$2,000,000	$0
Sale of Greenwell Springs Hospital Property	$0	$0	$0
Sale of Pines Campus Property	$0	$0	$0
Sale of Southern Oaks Addiction Recovery Property	$0	$0	$0
Sale of Bayou Region Property	$0	$0	$0
Sale of MDC Apartment Property	$0	$0	$0
LDR Fraud Initiative	$20,000,000	$4,659,479	$15,340,521
Excess FEMA Reimbursements	$19,950,000	$0	$19,950,000
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$11,591,755	$16,692,745
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$0	$2,000,000
Self Insurance Fund	$16,000,000	$16,000,000	$0
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$0	$1,988,106
2% Fire Insurance Fund	$2,358,715	$0	$2,358,715
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$0	$48,298
Compulsive & Problem Gaming Fund	$57,071	$0	$57,071
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$0	$1,000,000
Mega-Project Development Fund	$11,300,000	$0	$11,300,000
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$0	$25,019
Penalty & Interest Fund	$1,541,440	$0	$1,541,440
Riverboat Gaming Enforcement Fund	$8,605,392	$0	$8,605,392
Transfer from fund to SGF	($5,000,000)	$0	($5,000,000)
TOTAL	$413,207,388	$113,485,985	$299,721,403

Overcollections Fund (Table 3)	FY 14 Amount
FY 14 Anticipated Collections*	$413,207,388
FY 14 Existing Operating Budget (EOB)**	$419,108,607
Anticipated FY 14 Shortfall	**($5,901,219)**

**See Table 1 for a complete anticipated OC Fund revenue list*

***See Table 4 for a complete Overcollections Fund FY 14 EOB*

SGF Transfers (Table 2)	Anticipated	Transferred to Date
Adult Probation & Parole Officer Retirement Fund	$2,000,000	$0
Penalty & Interest Account	$4,158,560	$0
Community & Family Support System Fund	$22,227	$0
DOJ Debt Collection Fund	$212,838	$0
Energy Performance Contract	$471,564	$0
Entertainment Promotion & Marketing	$152,951	$0
Environmental Trust	$2,487,146	$0
Health Care Facility Fund	$847,641	$0
LA Filmmakers Grant Fund	$225,638	$0
LA Life Safety & Property Protection Trust Fund	$144,435	$0
Medical & Allied Health Prof. Ed Scholarship	$106,920	$0
Right to Know Fund	$175,500	$0
Small Business Surety Bonding Fund	$1,900,000	$0
Tax Commission Expense Fund	$48,978	$0
Tobacco Tax Health Care Fund	$233,334	$0
Variable Earnings Transaction Fund	$18,405	$0
Vital Records Conversion Fund	$4,243	$0
Riverboat Gaming Enforcement Fund	$5,800,000	$0
Overcollections Fund	$5,000,000	$0
Medical Assist. Program Fraud Detection Fund	$7,021,271	$0
Higher Ed Initiatives Fund	$267	$0
Private Investigator Examiners Fund	$76	$0
LA Fire Marshal Fund	$791,745	$0
2% Fire Insurance Fund	$1,878,117	$0
TOTAL	$33,701,856	$0

Schedule (Table 4)	Agency Name	FY 14 EOB
01-111	Governor's Office of Homeland Security & Emergency	$21,250
01-112	Military Department	$500,000
04-DOJ	Attorney General	$4,563,971
07-DOTD	Transportation & Development	$36,000,000
08-DPS	State Police	$84,796
11-DNR	Natural Resources (Judgment)	$4,104,286
12-REV	Revenue Department	$3,950,000
19-LSU	LSU Board of Supervisors	$143,575,155
19-LSUHCSD	Healthcare Services Division	$20,000,000
19-SU	Southern University Board of Supervisors	$27,466,779
19-UL	University of LA Board of Supervisors	$103,618,305
19-UL	University of LA Board of Supervisors (Judgments)	$1,333,707
19-BOR	LA Board of Regents	$5,917,489
19-LUMCON	LA Universities Marine Consortium	$977,910
19-LCTCS	LA Technical & Community Colleges Board of Supervisors	$56,709,705
19-BESE	Board of Secondary & Elementary Education	$69,405
20-945	State Aide to Local Governments	$3,720,247
20-950	Judgments/Special Acts	$6,495,602
TOTAL		$419,108,607

Alvarez & Marsal Contract

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

On December 19, 2013, the State entered into a $4,208,757 contract with Alvarez & Marsal for consulting services relative to efficiencies in state government. The contract term is from December 16, 2013 to December 15, 2016. Pursuant to the statement of work in the signed contract, the contractor will address the following 6 areas: *(cont. pg 4)*

- Financial management and operational leadership resources to augment capabilities of state agencies;
- Collaborative design of innovative strategies to improve the efficiency of government;
- Definition, design and implementation of public/private partnership models;
- Independent progress validation of implemented policy, planning and transformation initiatives;
- Advisory services to achieve implementation of key reforms;
- Other support as needed for efficient allocation of general funds in the next budget cycle.

According to the RFP response by the vendor, the process will be broken down into 2 phases: Assessment & Recommendations and Implementation. The specific deliverables of the contract and the designated value of the deliverables are included in *Table 5*.

Deliverables (Table 5)	Deliverable Value
Governance Model	$170,036
Organizational Structure	$174,543
Lines of Service Catalog Development	$139,815
Provider Management Plan	$122,369
Savings Model	$223,279
Customer/Stakeholder Engagement Plan	$215,939
Human Capital Management	$244,097
Revenue Maximization Model	$325,452
Operational Efficiency Plan for Service Management & Delivery	$276,590
Project Management Strategy	$154,008
Sourcing & Procurement Strategy	$230,875
Risk & Issue Management Plan	$143,899
Change Management Plan	$144,295
Communications Plan	$164,648
Monitoring & Tracking Model	$201,648
Administrative Services Assessment Plan	$81,184
Facilities/Property Strategy & Management Assessment Plan	$133,498
Risk Management Assessment Plan	$71,711
Human Services Assessment Plan	$63,570
Health, Mental, Behavioral & Public Health Assessment Plan	$125,543
Adult Corrections & Probation & Parole Assessment Plan	$154,660
Public Safety Assessment Plan	$70,412
Juvenile Justice & Probation & Parole Assessment Plan	$139,091
Revenue & Taxation Assessment Plan	$190,711
Economic Development Assessment Plan	$94,763
Transportation & Developmet Asssessment Plan	$152,121
TOTAL	**$4,208,757**

Funding the $4.2 M Contract

The DOA has indicated to the LFO that SGR ($3,012,677) and IAT ($1,196,080) resources will be utilized to fund this contract in the current fiscal year within the DOA's operating budget through efficiencies and savings. The DOA will initially pay for all consulting services upfront and request IAT reimbursement from state agencies upon implementation of the deliverable. The state agency breakdown of these reimbursements is not available at this time, as the amount expended by the agency will ultimately depend upon the amount spent by the contractor at the agency during plan development. Based upon the signed contract and deliverable schedule, the vendor is anticipated to be paid on a per deliverable basis. *See Table 6 for an anticipated monthly payment schedule of the $4.2 M contract.*

Month (Table 6)	Payment Schedule By Month
Jan-13	$1,185,855
Feb-13	$1,968,634
Mar-13	$894,268
Apr-13	$160,000
TOTAL	**$4,208,757**

Note: On January 21, 2014, the DOA and vendor signed a contract amendment that specifies that the vendor "will identify savings, efficiencies and revenue maximization initiatives that meet or exceed $500 M in State funds."

Staff Augmentation

Although the due dates for these deliverables range from January 3, 2014 to April 15, 2014, the contract term ends on December 15, 2016. This is due to provisions in the contract that allow for Alvarez & Marsal to potentially provide staff augmentation services to state agencies for implementing any recommendations presented in the final recommendations. The contract provides for such augmentation services to be provided on an hourly basis, which range from $75/hour to $396/hour depending upon the labor category of the work order. To the extent a state agency chooses to utilize Alvarez & Marsal to implement a recommendation, the total cost to the state will likely exceed $4.2 M. The specific number of hours that would be billed to the state as a result of staff augmentation services will not be known until the work begins.

BP Oil Spill Settlements and Grants

Matthew Labruyere, Fiscal Analyst, labruyerem@legis.la.gov

Since the Deepwater Horizon oil spill, LA has been awarded more than $2.1 B for damages. Payments awarded to the state include over $1.6 B from settlements and approximately $500 M in the form of grants. The settlements includes payments from MOEX, British Petroleum (BP), Halliburton, and Transocean. Aside from the MOEX settlement, the other settlement agreements have not been paid and the amounts listed are what Louisiana has the potential to receive in future years. The settlements and grant payments are described below and summarized on *Table 7 on page 5*.

MOEX Settlement

In February 2012, MOEX (a minority owner in the well) reached a settlement with the United States Department of Justice (U.S. DOJ) to pay $90 M in civil penalties for violations under the federal Clean Water Act. Of the $90 M, $45 M was paid to the Federal government and $45 M was paid to the Gulf States, with LA receiving $13.5 M. The MOEX settlement included a $6.75 M cash payment that was deposited in the Coastal Protection & Restoration Fund in accordance with Act 805 of 2012. MOEX also purchased land (valued at $6.75 M) to be used for perpetual

conservation servitude and gave the title for the land to the LA Department of Wildlife & Fisheries. The land will add wetlands to the Maurepas Swamp Wildlife Management Area. **NOTE:** Act 805 of 2012 provides that any monies received by the state for violations of the Federal Water Pollution Act associated with the Deepwater Horizon oil spill will be deposited into the Coastal Protection & Restoration Fund.

Summary (Table 7)	Total Fine	LA Amount
MOEX Settlement	$90,000,000	$13,500,000
BP Settlement***	$4,000,000,000	$1,200,000,000
Transocean Settlement (Civil)*	$1,000,000,000	$55,200,000
Transocean Settlement (Criminal)***	$400,000,000	$75,000,000
Haliburton Settlement**	$55,000,000	?
Early Restoration Settlement (BP)***	$1,000,000,000	$370,000,000
BP Administrative Grant to LA		$25,000,000
BP Tourism Grant to LA		$15,000,000
BP/LA Fisheries Monitoring Agreement		$13,200,000
BP Seafood Agreement - Testing		$18,000,000
BP Seafood Agreement - Marketing		$30,000,000
BP Seafood Agreement - Tourism		$30,000,000
BP Grant to DHH		$8,253,954
BP Sand Berm Funding		$360,000,000
TOTAL	**$6,545,000,000**	**$2,213,153,954**

**The $55.2 M amount may be increased once certain formulas are determined.*
***The $55 M contribution has no limitations and it is unknown how the funds will be expended.*
****Potential settlement amount LA may receive.*

BP Settlement (Clean Water Act Criminal Penalties)
In November 2012, BP entered into a plea agreement with the U.S. DOJ that totaled $4 B in criminal penalties. Of the $4 B, $2.4 B is allocated to the National Fish & Wildlife Foundation. The National Fish & Wildlife Foundation, a 501(c)(3) non-profit foundation established by congress, will administer the settlements funding. The National Fish & Wildlife Foundation can award $1.2 B to LA and the remaining $1.2 B to the other Gulf States. As part of the agreement, the funding that LA receives will be used to create or restore barrier islands or to implement river diversion projects.

Transocean Settlement - (Clean Water Act Civil Penalties)
Transocean entered into a Federal Settlement Agreement with the U.S. DOJ in January 2013 and paid civil penalties of $1 B. These penalties are to be distributed according to the RESTORE Act, which was passed by Congress in 2012, with 20% paid to the federal government and 80% ($800 M) deposited in the Gulf Coast Restoration Trust Fund. From the fund, 35% ($280 M) is allocated equally to the Gulf States. LA's share will be distributed with 70% paid directly to the state and 30% paid to coastal parishes through a weighted formula. An additional 30% (of the $800 M) will be distributed to Gulf States using a weighted formula and no state will receive less than 5% of this portion. Finally, the state will receive an equal share with the other Gulf States of 2.5% for grants and research centers.

Transocean Settlement - (Clean Water Act Criminal Penalties)
At the same time, Transocean also agreed to a criminal plea agreement in the amount of $400 M, with $150 M paid to the National Fish & Wildlife Foundation to distribute to the Gulf States. LA will be able to receive $75 M of the $150 M and the remaining $75 M will be distributed to the other Gulf States. Like the BP settlement, as part of the agreement LA must use the funds to create or restore barrier islands or to implement river diversion projects.

Halliburton Settlement
In July 2013, Halliburton entered a federal criminal plea agreement by pleading guilty to a misdemeanor violation of destruction of evidence. As part of the agreement Halliburton paid $200,000 in criminal fines and pledged a voluntary contribution of $55 M to the National Fish & Wildlife Foundation. The contribution does not have any limitations on the use of the funds. From this contribution, LA may potentially receive a distribution from the foundation. However, at this time it is not known how much, if any, LA may receive.

Early Restoration Settlement
The LA Coastal Protection & Restoration Authority (CPRA) will have access to approximately $370 M as part of an early restoration settlement between federal and state trustees and BP. Under the early restoration settlement, BP agreed to pay a total of $1 B to the 5 Gulf States for implementation of

Corrections Substance Abuse Treatment Program
Stephanie Blanchard, Fiscal Analyst, blanchas@legis.la.gov

Act 389 of the 2013 Regular Legislative Session created an early release program for nonviolent offenders who are jailed on first and second time drug offenses. The legislation was expected to result in an estimated savings of $6.1 M in FY 14; however, actual savings are estimated to be approximately $815,000.

In order to be eligible for early release, offenders had to have served at least two years of their sentence and have less than one year left in prison. A second component of the legislation allowed others convicted of similar drug charges to be diverted to a substance abuse treatment program under probation supervision of the Department of Corrections (DOC), instead of being sentenced to prison.

Estimated Savings and Participation
The two components were expected to result in an estimated savings of $6.1 M in FY 14. Implementation of the early release component had an estimated savings of $3.45 M in FY 14. This savings was based on the department's estimate of approximately 527 offenders that would be eligible for participation in this program on July 1, 2013, with an additional 317 offenders eligible for release incrementally throughout FY 14 for a total of 844 eligible offenders.

Implementation of the diversion program for "new" offenders had an estimated savings of $2.65 M in FY 14. This estimate was based on the assumption that 500 offenders would be diverted to the substance abuse treatment program rather than incarceration.

Actual Savings
According to the department, finding qualified offenders to participate in the program has been more challenging than expected. Original estimates were revised downward because the department found that of those eligible, 20% were in Transitional Work Programs, 10.6% were already enrolled in certified treatment and *(cont. pg 6)*

restoration projects prior to completion of the Natural Resources Damage Assessment Process. CPRA plans to utilize approximately $370 M of early restoration settlement award to fund the following projects: outer coast restoration project ($318 M); marine fisheries enhancement, research & science center project ($22 M); oyster clutch project ($15 M); and Lake Hermitage Marsh Creation project ($13.9 M).

Grant Payments
The state received approximately $500 M in grants from BP to provide for claims or expenditures incurred by the state because of the oil spill. Approximately $360 M of the $500 M was utilized to provide for construction of barrier island sand berms and to enhance the area around the barrier island berms. The balance of the advanced funding for claims was allocated as follows:

* $25 M – initial funding negotiated by the commissioner of administration that was distributed to various state agencies such as the Oil Spill Coordinator's Office and the Department of Natural Resources to provide for expenses related to the oil spill response.
* $15 M – to the Lt. Governor's Office to promote tourism in a manner designed to alleviate or mitigate concerns resulting from the oil spill.
* $13.2 M – to the Department of Wildlife & Fisheries for monitoring programs dealing with nearshore, inshore, and offshore fisheries for a three-year period.
* $30 M – to the Community Foundation of Acadiana and distributed to and directed by the Lt. Governor's Office for Tourism.
* $30 M –to the Wildlife & Fisheries Foundation for a seafood marketing program agreed on by the foundation and the LA Seafood Promotion & Marketing Board and approved by the Department of Wildlife & Fisheries.
* $18 M – to the Department of Wildlife & Fisheries for seafood testing.
* $8.25 M – to the Department of Health & Hospitals to address behavior health needs of LA residents.

rehabilitation program credit classes, 8.24% were in vocational rehabilitation classes, and 7.5% were charged with other crimes for a total of 46.3% that would not be enrolled in the program.

Approximately 133 offenders have participated in the treatment program associated with Act 389. Of those, 92 offenders have been released and another 73 offenders are estimated to be released by June 30, 2014, for a total of 165 offenders released for FY 14. Resultant savings would be $814,860.

The diversion component of the bill has not been implemented because the department is having difficulties in procuring providers for the program. DOC is currently working with the Department of Health and Hospitals to identify potential providers.

The current FY 14 budget included $6.1 M in savings anticipated from Act 389. Any additional resources will be appropriated in the FY 14 Supplemental Appropriations Bill during the 2014 Regular Legislative Session.

LED FastStart Program Overview
Charley Rome, Fiscal Analyst, romec@legis.la.gov

The LA Department of Economic Development (LED) created the FastStart Program in November 2008. LED modeled FastStart after Georgia's successful Quick Start Program which has provided free customized workforce training to qualified businesses in Georgia for more than 40 years. Since FastStart's creation in 2008, the program has trained more than 18,000 individual workers and provided 226,000 hours of training to more than 100 companies in LA.

FastStart Funding and Performance Summary by Fiscal Year (Table 8)

	FY 09 Actuals	FY 10 Actuals	FY 11 Actuals	FY 12 Actuals	FY 13 Actuals	FY 14 Budgeted	
*FastStart Funding Sources **							
State General Fund	$0	$0	$0	$1,390,000	$748,000	$2,000,000	
Interagency Transfer	$0	$431,000	$607,000	$129,000	$455,000	$351,000	
Rapid Response Fund	$0	$0	$0	$0	$483,000	$1,517,000	
LED Fund	$1,112,000	$4,006,000	$5,277,000	$4,058,000	$5,006,000	$7,801,000	
Total	$1,112,000	$4,437,000	$5,884,000	$5,577,000	$6,692,000	$11,669,000	
*FastStart Funding Uses **							
LED Salaries/Benefits	$168,000	$398,000	$403,000	$443,000	$460,000	$433,000	
LED Operating Services	$149,000	$514,000	$623,000	$555,000	$681,000	$671,000	
LED Professional Services	$0	$25,000	$54,000	$144,000	$60,000	$266,000	
Other Charges	$0	$0	$0	$0	$0	$0	
Transfer to LCTCS	$182,000	$1,485,000	$2,071,000	$2,497,000	$2,940,000	$3,100,000	
Payments to Private Contractors	$237,000	$1,792,000	$2,657,000	$1,919,000	$2,541,000	$7,199,000	
Acquisitions	$376,000	$224,000	$75,000	$19,000	$10,000	$0	
Total	$1,112,000	$4,438,000	$5,883,000	$5,577,000	$6,692,000	$11,669,000	**
LED FastStart Staff	3	3	3	3	3	3	
LCTCS FastStart Staff	8	19	23	28	31	35	
Employees Trained by FastStart	1,131	3,461	5,895	4,150	5,285	2,500	
Number of FastStart Projects	6	21	23	33	19	2,500	
New Jobs Associated with FastStart	1,867	4,788	2,975	7,187	4,691	N/A	***
Retained Jobs Associated with FastStart	1,382	3,799	1,146	5,701	3,422	N/A	***

* *Funding Sources and Uses are rounded to the nearest thousand dollars.*
** *The $5 M increase from FY 13 Actuals to FY 14 Budgeted is due to $3.5 M in carryforwards and $2 M for a project with Benteler Steel.*
*** *These are "General Performance Indicators" and are not budgeted.*

Availability of an educated, skilled and dependable workforce is a top priority for all companies. Traditional job and occupational training is general in nature focusing on basic knowledge and skills. Many employers have specialized requirements related to recruiting, screening, and training of employees. FastStart staff works individually with each company to provide customized workforce services including employee recruitment, screening, training development and training delivery for both pre-employment and post-employment phases. Companies utilize FastStart services to expand employment at a facility currently operating in the state or to staff a new facility or business in LA. Companies using FastStart must create at least 15 manufacturing jobs or 50 service-related.

FastStart training is provided without costs to companies using the program. LED's FastStart funding in FY 14 is $11.3 M with the following funding sources: $2 M SGF, $1.5 M from the LED Rapid Response Fund, and $7.8 M from the LED Fund. FY 14 funding is significantly greater ($5 M) than prior years because it includes $2 M for a large project with Benteler Steel and $3.5 M in funds carried forward from FY 13, including $1.5 M for an ongoing project with GE Capital. LED has a small staff of three employees to administer the FastStart Program. LED works in conjunction with a staff of 35 employees from the LA Community & Technical College System (LCTCS) who provide some of the FastStart training. The LCTCS staff is funded with $3.1 M from the LED Fund covering their salaries, benefits, and travel costs. Another $7.2 M in FY 14 funds training and other services provided by LED's FastStart contractors statewide who provide FastStart services not provided by LCTCS staff. LED has over 100 FastStart contractors statewide with the number of contractors varying each year based on the needs of companies participating in the program. *Table 8 on the previous page shows FastStart funding, staffing, and training outcomes by fiscal year.*

The following is a sample of companies that have received or are receiving FastStart services since the program began in 2008: Stupp Corp. and Baton Rouge Coca-Cola Bottling Co. in Baton Rouge; Folgers in New Orleans; Shaw Modular Solutions, Aeroframe Services and Northrop Grumman in Lake Charles; Cameron Valves in Ville Platte; Globalstar in Covington; ConAgra Foods Lamb Weston in Delhi; Dr. Reddy's Laboratories in Shreveport; Gardner Denver Thomas in Monroe; Pixel Magic in Lafayette; Roy O. Martin in Chopin; Barrister Global Services in Hammond; and Zagis USA in Lacassine.

EDUCATION

LA Community & Technical College System
Charley Rome, Fiscal Analyst, romec@legis.la.gov

The LA Community and Technical College System (LCTCS) oversees and manages thirteen community and technical colleges throughout the state. Act 151 (SB2) of the 1998 First Extraordinary Session created the LCTCS and moved the 44 vocational-technical institutions in existence at the time from the supervision/management of the Board of Elementary & Secondary Education (BESE) to the oversight/management of the newly created LCTCS. Act 151 also placed the seven community colleges in existence at the time under the oversight/management of the newly created LCTCS. Since that time it has undergone significant growth and reorganization to become the system that exists today.

LCTCS Funding and Enrollment by Community/Technical College (FY 13-14) (Table 9)

Community/Technical College	*FY 14 SGF*	*FY 14 Total Funding*	*FY 14 Est. Enrollment **
Baton Rouge Community College	$5,118,925	$28,379,369	5,401.5
Bossier Parish Community College	$4,202,269	$29,807,256	5,965.5
Central Louisiana Technical Community College	$3,314,381	$9,586,870	1,676.0
Delgado Community College	$14,687,072	$81,533,700	12,695.8
Fletcher Technical Community College	$1,525,077	$8,020,860	1,539.0
Louisiana Delta Community College	$4,609,197	$17,827,834	2,768.9
Northshore Technical Community College	$2,861,414	$9,750,969	1,639.6
Northwest Louisiana Technical College **	N/A	N/A	1,641.3
Nunez Community College	$1,774,986	$7,437,000	1,450.8
River Parishes Community College	$1,706,431	$7,950,251	1,680.7
South Central Louisiana Technical College **	N/A	N/A	1,473.9
South Louisiana Community College	$7,305,953	$26,868,166	4,651.7
SOWELA Technical Community College	$3,105,722	$12,695,131	2,256.0
Louisiana Technical College ***	$9,833,436	$26,142,608	1,844.6
LCTCS Total	$60,044,863	$266,000,014	46,685.3

* *Based on full time equivalent enrollment (FTE)*
** *Funding for Northwest and South Central La. Tech. Colleges included in La. Technical College*
*** *Also includes funding and students for Capital Area Technical College*

Community and technical colleges under the LCTCS have a very important role in LA's postsecondary educational system. The low educational attainment of LA high school students and the financial and social obstacles faced by many of state's students increase the significance of the LCTCS. Many LA high school students are not academically prepared for study at a university, resulting in low retention and graduation rates compared to similar institutions in other states. Furthermore, tuition and fees are higher at LA's public universities compared to its community colleges. Students who do not receive a TOPS scholarship or other significant student aid face much higher costs of attendance in their first two years of study at a university compared to a community college. As such, LA students would have lower educational costs if more students conducted their first two years of study at a 2-year community college instead of a 4-year public university. Finally, the LCTCS provides the training ground for many jobs in today's workforce that do not require two or four year degrees. *Table 9 provides some basic funding and enrollment information on the institutions under the LCTCS for FY 14.*

Workforce Development
Many jobs today require "middle skills" workers possessing more than a high school education but less than a four-year degree. The LA Workforce Commission (LWC) developed the LA Star Jobs program and website that finds and

ranks jobs in the state based on the following four criteria: projected demand, projected percentage job growth, the number of advertised job openings in the past year and wages. Jobs with strong demand/growth and higher pay get more stars; the best occupations get five stars. The following are examples of five star jobs that require less than a baccalaureate degree: Electricians, heating/air-conditioning mechanics/installers, physical therapy assistants, plumbers, pipefitters, steamfitters, service unit operators for oil/gas/mining, welders, boilermakers, carpenters, chemical plant system operations, crane operators, dental hygienists.

The LWC and the LA Department of Economic Development report that there will be over 80,000 new construction career opportunities along LA's Interstate 10 with emphasis in the greater Lake Charles, Baton Rouge, & New Orleans areas. To meet this demand, LA's Community and Technical Colleges are adding construction classes at all 13 college locations statewide.

On January 21, 2014 the Governor proposed a new $40 M incentive fund called the Workforce & Innovation for a Stronger Economy Fund (WISE Fund). Funding from WISE will be available to state research institutions that produce nationally recognized commercial research and to state colleges and universities that produce graduates with 4 and 5 STAR job ready degrees. To receive these funds, institutions will have to partner with private industry by recruiting at least a 20% private match in cash or in kind, such as technology and equipment.

At the same time, the Jindal administration announced creation of the Jump Start Career Education Program under the Department of Education (DOE). The DOE website describes Jump Start as a program for school districts, colleges, and businesses providing career courses and workplace experiences to high school students leading to careers in high-wage jobs and regionally relevant job sectors while also enabling them to continue their post-secondary education and career development. Jump Start programs shall be developed jointly by regional teams consisting of local educational authorities, technical and community colleges, business and industry leaders, and economic and workforce development organizations in accordance with guidelines to be developed by LDE and adopted by BESE.

Enrollment Growth and Operational Funding

Enrollment at LCTCS institutions has increased dramatically since creation of the LCTCS for the following reasons: accreditation by the Southern Association of Colleges & Schools (SACS); allowing use of credits to obtain associate degrees and to transfer credits to 4-year schools; improvement of existing facilities and construction of new facilities, higher admissions standards at 4-year schools; and elimination of associate degrees at 4-year schools. Enrollment in community and technical colleges under the LCTCS has increased by 184% since FY 00 while enrollment in 4-year universities decreased by 8.2% during the same period.

LCTCS Funding and Enrollment (FY 00 to FY 14) (Table 10)

Means of Finance	*FY 99-00*	*FY 08-09*	*% Change Since FY 00*	*FY 13-14*	*% Change Since FY 00*
State general fund (SGF)	$125,428,026	$191,889,704	53%	$64,961,839	-48%
Self-generated revenues (SGR)	$23,124,838	$72,045,743	212%	$156,978,304	579%
Total funding	$206,200,887	$280,522,862	36%	$294,452,458	43%
Full-time equivalent (FTE) students	15,284	41,535	172%	46,685	205%
Funding per FTE Student					
SGF per FTE student	$8,206	$4,620	-44%	$1,391	-83%
SGR per FTE student	$1,513	$1,735	15%	$3,362	122%
Total funding per FTE student	$13,491	$6,754	-50%	$6,307	-53%

Furthermore, to create efficiencies and student access, providing both workforce training and transfer programs, the following Community Technical colleges have been created since FY 00 by consolidating former Technical College Campuses and becoming SACS accredited: SOWELA Technical Community College, Fletcher Technical Community College, Northshore Technical Community College and Central LA Technical College (Alex). Legislation merged other community colleges with Technical College Campuses in respective regions, including Delgado Community College, LA Delta Community College, South LA Community College and Baton Rouge Community College. In the 2013 session, Study Resolutions (HCRs 16 and 170) authorized Board of Regents review of the two remaining Technical Colleges, South Central LA Technical College and Northwest Technical College.

Operational funding has failed to keep pace with enrollment growth for LCTCS community and technical colleges since FY 00. Additionally, SGF support for LCTCS institutions declined from a high point of $192 M in FY 09 to a budgeted amount of $65 M in the current year (excluding $56.7 M in FY 14 funding from the Overcollections Fund). Self-generated revenues (SGR) increased from $23 M in FY 00 to $157 M in the FY 14 budget. Funding from all means of finance increased from $206 M in FY 00 to $294 M in FY 14 budgeted. However, funding per student actually decreased 53% since FY 00 because the number of students at LCTCS community and technical colleges increased so dramatically. Furthermore, SGR (primarily tuition and mandatory fees) per student increased by 122% since FY 00.

Finally, SGF per student decreased 83% since FY 00. *Table 10 on the previous page provides an enrollment and funding summary for the LCTCS from FY 00 to present.*

Facilities Funding

Act 391 (SB 337) of the 2007 Regular Session granted authority to the LCTCS to enter lease agreements for the financing of 23 capital improvement and enhancement projects at 14 community and technical colleges around the state. Funding in Act 391 for all 23 projects was $151M plus 15% contingency. Act 391 also stated that leases may not exceed 30 years. Repayment of the bonds has been funded with SGF in the following amounts by fiscal year: FY 10 $2 M, FY 11 $21.255 M, FY 12 $9.2 M, and FY 13 $14.5 M. FY 14 bond payments are budgeted at $15.1 M. LCTCS estimates future year bond payments associated with Act 391 to be the following: FY 15 $15 M, FY 16 through FY 21 approximately $15.4 M each year, and FY 22 through FY 29 approximately $17.25 M each year. *Table 11 shows the status of projects authorized by Act 391.*

Act 360 (SB 204) of the 2013 Regular Session authorized funding of 29 capital improvement projects for LCTCS facilities with bonds that are excluded from the calculation of Net State Tax Supported Debt (NSTSD). The purpose of excluding the bonds from calculation of NSTSD is to exclude bond payments from calculations determining the state's debt limit. Total funding in Act 360 for all 29 projects is $251.6 M plus 15% contingency. Act 360 requires matching funds from private sources of no less than 12% for each project, states that leases may not exceed 30 years and that no funds shall be appropriated for the projects until July 1, 2015 (FY 16). *Table 12 on page 10 lists projects authorized by Act 391.*

Update on LCTCS Facility Projects included in Act 391 (SB 337) of the 2007 Regular Legislative Session (Table 11)

Community/Technical College	*City/Region*	*Project Description*	*Original Appropriated Amount **	*Status*
Evangeline Campus	St. Martin	Replacement of campus buildings on campus-owned land across the street from existing location.	$9,200,000	Site Location Under Review
Huey P. Long Campus	Winnfield	Replace and relocate facilities at more accessible location on college-owned land.	$11,500,000	Complete
Northwest Louisiana Campus	Minden	Expand campus in location on college-owned land.	$16,100,000	Complete
Young Memorial Campus	Morgan City	Construct buildings needed for non-marine programs.	$5,980,000	Complete
Florida Parishes Campus	Greensburg	Acquisition of eight-acre site and construction of facilities.	$9,200,000	Complete
Westside Campus	Plaquemine	Replacement of buildings and relocation of campus.	$3,450,000	Complete
Gulf Area Campus	Abbeville	Restoration of current facilities.	$6,900,000	Complete
Shelby M. Jackson Campus	Ferriday	Repair and replacement of facilities on college-owned land.	$5,175,000	Complete
Sidney N. Collier Campus	New Orleans	Relocation of campus, acquire land and buildings.	$13,685,000	Complete June 2014
L. E. Fletcher Technical Community College	Houma	Construction of classroom lab and office building; water survival training facility at LAMPI and construction of marine/welding transportation building.	$24,495,000	Complete
Sowela Technical Community College	Lake Charles	Acquire adjacent land and construction of classroom and student facilities.	$14,950,000	Complete
River Parishes Community College	Sorrento	Acquire land and facilities and construction of additional facilities.	$19,550,000	Complete June 2014
Delgado Community College	New Orleans	Restore Issac Delgado Hall.	$904,820	95% Complete
Delgado Community College	New Orleans	Restore Student Services building.	$3,011,103	Begins 2/28/14
Delgado Community College	New Orleans	Relocate Maritime and Industrial Training Center from City Park to New Orleans East.	$7,388,750	Begins June 2014
Delgado Community College	New Orleans	Demolition and construction Learning Resources Center.	$4,731,290	Began 1/1/13
Elaine P. Nunez Community College	Chalmette	Arts and Sciences Building	$111,765	Complete
Elaine P. Nunez Community College	Chalmette	Allied Health Building	$813,466	On hold with FEMA
Elaine P. Nunez Community College	Chalmette	Physical Activity Center	$847,809	On hold with FEMA
Elaine P. Nunez Community College	Chalmette	Shop Building-B	$1,117,521	On hold with FEMA
Elaine P. Nunez Community College	Chalmette	Stewart Administration Building	$1,974,451	Complete Fall 2014
Elaine P. Nunez Community College	Chalmette	Classroom Building A	$1,128,922	On hold with FEMA
Statewide Student and Financial Information System	Statewide	Statewide Student and Financial Information System	$11,500,000	Complete
Act 391 Total			**$173,714,896**	

** Includes 15% contingency as authorized by Act 391.*

LCTCS Facility Projects included in Act 360 (SB 204) of the 2013 Regular Legislative Session (Table 12)

Community/Technical College	*Location, Facility Name*	*Project Amount*
Baton Rouge Community College	New Workforce Training Center	$8,100,000
Baton Rouge Community College	Smiley Heights Campus, East Baton Rouge Parish Technology Center	$10,200,000
Bossier Parish Community College	Bossier City Campus, Bossier Parish Science, Technology, Engineering and Math (STEM) Building	$18,500,000
Capital Area Technical College	Baton Rouge Campus, East Baton Rouge Parish Welding Center	$3,330,000
Central La. Technical Community College	Alexandria Campus, Rapides Parish Workforce Industrial Training Campus	$19,000,000
Delgado Community College	Charity School of Nursing, Orleans Parish New Nursing and Allied Training Building	$34,000,000
Delgado Community College	River City Campus, West Bank, Jefferson Parish Training Center for Transportation, Maritime, Engineering	$14,000,000
Delgado Community College	Delgado Community College, New Orleans, Orleans Parish Center for Hospitality and Culinary	$9,000,000
Delgado Community College	Delgado Community College, Westbank Campus, Orleans Parish, Advanced Technology Center	$12,000,000
Delgado Community College	Blair Campus, Metairie, Jefferson Parish Advanced Workforce Training	$7,200,000
Delgado Community College	Avondale, Jefferson Parish, Advanced Manufacturing Center of Excellence	$10,000,000
Louisiana Delta Community College	Winnsboro, Franklin Parish, Technology and Career Program Training Center	$4,590,000
Louisiana Delta Community College	Jonesboro, Jackson Parish, Welding, Vehicle Operation and Industrial Training Center	$2,700,000
Louisiana Delta Community College	Ruston, Lincoln Parish, Nursing, Welding, Workforce Training Campus	$8,100,000
Louisiana Delta Community College	Monroe, Ouachita Parish Technology Center	$7,200,000
Louisiana Delta Community College	Tallulah, Madison Parish Upgrade/Advanced Workforce Training Campus	$2,500,000
Northshore Technical Community College	Lacombe, St. Tammany Parish Training Center for Industrial Technologies	$9,000,000
Northshore Technical Community College	Livingston Parish Community College Workforce Training Center	$5,130,000
Northwest Louisiana Technical College	Minden Campus, Webster Parish Workforce Development Center	$2,250,000
River Parishes Community College	Gonzales, Ascension Parish Center for Advance Technology	$8,100,000
South Central Louisiana Technical College	River Parishes Campus, Reserve, St. John the Baptist Parish PTech Building	$3,888,000
South Central Louisiana Technical College	Reserve, St. John the Baptist Parish Center for Advancement of Technical Education Building	$3,712,500
South Central Louisiana Technical College	Young Memorial Campus, Morgan City, St. Mary Parish, Marine Operations and Industrial Safety Training Center	$3,330,000
South Louisiana Community College	Lafayette Campus, Lafayette Parish Allied Health and Science Training Program Building	$15,000,000
SOWELA Technical Community College	Morgan Smith Campus, Jennings, Jefferson Davis Parish Automotive, Welding, Nursing and Industrial Programs Campus	$9,000,000
L.E. Fletcher Technical Community College	Schriever, Terrebonne Parish One Stop Shop for All Student Activities	$4,500,000
Nunez Community College, Chalmette	Chalmette, St. Bernard Parish Student Testing and Career Counseling Center	$6,480,000
SOWELA Technical Community College	Main Campus, Lake Charles, Calcasieu Parish One Stop Shop for Student Programs and Services	$7,200,000
Capital Area Technical College Campus	Baton Rouge, East Baton Rouge Parish Secured Parking Building for Students	$3,600,000
Act 360 Total		**$251,610,500**

HEALTH & HOSPITALS

Public Hospital Retiree Benefit Costs Pose Potential Shortfall in FY 14

Alan Boxberger, Fiscal Analyst, boxbera@legis.la.gov

The operating budgets of most state agencies include budget authority to provide for the state's portion of group insurance benefits for retirees. Along with the retiree's contribution, these funds pay for insurance premiums for group members that transition into retirement after fulfilling state service obligations. The transition of public healthcare in the state from a charity hospital system to a primary public-private partnership model resulted in a number of employees exercising their option to retire and shifted the funding obligation for both existing (legacy) and new retiree group insurance premiums away from their traditional budget units. The system's transition timeline and funding strategies will likely result in a funding shortfall of approximately $13.75 M.

LSUHCSD – (LSU New Orleans)

During the 2013 Regular Legislative Session, the LSU Health Science Center – Health Care Services Division (LSUHCSD), projected a potential $26 M obligation ($9 M SGF) for group insurance for retiree benefits associated with legacy and new retiree costs during FY 14 for those hospitals included in the privatization efforts. These costs were traditionally appropriated to and budgeted within each hospital's budget unit and considered as a reimbursable expense as part of each hospital's cost of operation. With the dissolution of the hospitals' budget units, a $26 M appropriation for this obligation was made to DHH and assumed to be matchable with federal funds.

At the mid-point of FY 14, LSUHCSD has revised its group insurance expenditure projection for retirees linked to the privatized hospitals downward to approximately $19 - $20 M. The decrease is partially attributed to fewer retirees than originally projected and the phased implementation of privatization. However, DHH has determined that these legacy costs, now outside of a specific hospital's cost of operations, are not matchable by federal dollars. The SGF allocation of the $26 M appropriation equates to roughly $9.63 M, or approximately $10 M less than needed. Because the expenditures are not matchable, the traditional transfer mechanism between DHH and LSUHCSD is insufficient to permit the flow of funds between agencies necessary to pay the obligation. LSUHCSD is currently exploring options with DHH and the Division of Administration (DOA) to determine a mechanism to receive the SGF portion of the appropriation, an alternative funding source, or an another option to address the potential budget hole for FY 14.

LSUHSC - Shreveport

Louisiana State University Health Sciences Center - Shreveport (LSUHSC – Shreveport) did not receive a separate, segregated appropriation to cover legacy and new retirees associated with the privatization. The budget unit received budget authority to support the medical school for a full year and its three hospitals for 3 months each pending privatization (Shreveport, E.A. Conway Medical Center and Huey P. Long). At the current time, only Shreveport and E.A. Conway have completed their transition to private operation. Huey P. Long is currently not projected to complete the transition until the end of FY 14.

LSUHSC – Shreveport's FY 13 budget allocation to cover retiree group insurance premiums at Shreveport and E.A. Conway was approximately $6.9 M. The agency's current projected expenditure for legacy and new retiree benefits during FY 14 is $10.65 M for these two hospitals. While the projected costs for retiree group insurance premiums at the two facilities increased by approximately 54% in FY 14, their overall initial budget appropriation declined by 56.4% compared to the previous year. Without a specific line item appropriation to cover retiree group insurance costs, the LFO assumes the agency will be expected to absorb the increased cost within its diminished budget authority, or to seek administrative or legislative relief.

FY 15 Proposed Healthcare Funding Constitutional Amendments

Shawn Hotstream, Health & Hospitals Section Director, hotstres@legis.la.gov

The following proposed constitutional amendments will be on the ballot at the statewide election on November 4, 2014.

Act 438 (HB 532)

The proposed constitutional amendment implements an annual hospital provider assessment through a formula annually determined by the legislature, requires revenues generated from the assessment to be deposited in a newly created Hospital Stabilization Fund (constitutional fund) in the Treasury, creates a hospital Medicaid reimbursement formula that establishes a funding floor and may establish reimbursement rate enhancements based on a rate of inflation to certain hospitals based on an adopted formula for Medicaid claims and uncompensated care costs.

Recurring funding formulas may be adopted by a favorable vote of a majority of the elected members of each house. The initial formula requires approval of two-thirds of the elected members of each house through concurrent resolution, and defines and establishes a base reimbursement floor under Medicaid to hospitals for inpatient and outpatient services based on FY 2012-2013 funding rates. Additionally, the proposed amendment provides limitations relative to future Medicaid program cuts specifically by eliminating the ability to make targeted cuts to hospital providers to satisfy a budget deficit. The governor may reduce the appropriation to the base reimbursement level (rates) for hospitals if such reduction does not exceed an average rate reduction to other Medicaid providers, and the reduction is consented to in writing by two-thirds of the elected members of each house (or approval by two-thirds of the members of JLCB if not in session).

Any additional Medicaid payments paid to hospitals over an established base (current rate structure) annually is indeterminable, and will depend on the actual revenues generated through the annual assessment and most recent Hospital Stabilization Formula (enhanced payments) adopted by the legislature. It is unclear if all state hospitals are eligible, however the Act provides that the Hospital Stabilization Formula shall also provide for the preservation and protection of rural hospitals.

Act 439 (HB 533)

The proposed constitutional amendment establishes a base reimbursement floor under Medicaid (reimbursement rates) for nursing home providers, pharmacy providers, and ICF/DD providers. The funding level floor is based on FY 13/14 Medicaid rates. Funding may be increased annually by establishing a rate of inflation or rebasing (which shall not be a negative) for these specific providers. The established base rate and any annual rate enhancement applies only to the specific provider groups that are assessed and pay fees into the Medical Assistance Trust Fund (MATF). An inflation factor is not specified in the constitutional amendment, therefore any projected growth in payments for each provider is indeterminable.

Additionally, the proposed amendment provides limitations relative to future Medicaid program cuts, specifically by eliminating the ability to make targeted cuts to the specific providers that are currently assessed a provider fee. The governor may only cut the established base rates to the three provider groups if a reduction is consented to in writing by two-thirds of the elected members of each house (while the legislature is in session), and the reduction does not exceed the average reduction applied to other Medicaid providers. If the legislature is not in session, any reduction must be approved by two-thirds of the members of the Joint Legislative Committee on the Budget (JLCB).

Finally, the proposed constitutional amendment requires the treasurer to create separate accounts within the MATF and allocates the provider taxes collected by the specific provider groups into individual provider accounts within the MATF. Creating accounts to capture existing nursing home provider fees, pharmacy provider fees, and ICF/DD provider fees, including interest earned on any of these fees, does not increase aggregate fees generated to the MATF on an annual basis. This measure simply separates current revenues collected from each provider group into an individual account, and requires payments to the specific providers from the individual account. Any other funds deposited into the MATF (not related to these provider fees) would be deposited into a general account in the MATF.

Contract Extension for the Modernization Project in the Department of Children & Family Services

Patrice Thomas, Fiscal Analyst, thomasp@legis.la.gov

In FY 09, the Department of Children & Family Services (DCFS) began a 5-year Modernization Project (also called One DCFS Transformation Project) to transform delivery of services that allows clients multiple ways to apply for services as well as access services. Modernization program development started in FY 11 (FY 09 was planning and FY 10 was first design phases of the project) and was scheduled for completion in FY 14. The original estimated cost of the Modernization Project was $134.1 M ($60.3 M in SGF and $73.8 M in Federal) total budget.

As of 12/31/13 (FY 14), the department has expended $76.9 M ($30.6 M SGF). *See Table 13.*

Modernization Project Actual Expenditures FY 09 - FY 14 (Table 13)			
FY	SGF	Federal	Total
FY 09	$179,383	$325,922	$505,305
FY 10	$1,621,584	$2,890,794	$4,512,378
FY 11	$5,463,304	$8,739,609	$14,202,913
FY 12	$10,808,930	$16,213,395	$27,022,325
FY 13	$8,571,270	$12,352,848	$20,924,118
FY 14*	$3,972,397	$5,716,377	$9,688,774
Total**	**$30,616,868**	**$46,238,945**	**$76,855,813**

**As of 12/31/2013*
***Rounded*

The Modernization Project deliverables associated with the annual costs are discussed below. DCFS has implemented the Modernization Project through development contracts and operational contracts (staff augmentation) and assistance from 63 IT staff within the department. The key contracts for the Modernization project are as follows: (1) a Project Management Officer (PMO) contract with First Data for technical advice on integrating and updating back end applications; (2) Common Access Front End (CAFÉ) contract with Deloitte Consulting for software development (3) a customer service/call center contract with Xerox; (4) a quality assurance contract with SLI Global Solutions; and (5) a document imaging contract with Xerox for digital storing and indexing documents of all DCFS programs. Other costs associated with the Modernization Project include a mainframe central processing unit (CPU) upgrade to replace old legacy systems as well as software and storage expenses.

FY 2014
In FY 14, DCFS continues implementation of the Modernization Project with a development budget of $29.4 M in FY 14. *See Table 14 for total budgeted expenditures.*

Modernization Budget For FY 14 (Table 14)	
Means of Financing:	
SGF	$4,300,000
IAT	$2,616,270
Federal	$22,531,560
Total	**$29,447,830**
Expenditures:	
Wages (63 unclassified staff)	$3,293,381
Related Benefits	$1,207,049
Personnel Services (Sub-total)	*$4,500,430*
Travel	$75,000
Supplies	$70,000
Software	$600,000
Blackberries & cell phones	$18,000
Advertising	$50,000
Printing	$50,000
Software & Operating Services (Sub-total)	*$718,000*
PMO - First Data	$600,000
CAFÉ - Deloitte	$14,000,000
Customer Service Center -Xerox	$2,400,000
Quality Assurance - SLI	$1,347,443
Document Imaging -Xerox	$5,041,957
Other Professional Services	$625,000
Professional Services (Sub-total)	*$24,014,400*
IAT	$70,000
TOTAL	**$29,447,830**

CAFÉ
As part of Modernization, DCFS implemented Common Access Front End (CAFÉ). Since the department has independent and standalone information systems supporting each program office, CAFÉ allows integration of sharable data about clients, service providers, and DCFS staff between the information systems.

On 4/28/11, DCFS entered into a 4-year $117.9 M ($29,499,108 per year) contract with Deloitte Consulting, LLP for the development of three CAFÉ web-based portals to view sharable data: (1) customer portal; (2) worker portal; and (3) provider portal. The customer portal allows clients to create an online account, check the status of their application, complete online applications, reapplications, and submit redeterminations and renewals for continued support. The worker portal allows DCFS staff to update and maintain client case information, provide intake case notes, renewals, reporting requirements, as well as screening across multiple services the department provides. The provider portal will have an online provider enrollment application, payment authorization, payment and reconciliation for accounts payable. In addition, the provider portal will allow providers to access their demographic data, the ability to invoice for services rendered, check payment status and pay fees and fines where applicable.

As of 12/31/13, total expenditures on the Deloitte contract was $6,634,497, which represents only 6% of the total contract amount of $117.9 M. *See Table 15*. DCFS is requesting approval of a one-year no cost extension for the Deloitte contract. The original Deloitte contract will end on 4/14/14. According to the department, the final implementation of CAFÉ is scheduled for the end of March 2014. The contract extension would continue the original terms of the contract with an additional three months of contingency time and nine-month warranty period.

Deloitte Contract Actual Expenditures (Table 15)			
FY	SGF	Federal	Total
FY 11	$43,435	$62,505	$105,940
FY 12	$1,909,683	$2,748,080	$4,657,763
FY 13	$691,089	$994,495	$1,685,584
FY 14*	$75,936	$109,274	$185,210
TOTAL	**$2,720,143**	**$3,914,354**	**$6,634,497**

**As of 12/31/2013*

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

December 2013

Volume 2, Issue 6

INSIDE THIS ISSUE

1 2013 Tax Amnesty
2 Overcollections Fund Transfers Update
3 FY 14 IEB Allocation
3 One-Stop Web Portal
4 OMV Public Tag Agents
5 FY 14 Major Revenue Collections Update
7 Higher Ed Optional Retirement Plan

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Jodi Mauroner, Section Director
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hostream, Section Director
Alan Boxberger, Fiscal Analyst
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Stephanie Blanchard, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst
Evelyn McWilliams, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback.

I would like to take the opportunity to wish you and your family a Merry Christmas and Happy New Year. This is the last newsletter before the end of the calendar year. Look for the first newsletter of 2014 to be published prior to the release of the FY 15 Executive Budget Recommendation.

John D. Carpenter

FOCUS POINTS

Tax Amnesty 2013, Preliminary Summary

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The Department of Revenue (Department) has reported preliminary information regarding the 2013 tax amnesty program. A three-phase amnesty program was enacted in Act 421 of 2013. The amnesty is to be offered in the fall of each of the three years 2013 – 2015. The first phase was offered from September 23 – November 22 of this year. Participants were offered a 100% waiver of penalties and a 50% waiver of interest in this first phase. In the 2014 phase, the Act provides for waivers of 0% of interest and 15% of penalties, and in the 2015 phase the waivers offered are 0% of interest and 10% of penalties. Table 1 below summarizes the program's collections performance as reported by the Department through December 10, 2013.

As is typical with broad tax amnesty programs, the bulk of the collections are corporate taxes; 83.6% of the reported total collections. These are of particular interest because they typically reflect ongoing tax disputes that are likely to be collected in future periods. The likelihood of collection is the primary motivation for participating in the amnesty program in the first place. The participant receives the benefit of penalty and interest waiver while the state receives an acceleration of payments from future periods into the current period. This is basically what amnesties are understood to do, shift receipts from future periods into the current period. Consequently, future period receipts are negatively affected.

(Table 1)

Share of Total $	Tax	Accounts	Cash As Payment	Tax Credits As Payment	Total Payments
0.9%	Severance Tax	60	$3,949,711	$0	$3,949,711
83.6%	Corporate Income & Franchise Taxes	7,811	$296,964,495	$65,046,360	$362,009,639
8.7%	Individual Income Tax	39,392	$35,888,734	$1,808,329	$37,627,715
6.0%	General Sales Tax	2,864	$25,788,020	$1,058	$25,787,811
0.01%	Various Excise Taxes	69	$64,108	$0	$62,760
0.8%	Non-REC Taxes	20	$3,415,661	$0	$3,415,661
100.0%	Total Program	50,216	$366,070,730	$66,855,748	$432,853,297

Also of particular interest with this amnesty program is the Department's acceptance of tax credits as payment of amnesty liabilities. Over 15% of total reported program payments and nearly 18% of corporate payments were accepted by the Department in the form of tax credits. Regardless of the program exceeding a target level of receipts, this seems at odds with the primary motivation of the program to collect resources to support the state budget. The Department indicates that under R.S. 47:1675(H) tax credits can be used to pay any outstanding tax liability and consequently payment with credits could not be refused. Tax credit payments are not cash resources that can be

directly used to support budgeted expenditures, and it is not clear that their extinguishment via amnesty payment translates into greater net tax receipts in future periods.

Other interesting aspects of the program are the numbers of participating tax accounts. Total participating accounts are over 50,000 and are a proxy for the number of unique taxpayers participating. The largest number and share of accounts involves the individual income tax while that tax comprises a relatively small share of the total program's receipts; 78% of accounts but less than 9% of payments. In contrast, a relatively small share of accounts involves corporate tax while easily comprising the largest share of program receipts; only 16% of accounts but nearly 84% of receipts. This contrast in shares between business and households extends to the balance of participation. Much of the program's collections other than corporate tax are also associated with businesses in that they comprise the failure to remit taxes as part of the business enterprise, even if those taxes are ultimately paid by individuals for example, personal income tax withholdings and general sales taxes. In the table above, only about 29% of all accounts are businesses while over 90% of the program's total collections are associated with business entities. Individuals or households comprise 71% of participating accounts but are responsible for less than 10% of total receipts. Amnesties can clear the books, or provide a "fresh start" as promoted by the Department, for a lot of individuals and households but the goal of collecting material amounts of resources to support the state budget is achieved by the participation of businesses and corporations.

Also, average payments implied by the reported data are not likely to be meaningful. In typical programs the bulk of corporate receipts will be received from a small number of participants, with much smaller average payments made by the remainder of participants. Due to the larger number of accounts, the average for individual income tax payments may be somewhat more meaningful but is still likely to be skewed by the participation of a few relatively large accounts. While a distribution of payments by size for each tax involved in the program was not available, the Department's data for the program overall confirms this distributional characteristic of tax amnesties in general. Just twenty-seven payments (.033% of payments) were over $1 M per payment and comprised nearly 71% of all payments.

Finally, with the release of preliminary data, an approximation of the disposition of program receipts can be made. Total program participation was nearly $433 M. Deducting the nearly $67 M of payments made with tax credits results in $366 M of cash resources that can be used to support expenditures. The Department of Revenue retains nearly $63 M; the dollar equivalent of penalties and fees waived by the program in order to maintain operations. In addition, program costs must be covered as well. These costs have not been finalized but have been reported to be as much as $14 M. Thus, $289 M may be available for the rest of the state budget. The FY 14 budget already appropriates $200 M of amnesty receipts to support of the Medicaid Program, leaving roughly $90 M yet to be allocated. Those funds would stay in the 2013 Tax Amnesty fund until disposed of by the legislature. The REC has not yet considered any of these amnesty receipts.

GENERAL GOVERNMENT

Act 420 of 2013 Update

J. Travis McIlwain, Gen. Govt. Section Director,
mcilwait@legis.la.gov

Act 420 of 2013 provides for the transfer of various funds and resources into either the Overcollections Fund and/or SGF for FY 14 appropriation. Table 2 represents outstanding Overcollections Fund transfers. The specific items that have changed from last month to this month are additional hospital lease payments received in the amount of $11.2. To date, of the $37.9 M of various fund transfers anticipated to be transferred into the SGF, none have occurred. Act 420 of 2013 specifies that such SGF fund transfers will not occur until the FY 14 appropriations have been met. Table 3 shows where the FY 14 Overcollections Fund resources are currently appropriated.

FY 14 OC Fund Rev. Sources (Table 2)	Anticipated	Collected & Transferred To Date	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$27,269,009	$112,980,991
Legal Settlements	$64,771,871	$0	$64,771,871
Sale of Pointe Clair Farms	$12,000,000	$0	$12,000,000
Sale of Baton Rouge State Office Bldg.	$10,250,000	$0	$10,250,000
Sale of Southeast Hospital Property	$17,840,000	$0	$17,840,000
Sale of Wooddale Towers	$350,000	$335,325	$14,675
Sale of Hart Parking Garage Property	$2,180,000	$0	$2,180,000
Sale of Various WLF Properties	$2,000,000	$2,000,000	$0
Sale of Greenwell Springs Hospital Property	$0	$0	$0
Sale of Pines Campus Property	$0	$0	$0
Sale of Southern Oaks Addiction Recovery Property	$0	$0	$0
Sale of Bayou Region Property	$0	$0	$0
Sale of MDC Apartment Property	$0	$0	$0
LDR Fraud Initiative	$20,000,000	$0	$20,000,000
Excess FEMA Reimbursements	$19,950,000	$0	$19,950,000
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$11,591,755	$16,692,745
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$0	$2,000,000
Self Insurance Fund	$16,000,000	$0	$16,000,000
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$0	$1,988,106
2% Fire Insurance Fund	$2,358,715	$0	$2,358,715
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$0	$48,298
Compulsive & Problem Gaming Fund	$57,071	$0	$57,071
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$0	$1,000,000
Mega-Project Development Fund	$11,300,000	$0	$11,300,000
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$0	$25,019
Penalty & Interest Fund	$1,541,440	$0	$1,541,440
Riverboat Gaming Enforcement Fund	$8,605,392	$0	$8,605,392
Transfer from fund to SGF	($5,000,000)	$0	($5,000,000)
TOTAL	**$413,207,388**	**$80,826,506**	**$332,380,882**

Schedule (Table 3)	Name	FY 14 EOB
01-111	Governor's Office of Homeland Security & Emergency Preparedness	$21,250
01-112	Military Department	$500,000
04-DOJ	Attorney General	$4,563,971
07-DOTD	Transportation & Development	$36,000,000
08-DPS	State Police	$84,796
11-DNR	Natural Resources (Judgment)	$4,104,286
12-REV	Revenue Department	$3,950,000
19-LSU	LSU Board of Supervisors	$143,575,155
19-LSUHCSD	Healthcare Services Division	$20,000,000
19-SU	Southern University Board of Supervisors	$27,466,779
19-UL	University of LA Board of Supervisors	$103,618,305
19-UL	University of LA Board of Supervisors (Judgments)	$1,333,707
19-BOR	LA Board of Regents	$5,917,489
19-LUMCON	LA Universities Marine Consortium	$977,910
19-LCTCS	LA Technical & Community Colleges Board of Supervisors	$56,709,705
19-BESE	Board of Secondary & Elementary Education	$69,405
20-945	State Aide to Local Governments	$3,720,247
20-950	Judgments/Special Acts	$6,495,602
TOTAL		$419,108,607

Interim Emergency Board Funding

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

For the past three fiscal years (FY 12, FY 13 & FY 14), a material funding source supporting the budget has been the SGF portion that would otherwise be allocated to the Interim Emergency Board (IEB) in schedule 22-920 Non-Appropriated Requirements (Interim Emergency Fund). Pursuant to Article VII, Section 7 (C.) of the LA Constitution, the amount of SGF set aside for IEB allocations shall not exceed one-tenth of 1% of total state revenue receipts for the previous fiscal year. The State Treasury completes this calculation every fall.

The FY 14 calculated IEB allocation, as reported by the State Treasury in November 2013, is $21,908,722, while the amount currently set aside in the FY 14 budget is only $1,758,021. Thus, there is approximately $20.2 M of constitutionally allocated SGF IEB resources supporting FY 14 expenditures. To the extent there were approved IEB requests in excess of the current allocation of $1.8 M, the legislature and/or governor may have to reduce current year SGF expenditures to fund such emergencies or borrow on the full faith and credit of the state to meet an emergency if funds are not available or if the emergency's cost exceeds available funds (Article VII, Section 7(B)).

Prior to FY 12, the Executive Budget Recommendation included the total projected constitutional IEB allocation. However, since the FY 12 budget, the Division of Administration (DOA) now only includes an amount equivalent to prior year expenditures from the Interim Emergency Fund (average board approved expenditures). Due to the provision that the IEB cannot meet during legislative session, in prior years any unexpended IEB allocated funds were utilized by the legislature in that year's supplemental appropriation bill to cover current year needs. By not setting aside the full amount at the beginning of the fiscal year, the operating budget is being supported at the outset before knowing emergency needs for the upcoming fiscal year. *See Table 4 for IEB allocation history for the past 7 fiscal years.*

(Table 4) FY	Constitutional Allocation	Amount Originally Set Aside in Budget	Board Approved Expenditures
2008	$24,840,228	$24,742,843	$7,134,427
2009	$26,969,993	$24,840,228	$5,464,226
2010	$24,335,654	$24,882,639	$839,482
2011	$23,201,112	$24,882,639	$0
2012	$22,618,245	$4,651,624	$1,544,275
2013	$21,770,940	$4,651,624	$746,684
2014*	$21,908,722	$1,758,021	$0

**Through December 2013, the IEB has not approved any emergency funds to be utilized in FY 14.*

One-stop Web Portal

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Stephanie Blanchard, Fiscal Analyst, blanchas@legis.la.gov

On the December 2013 Joint Legislative Committee on the Budget (JLCB) agenda is funding in the amount of $2.8 M SGR for the Secretary of State (SOS) to fund the creation of a one-stop web portal for the registration of new businesses. According to the SOS, the portal is a collaborative effort by the SOS, the LA Workforce Commission and the Department of Revenue. The project goal is to create a single website, where new business will be able to file corporate documents with the SOS, secure a state tax ID number from the Department of Revenue and enroll with the LA Workforce Commission for an unemployment insurance account number. The SOS is in the process of awarding a vendor the contract to begin development of the portal with an anticipated go-live date of February 1, 2015. *See Table 5 below for anticipated FY 14 expenditures.*

FY 14 Anticipated One-Stop Shop Web Portal Expenditures (Table 5)	
$1,827,060	Consulting Services for application development
$45,000	Consulting Services for each department to retrofit to new system
$133,623	2 Dell PowerEdge Servers & 1 Dell EqualLogic server
$28,000	Software
$148,690	Miscellaneous office equipment
$53,062	WAE positions from Revenue & Workforce Commission
$600,000	Staff augmentation contract to support current SOS IT systems
$2,835,435	**Total FY 14 Expenditures**

Staff Augmentation Contract

Due to four existing SOS IT staff beingDue to 4 existing SOS IT staff being shifted to this portal project, the SOS is requesting $600,000 of funding to be utilized to increase an existing staff augmentation contract for support of SOS's in-house application Commercial Online Registration Application (CORA) and assisting with the phase I of Uniform Commercial Code online filings. With the launch of Uniform Commercial Code (UCC) phase I online filings in January 2014 and portal development beginning in January 2014, the SOS wants to have full CORA support as UCC and CORA are integrated IT systems. The SOS is proposing that the existing contractor (GRC) increase its total contract value through a contract amendment by $600,000 in order to provide CORA and UCC support while existing SOS IT staff work on the portal project. GCR was the vendor that originally assisted the agency in the development of CORA and UCC phase I online.

Revenue
According to the SOS, funding for this project will be provided by fee increases pursuant to Act 316 of the 2013 Legislative Session. Act 316 provided for various fee increases for domestic corporations, limited liability companies, nonprofit corporations, foreign corporations, trade names, trademarks and service marks. According to the SOS, collections are $1,330,668 higher from July 2013 to November 2013 than from the same timeframe last year (July 2012 to November 2012). Thus, the agency is on track to collect the additional anticipated SGR as a result of Act 316. Based upon current actual collections, the SOS is on pace to collect $3.2 M of additional fee collections. Note: Any unexpended SGR will revert to the SGF at the end of the fiscal year.

Future Fiscal Year Impact
Approving this BA-7 request will obligate the SOS to approximately $2.1 M to $2.4 M in annual maintenance expenditures for the overall portal in subsequent fiscal years. According to the approved DOA IT-10, anticipated subsequent fiscal year overall maintenance expenditures are as follows: FY 15 - $2.5 M, FY 16 - 2.2 M, FY 17 - $2.2 M, FY 18 - $2.1 M.

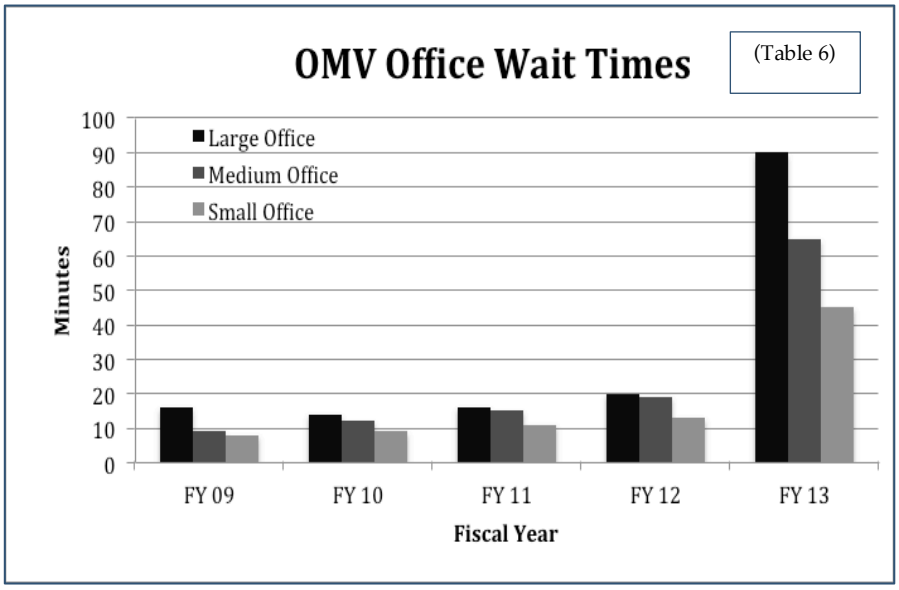
After the portal is completed, the additional staff augmentation services (mentioned above) from GCR will no longer be needed. Thus, based upon anticipated subsequent fiscal year maintenance costs of approximately $2.2 M per year and current increased collections from enacting Act 316, the SOS will likely be collecting approximately $600,000 to $800,000 more than total cost of the portal in future fiscal years. At this time the SOS has not indicated to the LFO what those revenues will be utilized for in future fiscal years. However, to the extent this portal is successful and additional state agencies are included, these additional revenue collections may be utilized to fund the inclusion of the additional agencies. As shown in Table 5, the SOS is paying $45,000 for retrofitting Revenue and the Workforce Commission's IT systems to this portal. The specific costs associated with bringing another state agency online with the portal are not known at this time. In addition, as new state agencies are brought online with the portal, portal maintenance costs will likely increase on an annual basis.

Public Tag Agents, Driver's License Renewals & Staff Reductions
Matthew Labruyere, Fiscal Analyst, labruyerem@legis.la.gov

A proposed administrative rule change by the Office of Motor Vehicles (OMV) would allow Public Tag Agents (PTAs) to process driver's license renewals. Customers that use PTAs for this service will pay the renewal fee plus a convenience fee (up to $18). PTAs are located across the state and are currently able to perform vehicle registrations, reinstatement of insurance cancellations, and receive and process title applications, in addition to other duties.

Currently, there is one PTA driver's license renewal pilot program in Metairie. There is also a hybrid pilot program in Baton Rouge that is staffed with OMV employees to handle driver's license transactions and PTAs to handle vehicle registrations and title change transactions. According to the department, it is anticipated that within a year, ten to fifteen PTAs will be able to process driver's license renewals. The proposed rule to allow PTAs the authority to handle driver's license renewals will give customers another option to receive the service with a reduced wait time, to the extent the customer pays the convenience fee.

PTAs who are authorized to process driver's license renewals, will be required to purchase a camera station for approximately $18,000, which includes annual maintenance and software costs of $3,000. In addition, PTAs will need the following: liability insurance with minimum coverage of $1,000,000, a security system with 24-hour monitoring service, and a video surveillance system that monitors all entrances, the camera station, and the secure supply room.



Public Tag Agents are authorized service providers to the Department of Public Safety and have the authority to collect registration license taxes, as well as applicable sales and use taxes, and to issue registration certificates and license plates for vehicles. PTAs also receive and process applications filed for certificates of title, duplicate certificates of title, and corrected certificates of title, recordation of liens, mortgages, or security interests against motor vehicles, conversions of plates, transfers of plates, replacements of lost or stolen plates and/or stickers, registration renewals, and duplicate registrations.

OMV Staff Reductions Impact

Over the past five fiscal years (FY 09 – FY 13), OMV has seen a 23% decrease in employees and personnel expenditures have decreased by 14%. In FY 09, OMV personnel expenses totaled $36.9 M for 739 employees. In FY 13, OMV employed 568 at a total cost of $31.6 M. During the same period, the wait times at large, medium, and small field offices gradually increased from FY 09 through FY 12, and drastically increased in FY 13 as shown in the table 6. The wait times in FY 09 at the large, medium, and small offices were 16 minutes, 9 minutes, and 8 minutes, respectively. By FY 13, the times had increased to 90 minutes in large offices, 65 minutes in medium offices, and 45 minutes in small offices. Although wait times have increased, the number of walk-in customer transactions and Driver's Licenses/Identification Cards processed has remained steady, with a slight increase in FY 13. To the extent customers requiring a drivers license renewal are willing to pay the added cost of the convenience fee mentioned above, the wait times reflected in Table 6 may be reduced accordingly.

The use of PTAs for registration transactions has steadily increased from 1,108,683 transactions in FY 09 to 1,619,343 transactions in FY 13, with the largest increase occurring between FY 12 (1,290,546 registrations) and FY 13 (1,619,343 registrations). The increase in registrations completed by PTAs can be attributed to the reduction in staff available at OMV locations.

REVENUE

FY 14 Major Revenue Collections Summary Through November 2014 *(Adjusted For Amnesty Receipts)*

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

Five cash months of collections have been received since this fiscal year began, with approximately the first month's worth of those collections posted back to FY 13 for certain revenues. Thus, for many revenues, four accrual months have actually been collected for FY 14. Three of these four accrual months have included amnesty receipts. Preliminary data on these amnesty receipts has been backed out of this report to obtain a more accurate assessment of true current collections activity. Since revenue forecasts have not been updated since May 2013, two forecast growth rates are provided to assess current collections performance against. The FY 14 "Implied" Growth Rate is the growth in the 5/15/13 dollar forecast for FY14 now that FY 13 collections are known. The FY 14 "Forecast" Growth Rate is the growth rate as of the 5/15/13 REC, when FY 14 actual collections were not yet known. Major receipts' collection performance so far is:

MAJOR REC REVENUE SUMMARY, FY 2013-14
November 2013, Adjusted For Amnesty Receipts

Revenue Source	Current Month *	% Chg Same Month PY	FYTD (Jul - Jun) *	% Chg FYTD PY cash **	% Chg FYTD PY acc **	FY14 Forecast	FY14 Implied Growth Rate	FY14 Forecast Growth Rate
Income	$184.4	-12.4%	$1,228.0	3.5%	2.1%	$2,786.1	1.2%	3.8%
Sales, General	$213.5	-0.4%	$1,076.9	2.0%	5.4%	$2,656.8	2.9%	3.6%
Corporate	$50.4	1146.2%	$83.7	23.6%	77.6%	$340.0	1.1%	0.0%
Severance	$67.4	-0.7%	$359.5	7.9%	8.6%	$825.2	-2.6%	1.0%
Royalty	$44.3	48.7%	$216.0	24.0%	78.6%	$505.4	3.5%	6.7%
Gaming	$45.3	-0.5%	$238.4	1.2%	1.2%	$610.0	-1.5%	0.0%
Sales, Vehicle	$29.4	15.4%	$151.8	11.1%	10.6%	$379.0	6.6%	7.2%
						5/15/13 REC	FY13 known	5/15/13 REC

* millions of $

** cash = July through June collections, acc = July through June less accrual to prior year

Income tax had a strong finish to FY 13, coming in at a 10.8% growth rate, with much of that occurring during the spring filing/payment period. The 5/15/13 REC captured a good bit of this but performance still exceeded that forecast. Across much of the country this surge has been attributed to the acceleration of income into 2012 in order to avoid federal tax increases effective 1/1/13. This is supported by withholdings collections that finished with a more normal 5.7% growth. This suggests that this surge should not be expected to continue through FY 14. Through November, collections are only 2.1% to 3.5% ahead of prior year, and only the single month of September has shown any outsized growth this fiscal year. Both implied and forecast growth rates for FY 14 are modest, but current collections are already below the forecast growth rate. In addition, the FY 13 surge will have to be controlled for and it will be difficult for collections next spring to exceed those of this past spring. It is possible that the FY 14 forecast will be adjusted downward.

Sales tax experienced a second year of essentially no improvement in FY 13, finishing with only 0.1% growth. This further suggests that the income tax finish is not likely to be a sustained event, and continues to suggest cautious

conditions within households and businesses. Collections through November have been 2.0% to 5.4% ahead of prior year, but this is also essentially due to the month of September. As with the income tax, growth through August was very low, actually a negative 1.6%. Both the implied and forecast growth rates for FY 14 seem reasonable but are not yet supported by a string of actual performance; cash collections to date are below the implied growth rate. Thus, optimism for this tax cannot be projected at this time. Vehicle sales tax finished strong in FY 13 with 10.2% growth (essentially the same as the growth in FY12), and collections through November are 10.6% to 11.1% ahead of prior year, with four of five cash months this year exhibiting strong performance. Households and businesses are not yet done buying vehicles, and low interest rates and industry financing deals are still keeping this narrow big-ticket sector performing strongly. Both implied and forecast growth rates are moderations from the pace of the last two years but are still respectable. There may still be optimism for this tax going forward, but when pent up demand is satisfied, growth in this tax and its absolute level can fall off dramatically.

Corporate tax collections looked very strong through much of FY 13, but then abruptly dropped off in the accrual period at the end of the year, finishing 10.1% behind the prior year and below the modest forecast for the year. Once again the tax proved that the monthly collections say little about what the annual total will be. Both the implied and forecast growth rates for FY 14 are so modest as to seem likely to be beat. However, that was the case in FY 13, as well. Year-to-date growth through November is 23.6% to 77.6% ahead of prior year. Well ahead of the forecast growth rates, but also largely due to the month of November, these collections are unusually strong even without preliminary amnesty receipts backed out. Further amnesty adjustments may occur and inherent uncertainty of corporate collections in general tempers any monthly optimism in this tax.

Severance tax was essentially flat in FY 13 (-0.1% growth), but this was still better than the expectation of a larger drop. Spot oil prices for state crude averaged $109/bbl in FY 13, compared to the forecast price of $94/bbl, explaining much of the good performance. For FY 14, the price forecast is currently $94.85/bbl, providing optimism for the forecast, and through November collections are 7.9% to 8.6% ahead of prior year, but have fallen off the pace of earlier months. The natural gas severance tax rate is lower in FY 14 (11.8¢/mcf) than in FY 13 (14.8¢/mcf) and will temper collections somewhat, but barring a material drop off in oil prices the outlook for severance tax appears optimistic, especially in light of the very modest growth forecasts. Royalty receipts also finished FY 13 better than expected but still down 5.2% compared to the prior year. While gas prices remain weak, they are at least relatively stable, allowing strong oil prices to drive the collections base. Collections through November are well ahead of both implied and forecast growth, and while optimism exists for this revenue as well, it largely depends on oil prices.

Gaming receipts from riverboats, video poker, and racetrack slots finished FY 13 at 0.9% growth; modest growth but better than FY 12. Collections accelerated through September, primarily on the strength of riverboats, but fell back in October & November in all three sectors. The riverboat segment of this discretionary spending may be returning to the economy, but improved performance is not evident across the board yet, or from each month-to-month period. However, both the implied and forecast growth rates for all three components are very modest and are currently being beaten on the strength of only one of the components. The outlook depends on sustaining riverboat performance and extending it to the other gaming components.

Overall, collections for FY 13 finished stronger than expected by some $175 M, reflecting 2.6% revenue growth from FY 12. While a positive experience, that growth is actually a deceleration from the growth in FY 12 of 3.8%, and from FY 11 of 8.3%. In addition, the excess collections included some surprise components that may not be sustained in FY 14. The largest gain was in personal income tax reflecting a surge in the spring due to a likely one-time acceleration of income for federal tax purposes. Mineral revenue gains were actually smaller declines than expected and price stability means the outlook is tempered for growth, although there may some upward potential to mineral revenue. The good news on sales tax also involves smaller than expected declines rather than consistent positive growth. FY 13 performance also surprised on the upside in various agency receipts (a catchall for numerous unspecified receipts), which may increase a forecast moving average but cannot be relied upon for a sustained higher level of collections. Premium tax also finished well in FY 13, although new credits were passed in the 2013 session that will affect that tax in FY 14 and beyond. Finally, corporate tax disappointed in FY 13 and cannot be relied upon for growth in FY 14.

As for FY 14, cautious optimism that may have existed in the early months of the fiscal year has largely evaporated with the removal of amnesty data, now that the Revenue Department has reported some preliminary results of the program. Any optimism in the forecast going forward is primarily based on besting very modest growth forecasts. Cautions are not immaterial though, related to still weak sales tax, which is over a quarter of total tax receipts, the questionable sustainability of the spring income tax surge, and always highly uncertain corporate collections. In addition, amnesty receipts overstate underlying activity and dampen forecast expectations. Thus, the revenue outlook is distorted and highly uncertain.

EDUCATION

Decrease in Optional Retirement Plan (ORP) Normal Cost Contribution Rate

Charley Rome, Fiscal Analyst, romec@legis.la.gov

Background

The Optional Retirement Plan (ORP) was created by Act 90 of the 1989 Regular Legislative Session and is a defined contribution plan option for employees of public higher education institutions and boards in LA who would otherwise be members of the Teachers' Retirement System of LA (TRSL) defined benefit plan. ORP operates under the U. S. Internal Revenue Code §401(a) and allows account holders to save and invest their retirement assets on a tax-deferred basis through private carriers contracted with the program. ORP was conceived to enhance recruitment of higher education faculty and staff by providing a retirement benefit with increased portability for participants while keeping them indistinguishable from traditional plan members for the employer and retirement system.

Eligibility to participate in ORP is based on job classification. Academic and unclassified employees of LA public colleges and universities are eligible to participate in ORP. Employees of constitutionally established boards that manage public institutions of higher education are also eligible for ORP. Eligible employees must make an irrevocable election to participate in either ORP or the traditional TRSL defined benefit plan within sixty days of their initial employment date.

Regardless of which retirement plan the member joins, the employer cost is the same. For both, the ORP and the defined benefit plan the employer contribution is made up of the normal cost and the unfunded accrued liability (UAL) payments.

According to the Board of Regents, there are currently 10,060 employees participating in the traditional defined benefit plan and 7,507 members enrolled in the ORP.

Normal Cost Contribution Rates

"Normal Cost" for TRSL is equal to the employer's share of the present value of future retirement benefits that will be paid to employees that are currently attributable to the fiscal year. The TRSL aggregate normal cost has declined from 6.95% of payroll in FY 09 to 5.04% of payroll recommended for FY 15 based on the TRSL valuation report dated 11/5/13. TRSL normal costs have steadily declined since FY 08 due to legislation lowering defined benefit plan costs, changes in member demographics, and changes in actuarial assumptions.

Act 483 (HB 61) of the 2012 Regular Legislative Session created a cash balance retirement plan and mandated participation for all non-hazardous duty members of LASERS and of higher education employees in TRSL hired after July 1, 2013. Based on the valuation of the new plan the employer normal cost rate was set at 1.8% of payroll for those employees for the FY 14. SB 16 of the 2013 Regular Session attempted to increase the employer normal cost rate for ORP plan members. The bill passed the Senate but was not brought to the House Floor for a vote. Additionally, House Concurrent Resolution 2 suspended the implementation of the Cash Balance Plan pending a determination from the Internal Revenue Service (IRS) of the Social Security equivalency of the new plan. On June 28, 2013 the LA Supreme Court ruled that Act 483 (cash balance plan) was unconstitutional.

Additionally, Act 716 of the 2012 Regular Legislative Session required calculation of individualized employer contribution rates for K-12 and higher education plan members for FY 13 and thereafter. The FY 14 higher education normal cost rate is 5.18%. The TRSL valuation report dated 11/5/13 and adopted by the TRSL Board recommends a higher education employer normal cost rate of 3.66% for FY 15, representing a decrease of 1.52%.

The recommended reduction in employer normal cost from FY 14 to FY 15 is due to actuarial assumption changes based upon plan experience. The major actuarial assumption changes for higher education plan members are as follows:

1. Retirement patterns and assumptions were revised.
2. Employment withdrawal/termination rates were higher than expected.
3. Overall salary increases were less than expected.
4. Accrued leave conversions to service credit were reduced in recognition of long-time statutory limits.

Impacts

The reduction in the TRSL normal cost from FY 14 to FY 15 will save the public colleges and universities an estimated $15.9 M in mandated costs for FY 15 due to lower employer contributions to TRSL. The estimated savings is based on FY 14 salary data from the Board of Regents for all higher education faculty and staff participating in both the traditional and the optional plans multiplied by the percentage reduction in the employer contribution from FY 14 to FY 15.

However, the drop in the TRSL normal contribution rate will automatically decrease the ORP employer match rate; $7.8 M of the total estimated savings is associated with ORP participants. This reduction in rates could have a detrimental impact on recruitment of new faculty and staff. Furthermore, a significant reduction in the employer match rate may decrease employee morale and increase turnover of existing faculty and staff.

As an example, the table below reflects the employer contributions made to a member's ORP account over the past six years, as well as the projected receipts for FY 15. The constant salary is reflective of the fact that virtually no merit increases have been awarded at most institutions over this period.

Fiscal Year	Annual Salary	Normal Cost Rate	Employer Contribution
FY 08-09	$68,600	6.95%	$4,768
FY 09-10	$68,600	5.76%	$3,951
FY 10-11	$68,600	5.70%	$3,910
FY 11-12	$68,600	5.97%	$4,095
FY 12-13	$68,600	5.68%	$3,896
FY 13-14*	$68,600	5.18%	$3,556
FY 14-15*	$68,600	3.66%	$2,511

** The TRSL aggregate normal cost has declined from 6.95% of payroll in FY09 to 5.04% of payroll recommended for FY15. Act 716 of 2012 Regular Session requires individual rates for higher education members effective July 1, 2013.*

Information presented by LSU to the legislature during the 2013 Regular Session revealed that LA's ORP is not competitive with defined contribution plans offered by other southern states. LSU's information showed that employer contributions (excluding Social Security) averaged 8%, and ranged from 6.3% to 10%. Furthermore, employers in other southern states contribute an additional 6.2% of payroll for Social Security benefits compared to no Social Security payments for ORP members because TRSL/ORP do not participate in the Social Security program.

Using the salary example above for a faculty member in Texas at a 4-year university; the employer contribution rate for FY 15 is 6.6% or $4,528. Institutions are authorized to offer a local employer supplement using local or other funding sources to bring that rate up to 8.5%, potentially providing an additional $1,166. Finally, the 6.2% Social Security contributions of $4,253 bring the total employer contribution payment to $9,947 for this employee; $7,574 more than the employer contributes in LA.

Maintaining the existing rate rather than moving to the reduced rate for FY 15 would preclude any cost savings for institutions. Increasing the contribution rate to the 2008-2009 rate of 6.95% would raise employer costs nearly $17 M in FY 15.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

November 2013

Volume 2, Issue 5

INSIDE THIS ISSUE

1 Statewide Retirement Systems UAL
2 OJJ/LA Model
3 Statewide IT Consolidation Update
3 Overcollections Fund Transfers Update
4 FY 14 Revenue Collections Update
5 Performance Based Funding of Higher Education
8 FY 14 Hospital Partner Payments
8 UPL Reimbursements
9 Hospital Partnership Payments Comparison
10 Partnership Payment Comparison Table

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Jodi Mauroner, Section Director
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hostream, Section Director
Alan Boxberger, Fiscal Analyst
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Stephanie Blanchard, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst
Evelyn McWilliams, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback.

I would like to introduce our new Education Section Director Jodi Mauroner. She has over 20 years of state experience of which the last 5 years have been with the University of Louisiana System Board of Supervisors. Previous years have been spent with the House of Representatives and the Division of Administration (DOA). We are very much looking forward to working with Jodi and are excited to have her.

Please contact us at (225) 342-7233 if you have any questions about any of the topics or need additional information.

FOCUS POINTS

Unfunded Accrued Liabilities for State Retirement Systems
Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

There are four state retirement systems that have benefits guaranteed under the state constitution. These systems are the LA State Employees' Retirement System (LASERS), the Teachers' Retirement System of LA (TRSL), the LA School Employees' Retirement System (LSERS), and the State Police Pension & Retirement System (STPOL). With the creation of each system, an unfunded accrued liability (UAL) began since members received credit for their full length of service instead of just service since the creation of the system. These UALs further increased over the years because the state did not make payments to fund the full actuarial amount needed each year and benefit structures were changed without proper funding.

Statewide Retirement Systems UAL (in billions) (Table 1)	
LASERS	$6.44
TRSL	$11.35
STPOL	$0.32
LSERS	$0.91
TOTAL	**$19.025**

In 1987, a constitutional amendment was passed that required the state retirement systems be funded on an actuarially sound basis and that the initial UAL (IUAL) be paid off by 2029 under a 40-year amortization schedule. The IUAL for the state systems in 1989 totaled $5.84 B, including $1.67 B LASERS, $3.99 B TRSL, and $0.19 B STPOL. When the IUAL payments began in 1989, LSERS did not have a UAL at the time. In addition, since the constitutionally required payments have been made, STPOL has paid off its IUAL (fully paid in FY 06), so the only remaining IUALs are for LASERS and TRSL. Since 1989 the UAL for the state systems has increased by $13.18 B and is currently approximately $19.025 B*. See Table 1 for a breakdown of the UAL by state retirement system.

Components of the UAL (in billions) (Table 2)	
Initial UAL	$5.844
Interest on Unfunded Liability	$3.688
Investment Gains & Losses	$5.616
COLA Allocations	$2.881
Additional Benefits Promised	$0.162
Net Acturial Gains & Losses	$0.834
TOTAL	**$19.025**

**Based on LA Legislative Auditor figures & system actuarial valuations.*

How Did it Get to 19.025 B? (See Table 2)

There are many factors that have contributed to the UAL for all four state systems. The current UAL of $19.025 B is broken down by system as follows: $6.44 B LASERS, $11.35 B TRSL, $0.32 B STPOL, and $0.91 B LSERS. These factors include interest on the original debt, investment gains and losses, Cost of Living Adjustment (COLA) allocations, additional benefits promised, and net actuarial gains and losses.

Interest on the Unfunded Liability - $3.69 B
Once the constitutional amendment was passed, the state chose a back-loaded payment schedule. This amortization method led to payments that would increase annually. The original payment method did not cover the accruing interest on the debt and the debt increased as payments were made. In 1992, the legislature revised the payment schedule, which became more heavily back-loaded. This revision allowed the state to make lower annual payments initially, but significantly higher annual payments in future fiscal years. As a result, the debt was allowed to grow for more years due to the payments not covering the interest on the debt. Act 497 of 2009 changed the payment schedule of the UAL by consolidating existing payment schedules and changed the funding of the experience account, which is expected to result in a $500 M reduction to the UAL. Even with this reduction, the original debt on the state systems has increased by $3.69 B.

Investment Gains and Losses - $5.62 B
System investment gains and losses are registered in relation to the specific system's assumed rate of return. Since 1988, the investment loss amounts have been greater than investment gain amounts, which have resulted in a total investment loss of $5.62 B. For example, over the past 26 fiscal years both LASERS and TRSL have returned 16 years of investment gains and 10 years of investment losses. The majority of these loss years were following the Dotcom Crash (2000-2002) and the Great Recession (2007-2009). It should be noted that the majority of the total investment losses occurred in 2009 when both LASERS and TRSL had a combined investment loss of $4.6 B.

COLA Allocations – $2.88 B
The effect of COLAs on the system has resulted in a loss of investment gains over the years. As a result of COLA formulas, the systems have allocated approximately $2.9 B in investment gains towards COLAs. Had these gains not been allocated to COLAs, the gains would have been used to offset investment losses as described above.

Additional Benefits Promised – $162 M
Since 1989 additional benefits promised have increased the UAL by approximately $162 M. The majority of the amount is due to the accrual rate for LSERS members increasing from 2.5% to 3.3% in 2001. The change in the accrual rate resulted in a $129 M increase. STPOL increased accrual to 3.5% for all troopers in 2001 that resulted in a $30 M increase. In addition, the net additional benefits promised between LASERS and TRSL total $3 M.

Net Actuarial Gains and Losses – $834 M
For each system valuation the system actuary sets a series of demographic assumptions. These long-term assumptions include a wide range of categories that can include member and retiree mortality, salary growth, disability, retirement and termination, and family composition. These assumptions can lead to gains and losses related to actual events that happen during the year. As it relates to the state UAL, these actuarial assumptions have not been met over the years and have resulted in an increase of over $800 M to the UAL. On a year-by-year basis different demographic assumptions that are not met have positive and negative effects on the system UALs. For example, more members may leave the system in one year than assumed which creates a gain for the system, whereas in another year, retiree mortality rates may be less than estimated which creates a loss for the system.

***NOTE:** *The current UAL of $19.025 B is a projected number based upon 2013 actuarial valuations approved by the four state systems' board of trustees. This number is subject to change upon approval from the Public Retirement Systems' Actuarial Committee (PRSAC). PRSAC is responsible for reviewing and adopting each year the official valuations of each state and statewide public retirement system, which are submitted annually to the committee by each system's actuary. The committee historically meets in January to approve actuarial valuations.*

GENERAL GOVERNMENT

Office of Juvenile Justice/LAMOD (Louisiana Model)
Stephanie Blanchard, Fiscal Analyst, blanchas@legis.la.gov

The State of Missouri juvenile justice system has been a model for other states efforts in rehabilitating youth. Missouri's unique approach is not a typical correctional model and is comprised of small residential facilities located throughout the state with a focus on rehabilitation. The LA Office of Juvenile Justice (OJJ) is one of several states that has implemented a similar approach. Since 2008 OJJ has implemented a number of national evidence based practices that have shown a positive impact to recidivism rates of youth and an overall decline in the number of youth in the Juvenile Justice System.

The LA Model (LAMOD) is similar to the Missouri Model in that it focuses on therapeutic, child-centered environment versus the correctional, custodial model.

Components of the model include:

- Dorm setting is more homelike as opposed to prison cells
- Group processes are led by Youth Care Workers
- Dorm sizes range from 10-12 youth as opposed to large institutional care
- Youth are more engaged with staff than correctional care
- Youth receive very structured expectations for each segment of the day
- Each activity is a "teachable" moment

OJJ currently operates four secure care facilities for males: Swanson Center for Youth in Monroe, Swanson Center for Youth in Columbia, Jetson Center for Youth in Baker, and Bridge City Center for Youth in Jefferson Parish. As part of the reform of Louisiana's juvenile justice system, OJJ's goal is to open small regional facilities instead of the large institutionalized correction

facilities. The Swanson Center for Youth in Columbia opened in May 2013 at the former site of DHH, Office of Citizens with Developmental Disabilities' Columbia Community Residential & Employment Services that originally housed residents with developmental disabilities. The cost of remodeling the facility was approximately $1.7 M and included replacing the HVAC system in several buildings and modifying the sprinkler system to meet current code requirements. Acadiana Center for Youth in Bunkie is currently being built and is projected to open at the end of FY 15 at a projected cost of $20 M, which will increase the number of secure care facilities to 5.

OJJ has completed implementation of LAMOD at the Bridge City Center for Youth and the Jetson Center for Youth, while Swanson Center for Youth has not yet competed full implementation. As a result of the satellite facility, 48 youth were moved to Columbia from Swanson Center for Youth in Monroe. Swanson Center for Youth has achieved the staff-to-youth ratio (2:12) necessary for implementation for LAMOD but the dorms are not conducive to allowing full implementation. Acadiana will be a 72-bed facility and once opened, will allow for dorm closures at Swanson Center for Youth in Monroe and full implementation will be achieved. In addition, kids will be moved closer to their home, which is a component of LAMOD.

Although Jetson Center for Youth and Bridge City Center for Youth have implemented LAMOD, the most significant challenge for OJJ is the design of the current facilities. The design of the current facilities challenges OJJ in implementing the therapeutic model of care since they were designed under a correctional model. Swanson Center for Youth and Jetson Center for Youth are very large and dilapidated. Many buildings at the facilities are unoccupied and only a small portion of land at each facility is utilized. Maintaining the large facilities, including risk management premiums is an increased burden to the state. Were these facilities situated in the average footprint of Acadiana, overall insurance premiums, including risk management premiums would decrease by approximately 20%. Ideal facilities would be on less acreage, which would require fewer employees. A reduction of approximately 50% of employees would occur if these 2 facilities were replaced. If these 2 facilities were replaced with new therapeutic treatment facilities annual operating cost savings would be approximately $8.5 M annually, not including the cost to build the new facilities. To the extent the cost to build 2 therapeutic facilities is $42 M, it would take the state 5 years to breakeven based on the estimated savings of $8.5 M annually.

Act 420 of 2013 Update

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Act 420 of 2013 provides for the transfer of various funds and resources into either the Overcollections Fund and/or SGF for FY 14 appropriation. Table 3 represents outstanding Overcollections Fund transfers. To date, of the $37.9 M of various fund transfers anticipated to be transferred into the SGF, none have occurred. Act 420 of 2013 specifies that such SGF fund transfers will not occur will not occur until the FY 14 appropriations have been met.

In addition, as has been previously mentioned in previous editions of *Focus on the Fisc*, it is possible other resources have been collected by other state agencies, but have not officially been deposited into the Overcollections Fund.

Table 3 is on the next page.

IT Consolidation: An Update

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

As has been discussed in previous editions of *Focus on the Fisc*, the Division of Administration (DOA) issued an RFP for a vendor to provide consulting and IT technology policy, planning and transformation initiatives. The DOA announced in September 2013 that Deloitte Consulting was selected and the contract terms are from 11/11/2013-2016 not to exceed $975,000. Based upon discussions with the DOA and review of the draft contract, Deloitte Consulting will study the state's current IT infrastructure, framework and current statewide IT costs and provide the DOA with a recommended plan for a new consolidated model for delivery of state IT services.

The consulting contract includes 2 distinct parts: IT Planning Services ($650,000) and Staff Augmentation Services (up to $325,000). The contract lists 21 specific IT planning services deliverables all due in February 2014. The specific deliverables include human capital management, governance, organizational structure, services catalog development, operational plan for service management & delivery, sourcing & procurement strategy, financial model, technical architecture, project & portfolio management strategy, service level agreement & associated metrics structure, risk & issue management plan, change management plan, communications plan, customer engagement plan, provider management plan, facilities strategy & management plan, IT network & communications plan, statewide IT consolidation project plan, administrative management plan, project management strategy/resourcing plan and utilization management plan. All of these deliverables will cost the state $650,000.

The contract allows for staff augmentation services during the contract term, which will be based upon the hourly rate of the specific consultants working with state IT staff for any additional deliverables that may appear during work on the 21 listed above. As is stated in the contract currently, these staff augmentation services cannot exceed $325,000. The hourly rates listed in the contract range from $163 per hour to $288 per hour depending upon the title, role and function of the individual

FY 14 OC Fund Rev. Sources (Table 3)	Anticipated	Collected & Transferred To Date	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$16,094,009	$124,155,991
Legal Settlements	$64,771,871	$0	$64,771,871
Sale of Pointe Clair Farms	$12,000,000	$0	$12,000,000
Sale of Baton Rouge State Office Bldg.	$10,250,000	$0	$10,250,000
Sale of Southeast Hospital Property	$17,840,000	$0	$17,840,000
Sale of Wooddale Towers	$350,000	$335,325	$14,675
Sale of Hart Parking Garage Property	$2,180,000	$0	$2,180,000
Sale of Various WLF Properties	$2,000,000	$2,000,000	$0
Sale of Greenwell Springs Hospital Property	$0	$0	$0
Sale of Pines Campus Property	$0	$0	$0
Sale of Southern Oaks Addiction Recovery Property	$0	$0	$0
Sale of Bayou Region Property	$0	$0	$0
Sale of MDC Apartment Property	$0	$0	$0
LDR Fraud Initiative	$20,000,000	$0	$20,000,000
Excess FEMA Reimbursements	$19,950,000	$0	$19,950,000
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$11,591,755	$16,692,745
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$0	$2,000,000
Self Insurance Fund	$16,000,000	$0	$16,000,000
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$0	$1,988,106
2% Fire Insurance Fund	$2,358,715	$0	$2,358,715
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$0	$48,298
Compulsive & Problem Gaming Fund	$57,071	$0	$57,071
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$0	$1,000,000
Mega-Project Development Fund	$11,300,000	$0	$11,300,000
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$0	$25,019
Penalty & Interest Fund	$1,541,440	$0	$1,541,440
Riverboat Gaming Enforcement Fund	$8,605,392	$0	$8,605,392
Transfer from fund to SGF	($5,000,000)	$0	($5,000,000)
TOTAL	**$413,207,388**	**$69,651,506**	**$343,555,882**

working on the contract.

According to the DOA, there is currently $650,000 budgeted in FY 14 for the deliverable portion of the contract that will be paid from $174,000 SGF, $286,000 IAT and $190,000 SGR. Although this $650,000 contract was not specifically budgeted in FY 14, the DOA has indicated to the LFO that there are current year cost savings anticipated in the Office of State Lands and the Office of Computing Services. Specific information concerning these savings has been requested by the LFO but it has not been received as of this writing.

In addition, to the extent the DOA utilizes the staff augmentation portion of this contract (up to $325,000), other resources will have to be reallocated as there is currently no funding available in FY 14 for the staff augmentation expenditures.

Note: At its 11/8/2013 meeting the Procurement Support Team (PST) recently reviewed this item. The PST, which is created in statute (R.S. 39:1496), serves as an advisory group to the Director of the Office of Contractual Review (OCR). Members include representatives from the Attorney General's Office, the Legislative Fiscal Office, the Office of Information Technology (OIT) and the OCR.

REVENUE

FY 14 Major Revenue Collections Summary Through October 2013

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

Four cash months of collections have been received since this fiscal year began, with approximately the first month's worth of those collections posted back to FY 13 for certain revenues. Thus, for many revenues, 3 accrual months have actually been collected for FY 14. The FY 14 "Implied" Growth Rate is the growth in the 5/15/2013 dollar forecast for FY 14 now that FY 13 collections are known. The FY 14 "Forecast" Growth Rate is the growth rate as of the 5/15/2013 REC, when FY 14 actual collections were not yet known. Major receipts' collection performance so far is:

Income tax had a remarkable finish to FY 13, coming in at a 10.8% growth rate, with much of that occurring during the spring filing/payment period. The 5/15/2013 REC captured a good bit of this but performance still bested that forecast. Across much of the country this surge has been attributed to the acceleration of income into 2012 in order to avoid federal tax increases effective 1/1/2013. This is supported by withholding collections that finished with a more normal 5.7% growth. This suggests that this surge should not be expected to continue through FY 14. Through October collections are 7.8% ahead of prior year, nearly half the result of just one month earlier, and caution is still advised since collections through August were only 1.6% ahead. Almost all of the strength so far has been a one-month event (September). Both implied and forecast growth rates for FY 14 are modest, but the FY 13 surge will have to be controlled for and it will be difficult for collections next spring to beat those of this past spring. It is possible that the FY 14 forecast will not be materially adjusted upward.

Sales tax experienced a second year of essentially no improvement in FY 13, finishing with only 0.1% growth. This further suggests that the income tax finish is not likely to be a sustained event, and continues to suggest cautious conditions within households and businesses. Collections through October have been 3.2% ahead of prior year, but this is also essentially a one-month event (September); through August, growth was -1.6%. Both the implied and

forecast growth rates for FY 14 seem beatable but are not yet supported by a string of actual performance, and optimism for this tax cannot be projected yet. Vehicle sales tax continue to reflect strong growth, finishing FY 13 with 10.2% growth (essentially the same as the growth in FY 12), and collections through October are 10.1% ahead of prior year, with 3 of 4 cash months this year exhibiting strong performance. Households and businesses are not yet done buying vehicles, and low interest rates and industry financing deals are still keeping this narrow big-ticket sector performing strongly. Both implied and forecast growth rates moderate from the pace of the last two years, but are still respectable. There may still be optimism for this tax going forward, but when pent up demand is satisfied, growth in this tax, and even its absolute level can fall off dramatically.

Corporate tax collections looked very strong through much of FY 13, but then fizzled out at the end of the year, finishing 10.1% behind the prior year and below the modest forecast for the year. Once again the tax proved that the monthly collections say little about what the annual total will be. Both the implied and forecast growth rates for FY 14 are so modest as to seem likely to be beat. However, that was the case in FY 13, as well. The amnesty program offered this fall may also affect FY 14 collections. Any collections attributable to the program in FY 14 are likely to be otherwise normal base collections of FY 14 and accelerated normal base collections of FY 15 and beyond. These collections will have to be controlled for in the forecasts, and are not indicative of strength in the underlying corporate tax base. Total amnesty collections for FY 14 should be known by late November or early December.

Severance tax was essentially flat in FY 13 (-0.1% growth), but this was still better than the expectation of a larger drop. Spot oil prices for state crude averaged $109/bbl in FY 13, compared to the forecast price of $94/bbl, explaining much of the good performance. For FY 14, the price forecast is currently $94.85/bbl, providing optimism for the forecast, and through October collections are at least 10% ahead of prior year. The natural gas severance tax rate is lower in FY 14 (11.8¢/mcf) than FY 13 (14.8¢/mcf) and will temper collections somewhat, but barring a material drop off in oil prices the outlook for severance tax appears optimistic.

Royalty receipts also finished FY 13 better than expected but still down 5.2% compared to the prior year. While gas prices remain weak, they are at least relatively stable, allowing strong oil prices to drive the collections base. Collections through October are ahead of both implied and forecast growth, and while optimism exists for this revenue, as well, it largely depends on oil prices.

Gaming receipts from riverboats, video poker, and racetrack slots finished FY 13 at 0.9% growth; modest growth but better than FY 12. Collections accelerated through September, primarily on the strength of riverboats, but fell back in October in all 3 sectors. The riverboat segment of this discretionary spending may be returning to the economy, but improved performance is not evident across the board yet, or from each month-to-month period. However, both the implied and forecast growth rates for all three components are very modest, and are currently being beaten on the strength of only one of the components. The outlook depends on sustaining riverboat performance and extending it to the other gaming components.

Overall, collections for FY 13 finished stronger than expected by some $175 M, reflecting 2.6% revenue growth from FY 12. While a positive experience, that growth is actually a deceleration from the growth in FY 12 of 3.8%, and from FY11 of 8.3%. In addition, the over-collections included some surprise components that may not be sustained in FY 14. The largest gain was in personal income tax reflecting a surge in the spring due to a likely one-time acceleration of income for federal tax purposes. Mineral revenue gains were actually smaller declines than expected and price stability means the outlook is tempered for growth, although there may some upward potential to mineral revenue. The good news on sales tax also involves smaller than expected declines rather than consistent positive growth. FY 13 performance also surprised on the upside in various agency receipts (a catchall for numerous unspecified receipts), which may increase a forecast moving average but cannot be relied upon for a sustained higher level of collections. Premium tax also finished well in FY 13, although new credits were passed in the 2013 session that will restrain that tax in FY 14 and beyond. Finally, corporate tax disappointed in FY 13 and cannot be relied upon for growth in FY 14. Amnesty will also affect this tax and add uncertainty to its true underlying base.

As for FY 14, there still seems to be more good news than bad news and cautious optimism exists in the forecast going forward, even if it is optimism for only modest improvement. Cautions are not immaterial though, related to still weak sales tax, which is over a quarter of total tax receipts, the questionable sustainability of the spring income tax surge, and highly uncertain corporate collections.

EDUCATION

Performance Based Funding of Higher Education

Charley Rome, Fiscal Analyst, romec@legis.la.gov

Background—States across the nation, including LA, have faced significant funding challenges since the economic crisis of 2008. Funding for higher education is discretionary in LA and in most states. As such, the LA Legislature and legislatures across the country have significantly reduced SGF support for public colleges and universities over the last 5 years in response to declining state revenues associated with the 2008 economic crisis and its aftermath.

To offset the loss of SGF support and to remain viable, public colleges and universities in LA and across the nation have significantly increased tuition and fees over this same period. In LA, SGF support represented approximately 60% of all higher education funding in

FY 09 and SGR (mostly tuition and mandatory fees) represented approximately 30% of funding. In FY 14, SGF support now represents approximately 20% and SGR approximately 58% of higher education funding in the state. (The calculations above exclude the LSU Medical Center in Shreveport, E. A. Conway Medical Center and H. P. Long Medical Center because these hospitals were privatized in FY 14. These calculations also exclude funds for the Office of Student Financial Assistance (LOSFA), including the Taylor Opportunity Program for Students (TOPS) since these programs benefit students directly and do not provide additional funding to public colleges and universities in the state.)

Historically states have allocated SGF support for higher education institutions based on student enrollments, operational costs, or a combination of both factors. A recent NCSL survey reports that twelve states, including LA, now have a funding formula in place that provides some amount of funding based on performance. Four states are transitioning to some type of performance funding and several more are engaged in formal discussions.

Funding Formula Performance Component—In FY 11, the Board of Regents revised the funding formula based on recommendations of the Postsecondary Education Review Commission (PERC) and the LA GRAD Act (see below). The resulting formula included both cost components and performance components aligned with the GRAD Act objectives. Eighty-five percent (85%) of formula funding is distributed based on cost and fifteen percent (15%) is distributed based on performance. Should an institution fail to pass its annual Grad Act performance agreement it becomes ineligible to receive 15% of its funding formula allocation.

The funding formula adopted by the Board of Regents for FY 14 considers the following factors in allocating state funds (SGF and Overcollections Fund): Core Educational Costs, General Support Costs, Operation/Maintenance of Facilities, Strategic Initiatives (unique to each institution's mission)

Once costs are calculated, a state "share" is applied to each school per Southern Regional Education Board (SREB) category. These state "shares" based on SREB category range from 39.1% for LSU-Baton Rouge in the SREB Four-Year 1 category to 60.2% from the SREB for all Technical Colleges. The state share percentage is applied to the total cost calculation to determine the appropriate balance of cost to be funded by the state, with the balance of costs to be managed by institutions using self-generated revenues. For example: Total cost $100; State share 50%--the state responsibility would by $50.00.

Institutions have not been funded at 100% of the state share since FY 08. While there are variations in the formula implementation rate among colleges and universities, the average rate statewide in FY 14 is 56%. This means the state funds 56% of the state's share to educate LA's students based on the four cost factors described above. Applying this rate to the example above, the state would actually provide $28, not $50.

GRAD Act as Performance Based Funding—In 2010 the LA Legislature passed the LA Granting Resources and Autonomy for Diplomas Act (Act 741, commonly referred to as GRAD Act) to tie higher education tuition increases and operational autonomies to performance objectives. The GRAD Act provides for 6-year performance agreements between the Board of Regents and LA public postsecondary systems and institutions. The goal of these GRAD Act performance agreements is to increase accountability and performance among participating institutions in exchange for authority to increase tuition up to 10% per year and to gain additional operational autonomies relative to the following: purchasing, personnel, facilities, investments, and retaining unobligated funds from one fiscal year to the next.

The GRAD Act requires the Board of Regents to annually review, monitor, and report to the Legislature and Governor on the following GRAD Act performance objectives: Student Success, Articulation and Transfer, Workforce and Economic Development, Accountability and Efficiency

There are performance elements and measures for each objective. These 69 performance elements and measures are further divided into the following categories:

1. Tracked – Measures requiring baseline and actual data that institutions report annually to the Board of Regents. The Board of Regents reviews these tracked measures to ascertain institutional performance progress and may convert measures to "targeted" measures (see below) as appropriate.
2. Targeted – Specific measures where institutions set annual benchmarks and 6-year GRAD Act performance targets. Most targeted measures are in the Student Success Performance Objective and carry extra weight in the GRAD Act review process.
3. Descriptive – Measures that are narrative in nature and do not require quantitative benchmarks/targets.

Should an institution fail to achieve successful passage of the GRAD Act, it loses all authority for any operational autonomies, including the annual tuition increase. Further, as referenced above, 15% of the formula revenues will be withheld.

The Board of Regents has published 3 annual GRAD Act reports since the Legislature passed Act 741 in 2010 (2011, 2012, and 2013). In all 3 years, only one institution failed to meet its GRAD Act performance objectives. In 2012, LSU-Eunice failed to meet the following 3 Student Success performance targets: 1st to 2nd year retention rate, same institution graduation rate, and statewide graduation rate. In failing to meet its GRAD Act objectives, LSU-Eunice was unable to raise tuition in the 2012-2013 school year and lost 15% of the institution's campus funding formula allocation. However, LSU-Eunice was able to earn $575,966 (75%) of these funds back in FY 13 by meeting requirements in a GRAD Act Improvement Contract with the Board of Regents. The remaining $191,989 (25%) lost by LSU-Eunice was allocated by the LSU Board of Supervisors to LSU-Shreveport to increase student retention efforts.

The annual GRAD Act reports from the Board of Regents show overall improvement in many measures tracked by the Board of Regents. Since the number of targeted and tracked measures are numerous and vary by institution, they are not summarized in this article. However, every institution must report on the Student Success objective including the targeted performance measure in Table 4 below.

The measure reflects the same institution graduation rates from the Integrated Postsecondary Education Data System (IPEDS) as reported by the U.S. Department's National Center for Education Statistics (NCES).

Graduation rates are based on the number of full-time, first-time, certificate/degree-seeking students who graduate from the same institution within 150% of the normal program completion time (i.e. 6 years). For example, a student starting a baccalaureate degree program in 2013 will be included in the calculation for the graduation rate if the student obtains a baccalaureate degree from the institution in which he initially enrolled by 2019.

Table 4 shows that 19 of the 27 institutions increased graduation rates over the last three years. Although 3 institutions failed to meet GRAD Act performance targets for this measure for the current reporting year, these institutions scored high enough on other measures of Student Success to achieve a passing score overall on the performance objective.

GRAD Act - Same Institution Graduation Rates

(Table 4)

	Baseline	Year 1	Year 2	Year 3	Change from Baseline	
LA Community & Technical College System						
Baton Rouge Community College	2.9%	3.3%	5.1%	4.6%	1.7%	
Bossier Parish Community College	8.3%	9.9%	11.8%	14.4%	6.1%	
Delgado Community College	2.1%	2.1%	2.4%	3.0%	0.9%	
Elaine P. Nunez Community College	8.0%	21.1%	12.8%	7.0%	-1.0%	
River Parishes Community College	4.2%	5.7%	3.9%	10.3%	6.1%	
South LA Community College	1.6%	7.4%	6.3%	5.2%	3.6%	
LA Delta Community College	9.4%	9.8%	10.9%	10.1%	0.7%	
L. E. Fletcher Technical Community College	15.9%	8.7%	17.6%	17.1%	1.2%	
Sowela Technical Community College	34.9%	34.9%	41.9%	31.4%	-3.5%	
LA State University System						
LA State University Alexandria	5.3%	10.8%	9.5%	9.5%	4.2%	
LA State University A&M	60.7%	60.8%	60.6%	62.0%	1.3%	
LA State University Eunice	7.8%	8.0%	4.7%	6.8%	-1.0%	***
LA State University Shreveport	20.1%	20.0%	28.0%	26.5%	6.4%	
Paul M. Hebert Law Center	83.7%	87.5%	82.7%	86.7%	3.0%	
Southern University System						
Southern University A&M	28.3%	30.3%	29.3%	30.5%	2.2%	
Southern University New Orleans	5.0%	7.7%	4.0%	N/A	N/A	*
Southern University Shreveport	21.9%	13.8%	13.7%	13.3%	-8.6%	***
Southern University Law Center	80.0%	85.5%	77.0%	79.9%	-0.1%	
University of LA System						
Grambling State University	36.3%	29.7%	28.0%	27.8%	-8.5%	***
LA Tech University	47.3%	45.5%	47.4%	48.2%	0.9%	
McNeese State University	36.4%	35.1%	35.1%	37.3%	0.9%	
Nicholls State University	26.6%	29.2%	28.7%	38.4%	11.8%	
Northwestern State University	28.1%	29.5%	27.1%	33.8%	5.7%	
Southeastern LA University	28.5%	30.7%	33.4%	33.4%	4.9%	
University of LA at Lafayette	40.2%	42.2%	39.6%	41.4%	1.2%	
University of LA at Monroe	30.9%	30.5%	34.1%	35.0%	4.1%	
University of New Orleans	22.1%	20.9%	20.0%	38.1%	N/A	**

Source: Board of Regents GRAD Act Annual Report, July 2013
Graduation rates are based on the percentage of full-time, first-time, certificate/degree seeking students who graduate within 150% of the normal program completion time. For example, a students starting an undergraduate degree program in 2013 will count as a graduate if they obtain a baccalaureate degree in the state by 2019.

* *SUNO was closed due to Hurricane Katrina and was exempt from reporting.*
** *UNO was impacted by Hurricane Katrina and submitted adjusted data for this measure.*
*** *These institutions failed to meet performance targets for this measure for the current reporting year.*

Despite these achievements, the GRAD Act has not functioned to provide increased funding for institutions based on their performance as intended. In reality, annual tuition increases authorized by the Grad Act have been offset by corresponding decreases in SGF support for LA public colleges and universities. Furthermore, approximately 20% of tuition increases are waived for low income or needy students. As such, LA public colleges and universities have actually experienced a significant overall decline in available resources over the last 5 years.

Federal Performance Funding for Higher Education—In August 2013 the Obama administration (administration) announced ambitious proposals to increase affordability, transparency, and accountability in higher education services. These initiatives include the following:

1. Cap repayment of student loans to 10% of monthly income.
2. Proposals to shift federal campus-based aid programs away from colleges with higher tuition rates toward colleges and universities with lower tuition rates that serve more disadvantaged students.
3. The Race to the Top ($1 B): College Affordability and Completion challenge to increase the number of college

graduates and minimize the cost of tuition by rewarding states with grants that systematically change their higher education policies and practices to increase graduates and minimize tuition costs.

4. Financial Aid Shopping Sheet – An individualized standard financial aid award letter to help students and families understand the costs of postsecondary education before enrolling.
5. College Scorecard – An instrument to provide information on cost, graduation rate, loan default rate, amount borrowed, and employment for every degree-granting institution in the country.

The administration has not released specific measures. However, broad measures will likely including the following: Price/Cost, Student Retention/Success Rate, Average Student Debt, Graduate Job Placement (also referred to as Gainful Employment) & Career earnings.

The administration plan is controversial because it is difficult to agree on measures of success relative to higher education services. For example, Graduate Job Placement or "Gainful employment" is difficult to define for individuals with generalized diplomas such as liberal arts degrees. There are similar problems developing consensus on definitions of success for outcomes in postsecondary educational services.

There are also concerns relative to how the administration's proposals will affect federal aid to institutions. Institutions are unable to control the amount of funds appropriated by state legislatures to public colleges and universities, and often raise tuition in response to reductions in state funding. The administration proposals would penalize these institutions for raising tuition in spite of reductions in state general fund support from state legislatures.

HEALTH & HOSPITALS

FY 14 Hospital Partner Payments

Shawn Hotstream, Health & Hospitals Section Director, hotstres@legis.la.gov
Alan Boxberger, Fiscal Analyst, boxbergera@legis.la.gov

For FY 14, funding allocated for hospital partnership payments and charity hospitals that will temporarily operate as public facilities total $ 1,110,723,000. Including budgeted payments to Lallie Kemp Regional Medical Center, total funding allocated to partnerships and public hospitals equals $1,139,997,392. Lallie Kemp will continue to operate as a public hospital in FY 14. ***Table 5*** reflects aggregate revenues allocated for partner hospitals.

Hospital Payments (Table 5)	Allocated	Projected (CEAs)	Difference
Medicaid Claims	$232,243,394	$154,152,411	$78,090,983
Medicaid UPL	$233,111,771	$228,892,711	$4,219,060
DSH	$674,642,227	$768,885,696	($94,243,469)
TOTAL	**$1,139,997,392**	**$1,151,930,818**	**($11,933,426)**

As reflected in ***Table 5***, allocated spending is $11.9 M short of the spending projected in the Cooperative Endeavor Agreements (CEAs) for these hospitals in FY 14. Projected partnership spending is based on prior public hospital costs reports (2012), and funding is reflected in the CEAs cost worksheets and DHH backup worksheets provided to the LFO. Actual spending in FY 14 may not necessarily equal the level projected in the CEAs.

State Match Need (Table 6)	
$441,899,112	Match need (for projected CEA payments)
$428,119,764	Match available (for allocated payments)
$13,779,348	**Match required for level payments reflected in CEA's**

Additionally, to the extent payments are made up to the projected level of payment, by payment source reflected in the CEAs, state match appropriated may be insufficient to fund payments at this level. To the extent payments are required at the projected level reflected in the CEAs, it is not known how the department will solve for the match shortfall. ***See Table 6.***

Partnership payments are comprised of Medicaid Title XIX claims payments, Disproportionate Share Hospital (DSH) payments for uncompensated care costs and Medicaid shortfall, and Medicaid Upper Payment Limit (UPL) supplemental payments. Upper Payment Limit (UPL) reimbursement represents payments to a type of provider above what DHH is paying for individual Medicaid services through its Medicaid provider rates. UPL funding above is paid to the private hospital provider class.

Medicaid supplemental Upper Payment Limit (UPL) reimbursement

Certain providers, including hospital partners, are anticipated to receive supplemental UPL Medicaid payments in FY 14. Based on the partner CEA's, projected UPL payments to partner hospitals in FY 14 total $228,892,711. Total budgeted UPL payments to providers **(including partners)** from Medicaid in FY 14 are $593,247,790.

The Upper Payment Limit (UPL) is bound by federal rules that define a payment level a state can pay to Medicaid

providers, or a maximum aggregate payment a state can pay to a provider class. Typically, the maximum UPL payment a state Medicaid program can pay to a certain provider class in total is based on a calculation of the difference in what Medicare would pay a provider class on a Medicaid book of business (fee for service). Based on DHH financial worksheets, the projected UPL cap for the private hospital classification (including both inpatient and outpatient services) in FY 14 is $398,996,099. In FY 14, DHH will have to manage these payments to ensure UPL supplemental payments are not paid over the cap for this provider class. UPL payments are not projected to be paid up to the level of appropriation for certain providers. ***See Table 7 below.*** Certain providers may be able to be paid by other financing mechanisms, including Disproportionate Share Hospital Payments (DSH). Approximately $100 M in unmatched Low Income & Needy Care Collaborative Agreement (LINCCA) DSH authority exists in the FY 14 Medicaid Budget.

FY 14 Budgeted UPL Authority Under Private Provider Class (Table 7)	
$41,710,084	Rural Hospitals (in-patient)
$55,970,588	Rural Hospitals (out-patient)
$223,770,452	Partner Payments
$5,392,175	Lallie Kemp LINCCA with private hospital
$266,404,491	Intergovernmental Transfer (IGT) LINCCA with private hospitals
$593,247,790	**Total UPL budgeted for private hospital provider class**

Partnership Payments Comparison Table (Table 8)

Table 8, on pages 10 – 12 of this edition of *Focus on the Fisc*, reflects a comparison between certain terms of the public private partnership Cooperative Endeavor Agreements. ***Table 8*** displays state expenditures in FY 14 and reports on the state negotiated expenditure caps in FY 14 and future fiscal years (where applicable). State negotiated caps represent ceilings on certain payments, but not necessarily projected expenditures.

Note: Two partners (ILH/Children's Hospital & OLOL – inpatient) are excluded from an annual state expenditure cap for inpatient services. Payment totals are based on the actual book of inpatient business for those hospitals. Table 8 further includes an explanation of the inflationary factors built into each CEA. Table 8 also reports on the negotiated bonus payment methodology to certain partners where applicable with the bonus payment (shared cost savings) calculated based on prior year cost savings. There is a cap on all bonus payments.

Partnership Payment Comparison (Table 8) *(Continued on the next page)*

*Expenditure Cap (*ILH & OLOL-Inpatient have no expenditure cap)*

Hospital Facility or Location	Commencement Date	Comments/Assumptions	CEA Growth Adjustments	FY 14 Projected Expenditure	FY 14 Cap	FY 15 Cap	FY 16 Cap	FY 17 Cap	FY 18 Cap	Shared Cost Savings (Bonus) Terms	FY 15 Bonus Cap
Interim Louisiana Hospital (Hospital and clinics)	06/24/13	UPL Model. The UPL payment will likely be negotiated annually. Assumes an inflationary factor for shared savings (bonus) beyond FY14 equal to the average of the Inpatient Prospective Payment System market basket adjustment of 2.5%, adopted by CMS in 08/2013, and the Consumer Price Index - Medical Services adjustment of 3.1%, adopted by BLS in 09/2013, for an average of 2.8%.	No growth value associated due to lack of expenditure cap.	$ 334,168,988	No Cap	No Cap	No Cap	$ -	$ -	Efficiency bonus tied to SGF savings realization (50% of cost-per-patient-day savings up to a negotiated ceiling of 7.5% of actual cost). Cost-per-patient-day is compared to the last equivalent cost calculated under LSU operation. Efficiency bonus growth is assumed to be 2.8% annually.	$ 21,050,518
New University Medical Center	07/31/16	UPL Model. The UPL payment will likely be negotiated annually.	No growth value associated due to lack of expenditure cap. The LFO assumes an inflationary growth of 2.8% annually (see comments).	$ -	$ -	$ -	$ -	No Cap	No Cap	Efficiency bonus tied to SGF savings realization (50% of cost-per-patient-day savings up to a assumed ceiling of 7.5% of actual cost). The terms of the efficiency bonus may be renegotiated upon opening of the new hospital due to number of beds and scope of services.	$ -
UMC-Lafayette	06/24/13	UPL Model. Assumes an inflationary factor beyond FY14 equal to the average of the Inpatient Prospective Payment System market basket adjustment of 2.5%, adopted by CMS in 08/2013, and the Consumer Price Index - Medical Services adjustment of 3.1%, adopted by BLS in 09/2013, for an average of 2.8%. Receives a negotiated, one-time increase in the FY 15 expenditure limit of $3 million over the inflation factor. FY 14 includes a negotiated Upper Payment Limit transaction of $46.1 M, which also grows by inflation.	Average of IPPS and MCPI. IPPS (Inpatient Prospective Payment System) is an inflationary growth rate set annually by CMS through federal rulemaking procedures. MCPI (Consumer Price Index - Medical Services), an inflationary growth measured annually by BLS.	$ 119,688,428	$ 125,423,873	$ 131,935,741	$ 135,629,942	$ 139,427,581	$ 143,331,553	Efficiency bonus tied to SGF savings realization (50% of cost-per-patient-day savings up to a negotiated ceiling of $4.5 M). Efficiency bonus cap growth is assumed to be 2.8% annually. Made as a supplemental payment to LFMC.	$ 4,500,000
Bogalusa	01/06/14	UPL Model. FY 14 Expenditure Cap reflects 6 month private operation expenditure ceiling (annualized FY 14 cap equals $47 M). FY 14 Projected Expenditure includes an additional 6 months of public operational costs. Assumes an inflationary factor beyond FY14 equal to the average of the Inpatient Prospective Payment System market basket adjustment of 2.5%, adopted by CMS in 08/2013, and the Consumer Price Index - Medical Services adjustment of 3.1%, adopted by BLS in 09/2013, for an average of 2.8%.	Average of IPPS and MCPI. IPPS (Inpatient Prospective Payment System) is an inflationary growth rate set annually by CMS through federal rulemaking procedures. MCPI (Consumer Price Index - Medical Services), an inflationary growth measured annually by BLS.	$ 34,844,752	$ 23,306,849	$ 48,316,000	$ 49,668,848	$ 51,059,576	$ 52,489,244	Efficiency bonus tied to SGF savings (50% of savings up to a negotiated ceiling equal to 7% of the total cap). Efficiency bonus growth is assumed to be 2.8% annually.	$ 1,645,000

*Expenditure Cap (*ILH & OLOL-Inpatient have no expenditure cap)*

Hospital Facility or Location	Commencement Date	Comments/Assumptions	CEA Growth Adjustments	FY 14 Projected Expenditure	FY 14 Cap	FY 15 Cap	FY 16 Cap	FY 17 Cap	FY 18 Cap	Shared Cost Savings (Bonus) Terms	FY 15 Bonus Cap
Moss-Lake Charles	06/24/13	DSH Model. Assumes an inflationary factor beyond FY14 equal to the average of the Inpatient Prospective Payment System market basket adjustment of 2.5%, adopted by CMS in 08/2013, and the Consumer Price Index - Medical Services adjustment of 3.1%, adopted by BLS in 09/2013, for an average of 2.8%. *CEA reflects a DSH Model, however, an additional $3.5 M in UPL payments is projected outside the CEA. As a result, the projected expenditures in FY 14 are greater than the state negotiated cap.*	Average of IPPS and MCPI. IPPS (Inpatient Prospective Payment System) is an inflationary growth rate set annually by CMS through federal rulemaking procedures. MCPI (Consumer Price Index - Medical Services), an inflationary growth measured annually by BLS.	$ 54,931,086	$ 54,000,000	$ 55,512,000	$ 57,066,336	$ 58,664,193	$ 60,306,791	To be negotiated if the hospital is able to designate a partner, allowing the receipt of UPL payments. There is currently no identified partner and thus no projected shared cost savings.	$ -
Chabert-Houma	06/24/13	DSH model, but the CEA includes language allowing utilization of UPL funds if necessary. Assumes an inflationary factor beyond FY14 equal to the average of the most recent Consumer Price Index - Medical Services report of 3.1%, adopted by BLS in 09/2013. The CEA includes a negotiated annual supplemental payment of $31.5 M, which also grows by inflation.	Utilizes the most recent growth rate reported by the MCPI. MCPI (Consumer Price Index - Medical Services), an inflationary growth measured annually by BLS.	$ 85,385,034	$ 85,385,034	$ 88,031,970	$ 90,760,961	$ 93,574,551	$ 96,475,362	None	$ -
Huey P. Long	TBD	DSH model, but the CEA includes language allowing utilization of alternative funds (UPL funds) if necessary. Assumes an inflationary factor beyond FY 14 equal to the most recent three year average Consumer Price Index - Medical Services reported data from the Bureau of Labor Statistics. For this purpose, the LFO used the September report for each of the past three years, resulting in an average inflation figure of 3.4%. *The negotiated expenditure cap applies only to DSH payments, therefore Medicaid payments will inflate total payments beyond the cap level. As a result, the projected expenditures in FY 14 are greater than the state negotiated cap.*	3 year average of the MCPI ((Medical Consumer Price Index) is an inflationary growth rate for medical services reported annually by the Bureau of Labor Statistics. The three year average figure for September, 2013, was 3.4%.	$ 51,748,436	$ 49,000,000	$ 50,666,000	$ 52,388,644	$ 54,169,858	$ 56,011,633	None	$ -
Shreveport	10/01/13	DSH model. FY 14 Expenditure Cap reflects a 9 month private operation expenditure ceiling. FY 14 Projected Expenditure includes an additional 3 months of public operational costs. Assumes an inflationary factor beyond FY14 equal to the average of the Inpatient Prospective Payment System market basket adjustment of 2.5%, adopted by CMS in 08/2013, and the Consumer Price Index - Medical Services adjustment of 3.1%, adopted by BLS in 09/2013, for an average of 2.8%.	Average of IPPS and MCPI. IPPS (Inpatient Prospective Payment System) is an inflationary growth rate set annually by CMS through federal rulemaking procedures. MCPI (Consumer Price Index - Medical Services) is an inflationary growth measured annually by BLS.	$ 243,521,150	$ 197,157,356	$ 270,980,800	$ 278,568,262	$ 286,368,174	$ 294,386,483	None	$ -

*Expenditure Cap (*ILH & OLOL-Inpatient have no expenditure cap)*

Hospital Facility or Location	Commencement Date	Comments/Assumptions	CEA Growth Adjustments	FY 14 Projected Expenditure	FY 14 Cap	FY 15 Cap	FY 16 Cap	FY 17 Cap	FY 18 Cap	Shared Cost Savings (Bonus) Terms	FY 15 Bonus Cap
EA Conway	10/01/13	DSH Model. FY 14 Expenditure Cap reflects 9 month private operation expenditure ceiling. FY 14 Projected Expenditure includes an additional 3 months of public operational costs. Assumes an inflationary factor beyond FY14 equal to the average of the Inpatient Prospective Payment System market basket adjustment of 2.5%, adopted by CMS in 08/2013, and the Consumer Price Index - Medical Services adjustment of 3.1%, adopted by BLS in 09/2013, for an average of 2.8%.	Average of IPPS and MCPI. IPPS (Inpatient Prospective Payment System) is an inflationary growth rate set annually by CMS through federal rulemaking procedures. MCPI (Consumer Price Index - Medical Services) is an inflationary growth measured annually by BLS.	$ 46,385,427	$ 43,380,822	$ 59,624,000	$ 61,293,472	$ 63,009,689	$ 64,773,961	None	$ -
OLOL - Baton Rouge (including four inpatient clinics)	04/15/13	UPL only at inception, not DSH. Payment is set at 95% of cost. Assumes an inflationary factor for outpatient clinic and urgent care services beyond FY14 equal to the average of the Inpatient Prospective Payment System market basket adjustment of 2.5%, adopted by CMS in 08/2013, and the Consumer Price Index - Medical Services adjustment of 3.1%, adopted by BLS in 09/2013, for an average of 2.8%. FY 14 projected expenditures include a negotiated payment of $8.4 M to Woman's Hospital.	No growth value for inpatient services associated due to lack of expenditure cap. The LFO assumes an inflationary growth of 2.8% annually for outpatient services (see comments). Average of IPPS and MCPI. IPPS (Inpatient Prospective Payment System) is an inflationary growth rate set annually by CMS through federal rulemaking procedures. MCPI (Consumer Price Index - Medical Services) is an inflationary growth measured annually by BLS.	$ 151,983,123	No expenditure cap for inpatient services, but a cap of $60 M for outpatient services through clinic or urgent care.	No expenditure cap for inpatient services, but a cap of $61.7 M for outpatient services through clinic or urgent care.	No expenditure cap for inpatient services, but a cap of $63.4 M for outpatient services through clinic or urgent care.	No expenditure cap for inpatient services, but a cap of $65.2 M for outpatient services through clinic or urgent care.	No expenditure cap for inpatient services, but a cap of $67.0 M for outpatient services through clinic or urgent care.	None for inpatient services. Efficiency bonus for outpatient services is tied to SGF savings realization (50% of savings up to a negotiated cap of 2.5% of total cap in FY 14 and 5% thereafter). Efficiency bonus growth is assumed to be 2.8% annually. The CEA requires a maintenance of effort with regard to number of patient visits.	$ 1,500,000
Lallie Kemp	N/A	Lallie Kemp will remain as a state operated hospital.	N/A	$ 29,274,394	Capped at appropriation level.	N/A	N/A	N/A	N/A	N/A	N/A
			TOTAL:	$1,151,930,818	$ 637,653,934	$ 766,746,511	$ 788,783,506	$ 811,456,059	$ 834,782,571		$28,695,518

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

October 2013

Volume 2, Issue 4

INSIDE THIS ISSUE

1 Capital Outlay Funding Plan
3 Act 419 Impact to State Debt (NSTSD)
4 Payments Toward UAL Fund
4 LASERS 2013 Valuation Analysis
5 FY 13 Surplus
6 Act 420 Fund Transfers Update
7 FY 14 Revenue Update
9 TOPS Program

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hostream, Section Director
Alan Boxberger, Fiscal Analyst
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Stephanie Blanchard, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst
Evelyn McWilliams, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

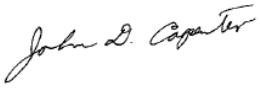
LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. I would like to thank one of our Section Directors, Mary Kathryn Drago, for her 17 years of service to the LFO. She has taken a new opportunity at the State Treasury and we wish her well.

Please contact us at (225) 342-7233 if you have any questions about any of the topics or need additional information.



FOCUS POINTS

Budgetary Impact of the Capital Outlay Funding Plan

Deborah Vivien, Economist, viviend@legis.la.gov

The Capital Outlay funding process provides for the issuance of cash lines of credit (LOC) prior to the sale of bonds for approved projects. Bond proceeds and other capital outlay means of finance are made available through the Capital Outlay Escrow Fund, which is replenished with bond sales. In the past, the state anticipated annual bond issues to cover the lines of credit in a timely and efficient fashion. However, the plan was interrupted through budgetary and credit market difficulties, ultimately resulting in a backlog of lines of credit funding exceeding $1 B. Recently, a group working with the State Bond Commission's (SBC) financial advisor reported a plan to eliminate about $800 M of this backlog while allowing the funding of some new projects annually, all while staying under the constitutional credit limit. This article addresses the budgetary impact of that plan.

A report was provided to the SBC meeting on 9/19/2013, offering a plan for refunding and restructuring Net State Tax Supported Debt (NSTSD) to avoid breaching the debt limit. According to the plan, future General Obligation (GO) Bond sales would cover about 80% of existing lines of credit and allow new projects to be funded each fiscal year through FY 25 with associated debt service remaining at or below 6% of officially adopted taxes, licenses and fees, based on the revenue forecast in place at the September SBC meeting.

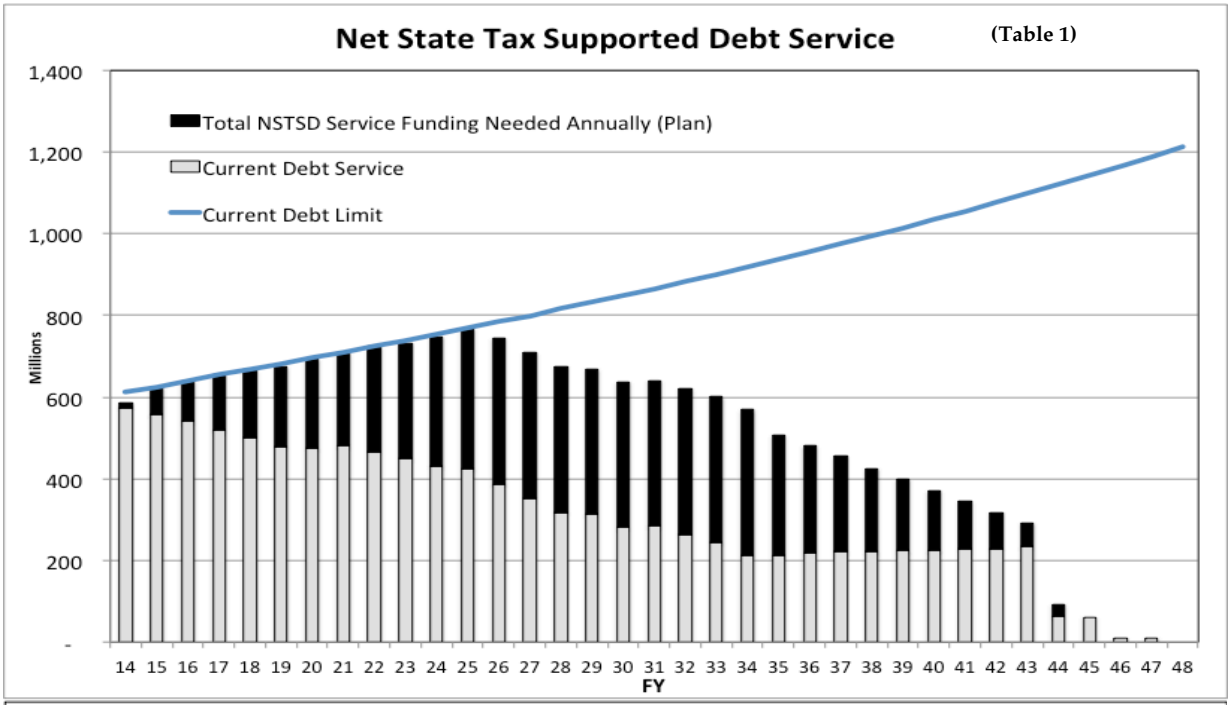
This new plan obligates virtually all available bonding capacity under the debt limit as calculated using the most recent revenue estimates until the last bond issue of the plan in FY 25, leaving little flexibility in funding on-going lines of credit if revenue unexpectedly declines or interest rates increase faster than anticipated in the plan estimates. However, the relaxing of certain plan assumptions could allow for alternative funding structures that would alleviate some of the constraint, such as the assumption that all debt will be issued as level debt. The plan calls for the following bond sales:

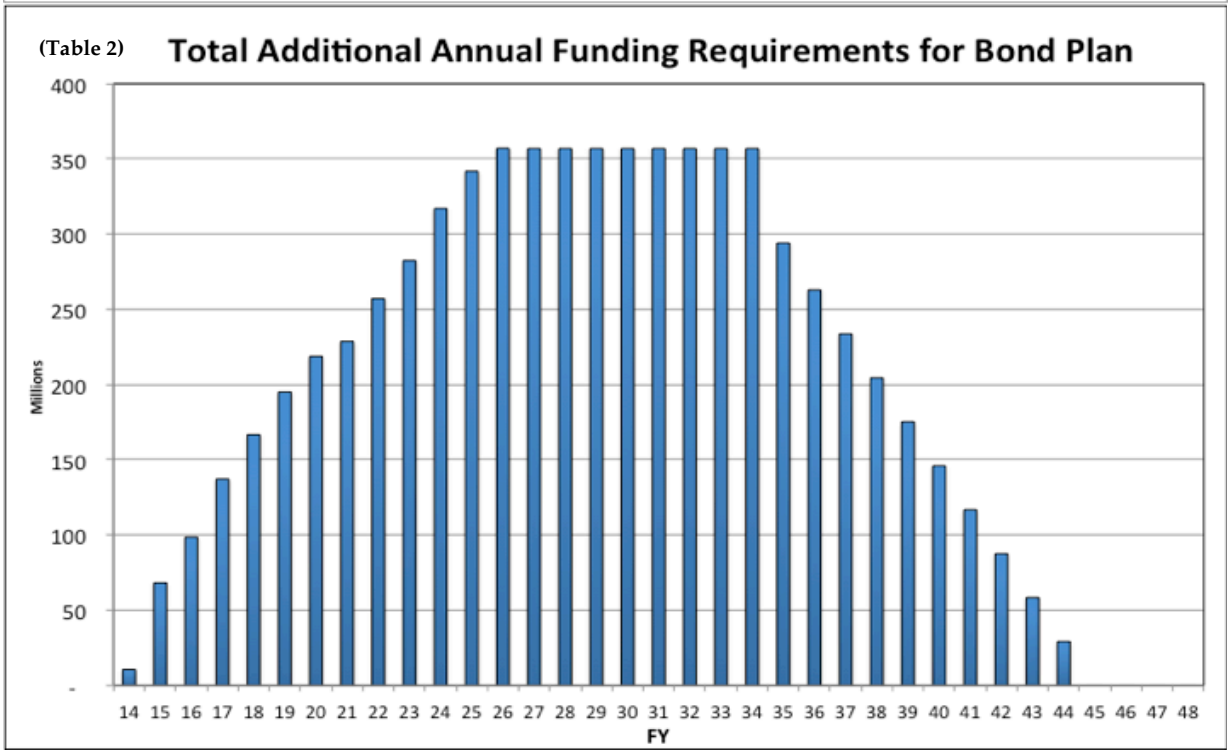
Plan Summary	General Obligation Bond Sales	Unclaimed Property Bond Sales (I-49 Expansion)	State Highway Improvement Fund Bond Sales (Rural Highways)
FY 14	$500 M	$85 M	$225 M
FY 15	$300 M	$85 M	-
Each of FYs 16-25	$350 M	-	-

According to the plan, in FY 14, the state would issue $500 M in GO bonds, $85 M from dedicated unclaimed property receipts (I-49 expansion) and $225 M from the State Highway Improvement Fund (SHIF) for rural highways from certain dedicated vehicle license receipts. In FY 15, the state would sell $300 M in GO bonds and an additional $85 M from dedicated unclaimed property (I-49 expansion). Each year after FY 15, $350 M in GO bonds would be sold to fund existing LOC until FY 25 after which nearly $800 M in

LOC backlog would be extinguished. The actual sales may deviate somewhat from the timeline as projects are adjusted and optimum market circumstances are analyzed. *In graphical form, the estimated debt service related to the bond plan can be found in Table 1 below.*

The solid portion of the columns in Table 1 represents debt service that will be required to be paid in addition to existing debt service on NSTSD. In order to fund the bond sale plan as presented, it is estimated that the state would require an additional $70 M for debt service in FY 15 increasing to a maximum of about $350 M per year beginning around FY 26 as the cumulative payments of the succeeding issues become due. The actual amount of SGF or other available resources required for debt service will depend on the final structure and terms of the bond issues. Regardless of the final structure of the bonds, the bonds will ultimately have to be paid and the amount of additional funding required to do so will be significant. Constitutionally, debt service is the first payment priority of the state. Table 2 below shows the additional SGF or other available resources required to meet the debt service requirements of the plan as presented to the SBC. **This amount is <u>in addition</u> to the funds currently necessary to pay existing NSTSD**.



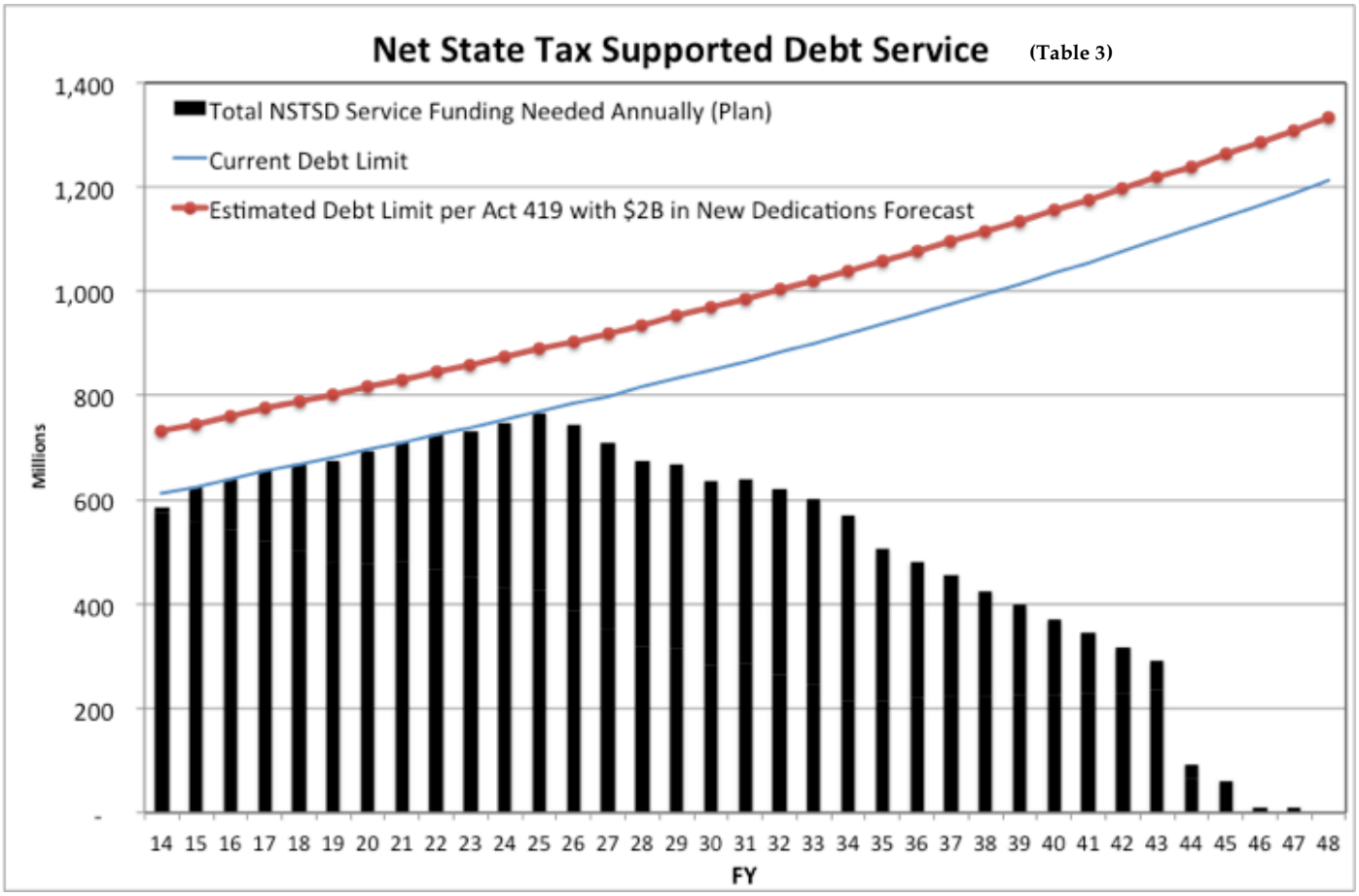


GENERAL GOVERNMENT

Act 419 Could Automatically Increase the State's Constitutional Debt Limit

Deborah Vivien, Economist, vivend@legis.la.gov

Under the GO bond funding plan, the obligated level of Net State Tax Supported Debt (NSTSD) virtually eliminates any additional borrowing capacity of the state without a 2/3 vote of the legislature. However, Act 419 of 2013 may have the unintended consequence of increasing the debt limit by requiring the REC to adopt a forecast including all statutory dedications instead of only those currently included in the REC forecast. The Constitutional debt limit (Const. Art. VII, Sec. 6(F)(1)) declares that "…the amount necessary to service outstanding net state tax supported debt shall not exceed six percent of the estimate of money to be received by the state general fund and dedicated funds contained in the official forecast adopted by the Revenue Estimating Conference at its first meeting after the beginning of each fiscal year...." Depending on how Act 419 is ultimately interpreted and implemented, the debt limit may automatically increase by 6% of the entire amount of SGF and dedicated funds as estimated. Though the implementation of Act 419 has not been finalized, as an exercise, if $2 B in dedicated funds are included in the official forecast (carryforwards are also required), the debt limit will increase by 6% of that amount or $120 M per year. This is equivalent to about $1.5 B in additional bonding authority each year. By comparison, the state's current debt limit is about $600 M per year so this provision would raise the debt limit by about 25% beginning with the first official forecast of FY 15 (or FY 14 depending on whether it is agreed that all these funds were silently adopted in the forecast since they have been allowed to be appropriated in FY 14). Should Act 419 be interpreted to include all receipts available for appropriation without the limit of what is currently appropriated, the debt limit could be raised even further and possibly doubled. It is important to note that this increase in the debt limit is a broadening of the borrowing limit, which is not to say that the state would have funds available to support the implied debt service. Few of the dedicated funds added to the REC's official forecast would be useful in paying the debt, only in calculating the limit as stated in the Constitution. *The graph (Table 3) below shows the results of an exercise analyzing a potential increase in the debt limit as the REC implements Act 419.*



Payments Towards the UAL Fund

Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

As a result of Act 420 of 2013, the Payments Towards the UAL Fund was created. The purpose of the fund is to pay for increases to the UAL portion of the employer contributions for postsecondary education institutions. The Payments Towards the UAL Fund replaced the Incentive Fund for FY 13. The source of funding will be a portion of unexpended monies returned to the SGF at the end of FY 13. Payments for defraying the increased costs will be made from the fund to LASERS and TRSL, which both have postsecondary employees in their respective systems. The payment to the retirement systems will be based on the increase in the UAL portion of the projected employer contribution. This increase will be the difference from the UAL portion of the projected employer contribution in FY 14 compared to the UAL portion of the projected employer contribution for FY 13.

According to the State Treasury, the estimated amount that will be deposited into the fund is $12.6 M. The appropriated amount of SGF for FY 13 was $7,867,832,804 and agencies spent $7,834,749,106, which left a balance of $33,083,697. Once the carryforward BA-7s ($20,517,471) were accounted for, an unexpended SGF amount of $12,566,267 remained.

The increased employer contribution amount to postsecondary institutions is unknown at this time since the retirement systems have to certify the cost. However, to the extent the $12.6 M in the fund does not cover the entire cost of the increase, the amount will be applied proportionally to each system based on the number of employees participating in each system. In the event there is excess money, it will be used to pay down the Original Amortization Base (O.A.B.), which is the debt from 1989 and prior years.

It should be noted that there is no appropriation from the fund in the current FY 14 budget. Appropriation of funds to the systems will have to

LASERS 2013 Valuation Analysis

Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

The LA State Employees Retirement System (LASERS) reported the FY 13 valuation results at its Board of Trustees meeting in September. The system gained 14.05% for the year, which is almost double the assumed rate of return of 8%. In addition, the unfunded accrued liability (UAL) decreased and the funded ratio increased.

LASERS UAL (Table 4)	
FY 12 UAL	**$7,131,481,688**
Interest on UAL	$570,518,534
ER Shortfall	$78,318,188
Experience Account Allocation	$195,623,963
Amortization Payment	($614,066,977)
Net Investment Gain	($321,037,632)
Other Experience Gain	($429,310,507)
Change in Valuation Method	($170,210,294)
FY 13 UAL	**$6,441,316,963**

Effect on UAL

The UAL was $6,441,316,964 as of 6/30/2013, which is a decrease of $690,164,724, or 9.7% compared to FY 12. The change in the UAL is due to many factors including investment and experience gains, UAL interest, amortization payments, and a change in the asset valuation method (as shown in Table 4). The interest on the UAL totaled $570.5 M in FY 13 and the employer contribution was short of the Actuarial Required Contribution (ARC) by $78.3 M. The employer contribution amount is based on actuarial assumptions, which include projected payroll and active members and may be above or below the required amount depending on if the assumptions are met. In addition, $195.6 M was allocated to the Experience Account since the statutory provisions to fund the Experience Account were achieved. To fund the Experience Account, the assumed rate of return must be met. Once the assumed rate is met, the account is funded with 50% of investment gains over $100 M.

The debt payment of $614.1 M covered all the accrued interest on the UAL and some principal ($43.5 M) on the UAL. The system has now made payments toward the debt principal for the second year in a row. As a result of earning over the assumed rate of return of 8%, the Net Investment Gain totaled $321 M. Other Experience Gain (-$429.3 M) is a result of demographic assumptions that differ from the anticipated turnover rates, mortality rates, and other assumptions. The majority of the Other Experience Gain is a result of the decrease in active members from the privatization of state hospitals. Finally, the Change in Asset Valuation Method (-$170.2 M) is a result of the Board of Trustees approval of changing the "smoothing" period from 4 years to 5 years. The result of reducing the UAL from $7.131 B to $6.433 B increases the funded percentage of the fund from 55.9% in FY 12 to 60.2% in FY 13.

Membership Census and Contribution Rate Impacts

The membership of LASERS as of 6/30/2013 was 95,790, a decrease of 4,083 members or 4.1%. The membership includes active members, regular retirees, DROP participants, disability retirees, survivors, and terminated vested. The significant decrease came from active members, which were reduced from 52,352 in FY 12 to 44,111 in FY 13 for total decrease of 8,241. The majority of the decrease is due to the closure of prisons and privatization of public hospitals across the state. Regular retirees increased from 34,513 to 37,145, an increase of 2,631 or 7.6%. Terminated Vested members increased from 2,222 to 4,162, an increase of 87%. The ratio of Active Members to Retirees is roughly 1:1 in FY 13, whereas in FY 07 it was 1.6:1, so for every 1 retiree, there were 1.6 active members.

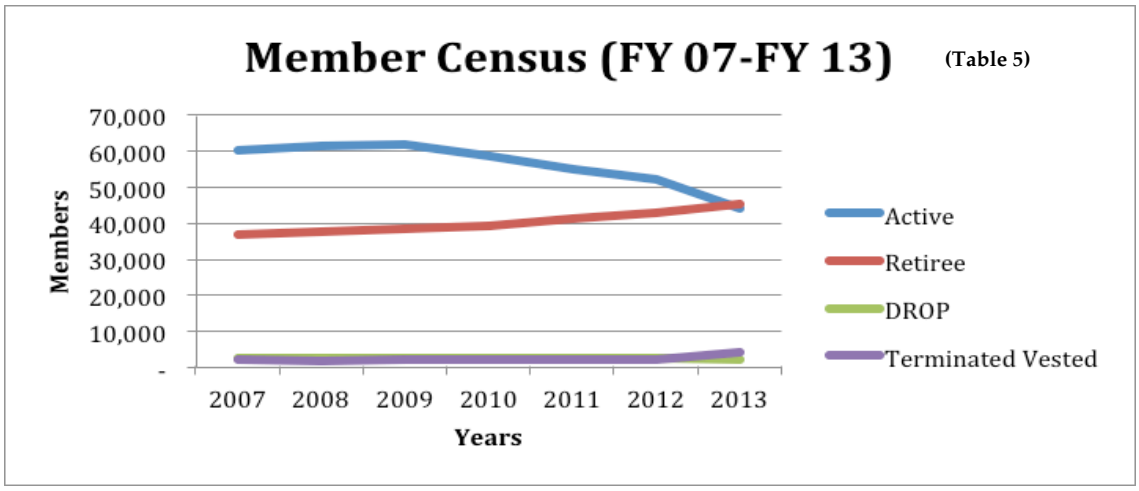
The aggregate employer contribution rate for FY 15 is projected at 37.4%, which is 5.7 percentage points higher than the FY 14 projected rate of 31.7%. The employer contribution rate is determined using the FY 15 projected payroll amount and the projected employer contribution (ER) amount (ER/Projected Payroll = Employer Contribution Rate). The projected payroll

be provided through supplemental appropriation during the next legislative session. To the extent an appropriation is made early in the fiscal year, postsecondary institutions will have budget flexibility to use the funding, which would otherwise have paid for the increase in the UAL portion of the employer contributions, to pay for other the institutional expenses.

for FY 15 is $2,030,784,463 and the ER dollar amount is $760,458,132. It should be noted that the ER amount is lower than the FY 13 amount by $24.1 M and that the increase in the employer contribution rate is due to the substantial decrease in FY 15 projected payroll compared to the FY 14 projected payroll amount. The projected payroll amount in FY 15 is $2,030,784,463, which is approximately 18.1% less than the projected FY 14 payroll amount of $2,478,292,514.

Hospital Layoffs

Since the closure of Earl K. Long Hospital in April, 8 additional state hospitals have come under private management and resulted in the layoff of 7,751 state employees. Of the 7,751 employees affected, 1,971 were eligible to retire and 5,780 were eligible for a refund of contributions. Those eligible to retire included employees with 30 years of service who can retire at any age, employees with 25 years and are at least 55 years of age, and employees with 20 years at any age who can take an actuarially reduced retirement benefit. To date, LASERS has received 1,509 retirement applications and has processed 992 applications. It should be noted that of the 992 applications processed, 55% (549) of those applications are for actuarially reduced benefits. For those 5,780 employees who were laid off and eligible for a refund, 1,738 have applied to receive a refund and 1,546 have received a refund. The total amount that has been refunded is $17.9 M, with an average amount refunded of $11,593. The layoffs impact the system in two distinct ways. First, those who receive a refund have a positive gain on the system since they will no longer be eligible to receive a future benefit and that is less future benefits to be paid out. *However, by reducing the workforce and reducing total payroll, the employer contribution rate will increase to pay for the cost of the annual benefit and the continued cost of the debt.*



FY 13 Surplus

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov
J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

The FY 13 ending year surplus, which is estimated to be $162.9 M, was presented to the Joint Legislative Committee on the Budget (JLCB) at the October 2013 meeting *(see Table 6 below).*

FY 13 SGF Fiscal Status (in millions) (Table 6)	Actuals
Actual Revenues	$8,277.591
Transfers per Act 23	$38.539
Transfers per Act 597	$89.800
FY 12 CF BA-7s into FY 13	$13.700
Payments Toward UAL Fund	($12.566)
Bond Premiums	$68.162
CF from IEB prior appropriations	$1.453
Capital Outlay Re-Appropriation	$53.861
TOTAL FY 13 REVENUE	**$8,530.540**
Actual Expenditures	$8,345.622
FY 13 IEB CF Balances	$1.453
FY 13 CF BA-7s	$20.571
TOTAL FY 13 EXPENDITURES	**$8,367.646**
SGF Revenue Less Appropriations & Requirements	**$162.894**

FY 13 SGF Actual Revenue Collections – While the surplus is calculated as the difference between total SGF revenue available and total SGF expenditures supported by that revenue, and under-spending of SGF appropriations was only $12.566 M (dedicated to the Payments Towards the UAL Fund by Act 420), the surplus can be viewed as largely the result of actual revenue collections in excess of anticipated collections. This REC-based SGF surplus for FY 13 was $175 M, and is incorporated into the $8,277.591 M actual revenue line that begins the calculation in Table 6.

This SGF revenue surplus is the net effect of actual collections that were either over or under forecast in some 40 different revenue sources. The bulk of this net surplus is associated with just a few of these revenue sources. The largest contributor to this surplus was personal income tax collections that were $68.8 M (or 2.6%) greater than expected. These excess collections occurred largely in payments with returns reflecting nonwage income as taxpayers accelerated income into 2012 to avoid federal tax increases effective in 2013. Thus, much of this excess is not likely to

reflect underlying employment and wage gains, and may not be sustained. The 2nd largest contributor was severance and royalty revenue finishing $51.4 M (or 4%) greater than expected, and largely reflecting average actual oil prices for the year ($109.30/bbl) that were higher than the average price utilized in the forecast ($94.37/bbl). The 3rd largest contributor was in the category called various agency receipts-income not available, coming in $32.3 M (or 78%) greater than expected. This is largely a catchall category of a large number of miscellaneous agency collections that are reported in a couple of aggregates, and exhibit large volatility from year to year. FY 13 happened to be a surge year (FY 12 collections were only $39.6 M). The 4th largest contributor was the general sales tax, collecting $18.6 M (or 0.7%) more than expected. This is the second year of either negative growth or essentially no growth in the tax, and contributes to the surplus only because actual collections weren't quite as weak as expected. Finally, the 5th largest contributor was the tax on insurance premiums, with $17.1 M (or 4.2%) more collected than expected. This can reflect income growth, but since other income-related taxes have not yet responded strongly, it is more likely to reflect higher premiums and/or greater collections from the Bayou Health Managed Care programs than was utilized in the revenue forecast.

These 5 contributors to the surplus sum to more than $175 M, reflecting the facts that some of their excess collections flow to dedicated funds, and that a number of revenue sources actually came in less than expected and work to offset those collections that came in greater than expected. Thus, from the perspective of REC revenue collections, the FY 13 surplus appears to be primarily the product of conservative forecasts and extraordinary events.

Act 597 Proceeds – In addition to the $8.28 B of FY 13 SGF resources, Act 597 (Funds Bill) and Act 23 (Capital Outlay) provided $128.3 M of additional FY 13 resources [$38.5 M – Act 23 Resources (Capital Outlay), $89.8 M – Act 597 Resources (Funds Bill)] for FY 13 expenditures. The FY 13 budget originally appropriated $155.4 M, which consisted of $38.5 M from Act 23 Resources and $116.9 M of Act 597 Resources. However, approximately $27.104 M of the originally anticipated Act 597 resources being transferred into the SGF did not take place *(see Table 7). To the extent these resources would have taken place, assuming the same level of FY 13 expenditures, the FY 13 surplus amount would be $27.104 M more, or $190 M.*

Act 597 SGF Transfers (Table 7)	Orig. Anticipated	Actually Transferred	Difference
NOAH Excess	$10.000	$0.000	($10.000)
FEMA Reimbursements	$10.000	$10.000	$0.000
Self Insurance Fund	$56.000	$56.000	$0.000
LA Housing Corporation	$11.000	$11.000	$0.000
LA Tourism Promotion District	$2.800	$2.800	$0.000
Coastal Restoration & Protection Fund	$20.104	$0.000	($20.104)
Consumer Enforcement Fund	$7.000	$7.000	$0.000
	$116.904	**$86.800**	
*DOJ Legal Settlements (AWP)**	*$0.000*	*$3.000*	$3.000
TOTAL	**$116.904**	**$89.800**	**($27.104)**

**Average Wholesale Price Settlements originally anticipated for FY 12 expenditures, but collected after FY 12 close. Thus, became available for FY 13 expenditures.*

Traditionally, the REC recognizes and designates surplus balances as nonrecurring revenue. Funds so designated become subject to the constitutional provisions for use of officially designated nonrecurring money: 25% to the Budget Stabilization Fund, and various forms of debt retirement and capital outlay. The FY 12 surplus of $113 M was never officially brought before the REC. Thus, the FY 12 surplus was not subjected to the constitutional limitations of resource use. Pursuant to Act 54 and Act 420 of 2013, these funds were transferred into the newly created 2013 FMAP Stabilization Fund for FY 13 expenditure in the FY 13 supplemental appropriations bill.

Act 420 of 2013 Fund Transfer Update

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Act 420 of 2013 provides for the transfer of various funds and resources into either the Overcollections Fund ($416.6 M) and/or SGF ($37.9 M) for FY 14 appropriation. Tables 8 & 9 represent outstanding Overcollections Fund and SGF transfers to date. To date State Treasury has collected $67.7 M of the $413.2 M Overcollections Fund anticipated proceeds. *It is possible other resources have been collected by other state agencies, but have not officially been deposited into the Fund. In addition, table 9 illustrates that to date no transfers have occurred from various statutory dedicated funds to the SGF. Act 420 of 2013 specifies that such transfers will not occur until the FY 14 appropriations have been met.*

Explo Systems

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

At the September 2013 Joint Legislative Committee on the Budget (JLCB) meeting, the committee approved $30 M of federal budget authority in order for the Military Department to hire a specialized contractor to dispose of approximately 18 million pounds of explosive materials stored within 97 magazines at Camp Minden. These materials were originally the property of Explo Systems, which was leasing the old ammunition manufacturing facility at Camp Minden to separate military propellant bags and resell the components. According to the Military Department, the dangerous component is M6 smokeless powder, which was improperly stored at Camp Minden by Explo. This ultimately caused an explosion of a portion of these materials in Fall 2012.

After discussions with the U.S. National Guard Bureau, the Military Department had an opportunity to be awarded an indeterminable amount of federal funds at the end of the federal fiscal year (9/30/2013). However, due to the federal government shutdown and the uncertainty surrounding federal funding issues, these funds are not currently available. These federal funds were to be utilized to hire a contractor to dispose of the remaining explosive materials. At this time, the Military Department and the Administration are exploring other funding to properly dispose of the M6 smokeless powder.

FY 14 OC Fund Rev. Sources (Table 8)	Anticipated	Collected To Date	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$16,094,009	$124,155,991
Legal Settlements	$64,771,871	$0	$64,771,871
Various Property Sales	$44,620,000	$338,331	$44,281,669
LDR Fraud Initiative	$20,000,000	$0	$20,000,000
Excess FEMA Reimbursements	$19,950,000	$0	$19,950,000
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$11,591,755	$16,692,745
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$0	$2,000,000
Self Insurance Fund	$16,000,000	$0	$16,000,000
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$0	$1,988,106
2% Fire Insurance Fund	$2,358,715	$0	$2,358,715
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$0	$48,298
Compulsive & Problem Gaming Fund	$57,071	$0	$57,071
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$0	$1,000,000
Mega-Project Development Fund	$11,300,000	$0	$11,300,000
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$0	$25,019
Penalty & Interest Fund	$1,541,440	$0	$1,541,440
Riverboat Gaming Enforcement Fund	$8,605,392	$0	$8,605,392
Transfer from fund to SGF	($5,000,000)	$0	($5,000,000)
TOTAL	$413,207,388	$67,654,512	$345,552,876

SGF Transfers (Table 9)	Anticipated	Transferred to Date
Adult Probation & Parole Officer Retirement Fund	$2,000,000	$0
Penalty & Interest Account	$4,158,560	$0
Community & Family Support System Fund	$22,227	$0
DOJ Debt Collection Fund	$212,838	$0
Energy Performance Contract	$471,564	$0
Entertainment Promotion & Marketing	$152,951	$0
Environmental Trust	$2,487,146	$0
Health Care Facility Fund	$847,641	$0
LA Filmmakers Grant Fund	$225,638	$0
LA Life Safety & Property Protection Trust Fund	$144,435	$0
Medical & Allied Health Prof. Ed Scholarship	$106,920	$0
Right to Know Fund	$175,500	$0
Small Business Surety Bonding Fund	$1,900,000	$0
Tax Commission Expense Fund	$48,978	$0
Tobacco Tax Health Care Fund	$233,334	$0
Variable Earnings Transaction Fund	$18,405	$0
Vital Records Conversion Fund	$4,243	$0
Riverboat Gaming Enforcement Fund	$5,800,000	$0
Overcollections Fund	$5,000,000	$0
Medical Assist. Program Fraud Detection Fund	$7,021,271	$0
Higher Ed Initiatives Fund	$267	$0
Private Investigator Examiners Fund	$76	$0
LA Fire Marshal Fund	$791,745	$0
2% Fire Insurance Fund	$1,878,117	$0
TOTAL	$33,701,856	$0

REVENUE

FY 14 Major Revenue Collections Summary Through September 2013

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

Three cash months of collections have been received since FY 14 began, with approximately the first month's worth of those collections posted back to FY 13 for certain revenues. Thus, for many revenues, only two accrual months have actually been collected for FY 14. Overall, September was encouraging,

Update Bayou Corne Expenditures

Evelyn McWilliams, Fiscal Analyst, mcwille@legis.la.gov

As of 10/18/2013, the state has expended $10,922,319 toward response efforts related to the Bayou Corne sinkhole incident. The majority of the expenditures are for a professional services contract the Department of Natural Resources (DNR) has with CB&I (formerly known as the Shaw Corporation). CB&I (including its subcontractors) is responsible for planning, testing and drilling activities to determine the cause of the sinkhole. DNR has expended a total of $7,809,213 for its response efforts to date. Other departments incurring expenditures include the Department of Transportation & Development ($1,476,900), the Department of Environmental Quality ($956,835), Public Safety ($292,900), the Governor's Office of Homeland Security ($152,383), the Department of Health & Hospitals ($118,656), and the Department of Wildlife & Fisheries ($115,432).

The State Treasurer seeded DNR $8 M to help with Bayou Corne expenses. DNR has utilized approximately $6.7 M of the $8 M seed, along with IAT revenue and revenue from various statutory dedications to provide for Bayou Corne expenditures. DNR may need to increase the amount of its seed if expenses related to the Bayou Corne incident continue to increase. DEQ, DHH, Public Safety, DOTD, and Wildlife & Fisheries utilized revenue in its existing budget to provide for its expenditures. The Governor's Office of Homeland Security (GOHSEP) is the only agency that has received additional budget authority to provide for its expenses. In spite of receiving a $152,383 increase in IAT revenue in Act 54 of 2013 (supplemental appropriation bill) for Bayou Corne expenses, GOHSEP had to utilize revenue in its existing budget, because it has not collected the IAT revenue from DNR.

Expenditures include salaries and related benefits for state employees (primarily scientists and enforcement personnel), equipment usage (scientific equipment, boats, dump

but certain issues call for any optimism to be tempered until sustained performance can be observed.

Personal income tax collections through September are 15%+ ahead of prior year, but caution is advised since collections through August were only 1.6% ahead. Strength so far this fiscal year has been essentially a one-month event. Both implied and forecast growth rates for FY 14 are modest, but the spring surge in collections is likely a one-time event associated with the acceleration of income into 2012 returns to avoid federal tax increases that took affect at the start of 2013. Thus, this surge will have to be controlled for in the forecast, and it is unlikely that September's collections reflect a permanent continuation of that event.

General sales tax collections through September are 4% ahead of prior year, but this is also essentially a one-month event; through August, growth was 1.6%. Sales tax experienced a 2nd year of essentially no improvement in FY 13, finishing with only 0.1% growth. This suggests that the income tax finish is not a sustained event, and continues to suggest cautious conditions within households and businesses. Both the implied and forecast growth rates for FY 14 are not yet supported by a string of actual performance, and optimism for this tax can not be projected at this point. Vehicle sales tax collections through September are 15.2% ahead of prior year, with all 3 cash months this year exhibiting strong performance, after a FY 13 finish of 10.2% growth. Households and businesses are apparently not yet done buying vehicles, and low interest rates and industry financing deals are still keeping this narrow big-ticket sector performing strongly. Both implied and forecast growth rates moderate from the pace of the last 2 years, but are still respectable. There may still be optimism for this tax going forward, but when pent up demand is satisfied, growth in this tax and even its absolute level can fall off dramatically.

trucks, backhoes) DEQ's monitoring station, and professional services contracts with other contractors responsible for drilling wells and performing testing activities.

In August, the Attorney General's Office filed suit against Texas Brine, the company responsible for the sinkhole incident, on behalf of the state. The suit seeks reimbursement from Texas Brine for all expenditures the state has incurred in response to the sinkhole incident. The Attorney General's Office filed suit because Texas Brine has not agreed to pay pursuant to letters demanding payment. If reimbursement is received, the state will be able to replace the revenue previously utilized to provide for the sinkhole expenditures.

Corporate tax collections through September are nearly 54% behind prior year, but the monthly receipts say little about what the annual total will be. Collections looked very strong through much of FY 13, but then fizzled out at the end of the year, finishing 10.1% behind the prior year and below the modest forecast for the year. Both the implied and forecast growth rates for FY 14 are so modest as to seem likely to be beat. However, that was the case in FY 13, as well. The Tax Amnesty Program offered this fall may also affect FY 14 collections. Any collections attributable to the program in FY 14 are likely to be otherwise normal base collections of FY 14 and accelerated normal base collections of FY 15 and beyond. These collections will have to be controlled for in the forecasts, and are not indicative of strength in the underlying corporate tax base. Total amnesty collections for FY 14 should be known by late November or early December.

Severance tax collections through September are 11% ahead of prior year, after an essentially flat FY 13 dropping by -0.1%. For FY 14, the price forecast is currently $94.85/bbl, providing optimism for the forecast. The natural gas severance tax rate is lower in FY 14 than FY 13, and will temper collections somewhat, but barring a material drop off in oil prices the outlook for severance tax appears optimistic.

Royalty receipts through September are 17% ahead of prior year, after finishing FY 13 down by 5%. While gas prices remain weak, they are at least relatively stable, allowing strong oil prices to drive the collections base. The FY 14 forecast is already consistent with much of the collections through September, and optimism here depends on oil prices.

Gaming receipts from riverboats, video poker, and racetrack slots through September are 5% ahead of prior year, an acceleration of the modest 0.9% growth in FY 13. This improvement is coming primarily from riverboats, possibly reflecting this discretionary spending finally returning to the economy. Improving performance is not evident across the board yet, and while both the implied and forecast growth rates for all 3 components are very modest, they currently are being beaten on the strength of only one of the components. The optimism depends on sustaining riverboat performance and extending it to the other gaming components.

Overall, there seems to be more good news than bad news in the September receipts and cautious optimism exists in the forecast going forward. Cautions are not immaterial though, related to the sustainability of sales tax, which has yet to exhibit sustained traction for 2 years now, and the sustainability of income tax, which experienced a spring surge but which may be only transitory in effect. As usual, corporate collections are highly uncertain and cannot be relied upon, and will likely be heavily influenced by the amnesty program.

EDUCATION

TOPS (Taylor Opportunity Program for Students)

Charley Rome, Fiscal Analyst, romec@legis.la.gov

TOPS is a program of state scholarships for Louisiana residents who attend one of the following types of institutions: LA public colleges and universities, LA approved proprietary and cosmetology schools, and institutions that are a part of the LA Association of Independent Colleges & Universities.

The FY 14 TOPS budget of $217.5 M includes $75.9 M from SGF and $141.6 M from the TOPS Fund. FY 14 funding from the TOPS Fund includes approximately $22.3 M in proceeds from a tobacco arbitration settlement and $67 M from restructuring and refinancing of tobacco bonds ($99.3 M from both sources). However, anticipated proceeds from restructuring/refinancing of tobacco bonds will yield only $61.3 M, resulting in a TOPS funding shortfall of $5.7 M in FY 14. The proposed budget for FY 15 includes an additional $22 M from restructuring and refinancing of tobacco bonds. However, the state will need to replace $67.3 M in TOPS funding from arbitration settlement proceeds and tobacco bond refinancing in FY 15 to fully fund the TOPS program. Furthermore, the state will need to replace another $23 M in TOPS funding from tobacco bond refinancing in FY 15 and thereafter to fully fund the program.

The table below summarizes TOPS awards and funding actual amounts from FY 99 through FY 12 and projected awards and amounts from FY 13 through FY 19. The total number of awards has risen from approximately 18,100 in FY 99 to approximately 45,300 projected for FY 14. The total dollar value of awards has risen from approximately $40.6 M in FY 99 to approximately $216.7 M projected for FY 14. The projected amount of $216.7 M for FY 14 is approximately $800,000 less than the amount budgeted as mentioned in the paragraph above. Significant increases beginning in FY 11 are attributable to tuition increases authorized by the Grad Act (Act 741 of 2010) and to more awards being made to institutions that charge higher tuition amounts.

TOPS HISTORY

Fiscal Year		Actuals versus Projected	Number of Awards	% Inc. from Prior Year	Dollar Value of Awards	% Inc. from Prior Year	Average Award Amount	% Inc. from Prior Year
1998-99		Actuals	18,110		$40,607,580		$2,242	
1999-00		Actuals	25,051	38.3%	$57,305,576	41.1%	$2,288	2.0%
2000-01		Actuals	33,154	32.3%	$83,596,746	45.9%	$2,521	10.2%
2001-02		Actuals	39,893	20.3%	$101,780,412	21.8%	$2,551	1.2%
2002-03		Actuals	40,100	0.5%	$104,497,357	2.7%	$2,606	2.1%
2003-04		Actuals	41,118	2.5%	$110,482,795	5.7%	$2,687	3.1%
2004-05		Actuals	42,538	3.5%	$117,076,614	6.0%	$2,752	2.4%
2005-06		Actuals	42,601	0.1%	$116,891,386	-0.2%	$2,744	-0.3%
2006-07		Actuals	43,693	2.6%	$120,619,030	3.2%	$2,761	0.6%
2007-08		Actuals	42,240	-3.3%	$116,656,521	-3.3%	$2,762	0.0%
2008-09		Actuals	42,276	0.1%	$122,988,944	5.4%	$2,909	5.3%
2009-10		Actuals	43,125	2.0%	$130,966,671	6.5%	$3,037	4.4%
2010-11	*	Actuals	43,748	1.4%	$146,261,505	11.7%	$3,343	10.1%
2011-12	*	Actuals	44,805	2.4%	$165,871,878	13.4%	$3,702	10.7%
2012-13	*	Projected	44,979	0.4%	$191,285,151	15.3%	$4,253	14.9%
2013-14	*	Projected	46,290	2.9%	$216,732,809	13.3%	$4,682	10.1%
2014-15	*	Projected	47,743	3.1%	$244,741,774	12.9%	$5,126	9.5%
2015-16	*	Projected	48,797	2.2%	$273,882,736	11.9%	$5,613	9.5%
2016-17	*	Projected	49,760	2.0%	$305,930,368	11.7%	$6,148	9.5%
2017-18	*	Projected	50,347	1.2%	$339,170,165	10.9%	$6,737	9.6%
2018-19	*	Projected	50,611	0.5%	$373,706,409	10.2%	$7,384	9.6%

** Significant increases beginning in FY 11 are attributable to tuition increases authorizedby the Grad Act (Act 741 of 2010) and due to more awards being made to institutions that charge higher tuition amounts.*

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

September 2013
Volume 2, Issue 3

INSIDE THIS ISSUE

1 Potential Higher Ed Cash Flow Issues
2 Office of Group Benefits (OGB) Update
3 Telemedicine Services for Offenders
4 Mental Health Courts
5 Potential Additional Election Costs
6 FY 13 State Revenue Actual Collections
7 Higher Education Overview
9 Deferred Maintenance—Higher Education
10 LSU Health Sciences Center—Shreveport
11 Hospital Lease Payments: An Update
12 Detailed spreadsheet of Lease Payments

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Mary Kathyrn Drago, Section Director
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hostream, Section Director
Alan Boxberger, Fiscal Analyst
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Stephanie Blanchard, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst
Evelyn McWilliams, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

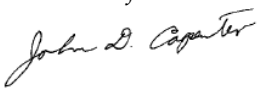
Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback.

In October 2013, the office will be releasing our annual publication "Fiscal Highlights." This document is a summary of fiscal actions taken during the 2013 Regular Legislative Session and a compilation of historical fiscal data. We hope you find this information useful for speeches, constituents' questions and general information.

Please contact us at (225) 342-7233 if you have any questions or need additional information. Look for the next edition of Focus on the Fisc at the end of October.



FOCUS POINTS

Potential Higher Ed Cash Flow Issues

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov
Charley Rome, Fiscal Analyst, romec@legis.la.gov

FY 14 funding for higher education has approximately $340 M from the Overcollections Fund, which includes various funds sweeps and other sources of revenue. The Overcollections Fund represents approximately 13% of overall funding for higher education in FY 14. Due to Overcollection Fund resources being collected irregularly throughout FY 14 and due to only a small portion of monies appropriated to the Overcollections Fund being available to date, the State Treasury is allowing higher education entities to spend approximately 1/6 of their annual SGF authority each month (as opposed to 1/12, which is the normal practice) because monies from the Overcollections Fund are not yet available. This may result in higher education expending all of its SGF resources prior to the end of calendar year 2013. Through the first two and half months of FY 14, higher education has expended approximately 43% of its SGF resources. Higher education's total FY 14 SGF appropriation is approximately $422.6 M and thus far $180.4 M has been expended, or 42.7%. Based upon the current average daily expenditure rate for all of higher education (approximately $2.5 M SGF expended per day), LA higher education on average may expend all SGF resources by January 20, 2014. See table 1 on page 2 for a complete illustration of each higher education system and the anticipated day in which SGF could be completely expended. The anticipated days range from December 9, 2013 to April 19, 2014.

The existing operating budget (EOB) for the Overcollections Fund in FY 14 is approximately $419.1 M (including approved CF BA-7s) of which 81% is currently appropriated within higher education. See table 3 for a complete FY 14 EOB that includes August approved CF BA-7s. As has been mentioned in previous editions of *"Focus on the Fisc,"* these FY 14 appropriations are supported by various revenue sources. According to information provided to the LFO by the State Treasury, to date the Overcollections Fund has collected approximately $28.9 M of anticipated resources in FY 14. Including an anticipated FY 13 prior year fund balance of approximately $22.7 M, the current total amount of revenues available for FY 14 expenditure is approximately $51.6 M. The anticipated revenue sources that have not been transferred into the Overcollections Fund are listed in table 2. The DOA fully intends all anticipated FY 14 Overcollections revenues to be collected in FY 14 and as such resources are collected, State Treasury will pro-rate receipts based upon the original Overcollections Fund appropriation in Act 14. *Note: Legislative appropriation bills do not specify funding priorities if proceeds to the fund are less than budgeted in FY 14. As such, State Treasury has indicated that they will reduce Overcollections Fund appropriations on a pro-rata basis if proceeds are less than budgeted. Also, there is $50,000*

of FY 13 transfers into the fund that occurred prior to end of year close that are included within the $22.7 M Overcollections Fund FY 14 beginning fund balance. This transfer is appropriated in Act 14 (HB 1) for FY 14. The specific FY 13 transfer being utilized for FY 14 appropriations included within the FY 14 beginning fund balance are $50,000 FEMA reimbursement proceeds. Act 14 appropriates $20 M of FEMA proceeds.

Entity (Table 1)	FY 14 SGF EOB	FY 14 SGF Exp. To Date	% Expended	*SGF Exp. Per Day*	# Days Left to Expend SGF based upon current SGF Exp./Day	LFO Proj. Day SGF May Run Out
Board of Regents	$8,302,079	$3,072,428	37.01%	$42,088	124 Days Left	1/14/14
LA Universities Marine Consortium	$1,360,036	$340,009	25.00%	$4,658	219 Days Left	4/19/14
LSU System	$185,987,445	$79,870,671	42.94%	$1,094,119	97 Days Left	12/18/13
Southern System	$31,792,040	$10,295,476	32.38%	$141,034	152 Days Left	2/11/14
University of LA System	$130,200,280	$58,861,276	45.21%	$806,319	88 Days Left	12/9/13
LA Community & Technical College System	$64,961,839	$27,917,886	42.98%	$382,437	97 Days Left	12/18/13
TOTAL	**$422,603,719**	**$180,357,746**	**42.68%**	**$2,470,654**	**130 Average Days Left**	**Average Day 1/20/2014**

To the extent SGF resources are completely expended and Overcollections Fund resources are not collected timely, higher education would likely request a state treasury seed with the anticipated Overcollections Fund collections being utilized to pay the seed once received. Higher education requested a state treasury seed in July 2013 in the amount of $340 M and the DOA has not approved the request at this time.

FY 14 Overcollections Fund Sources (Table 2)	Anticipated	Collected To Date	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$0	$140,250,000
Legal Settlements	$64,771,871	$0	$64,771,871
Various Property Sales	$44,620,000	$338,331	$44,281,669
LDR Fraud Initiative	$20,000,000	$0	$20,000,000
Excess FEMA Reimbursements	$19,950,000 ($50K transferred in FY 13)	$0	$19,950,000
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$11,591,755	$16,692,745
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$0	$2,000,000
Self Insurance Fund	$16,000,000	$0	$16,000,000
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$0	$1,988,106
2% Fire Insurance Fund	$2,358,715	$0	$2,358,715
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$0	$48,298
Compulsive & Problem Gaming Fund	$57,071	$0	$57,071
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$0	$1,000,000
Mega-Project Development Fund	$11,300,000	$0	$11,300,000
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$0	$25,019
Penalty & Interest Fund	$1,541,440	$0	$1,541,440
Riverboat Gaming Enforcement Fund	$8,605,392	$0	$8,605,392
Transfer from fund to SGF	($5,000,000)	$0	($5,000,000)
TOTAL	**$413,207,388**	**$51,560,503**	**$361,646,885**

Schedule (Table 3)	Agency	FY 14 EOB (includes CF)
01-111	Governor's Office of Homeland Security & Emergency Preparedness	$21,250
01-112	Military Department	$500,000
04-DOJ	Attorney General	$4,563,971
07-DOTD	Transportation & Development	$36,000,000
08-DPS	State Police	$84,796
11-DNR	Natural Resources (Judgment)	$4,104,286
12-REV	Revenue Department	$3,950,000
19-LSU	LSU Board of Supervisors	$143,575,155
19-LSUHCSD	Healthcare Services Division	$20,000,000
19-SU	Southern University Board of Supervisors	$27,466,779
19-UL	University of LA Board of Supervisors	$103,618,305
19-UL	University of LA Board of Supervisors (Judgments)	$1,333,707
19-BOR	LA Board of Regents	$5,917,489
19-LUMCON	LA Universities Marine Consortium	$977,910
19-LCTCS	LA Technical & Community Colleges Board of Supervisors	$56,709,705
19-BESE	Board of Secondary & Elementary Education	$69,405
20-945	State Aide to Local Governments	$3,720,247
20-950	Judgments/Special Acts	$6,495,602
TOTAL		**$419,108,607**

GENERAL GOVERNMENT

Office of Group Benefits New TPA Agreement Update

J. Travis McIlwain, Gen. Govt. Section Director,
mcilwait@legis.la.gov

Based upon the first 6 months of OGB financial data, the new third-party administrator (TPA) contract with Blue Cross Blue Shield (BCBS) that has been in place since January 1, 2013 is saving the state administrative costs ranging from $4 M to $7 M from January 1, 2013 to June 31, 2013. The majority of these savings is likely due to the reduction in T.O. positions from 327 in FY 12 to 79 in FY 14. The LFO will be able to better identify the specific savings of the new TPA arrangement when OGB's fiscal year ends in December 2013. This will allow for 12 months of financial data to be analyzed to determine the exact amount of savings as a result of the new TPA.

Effective August 2013, OGB reduced its premiums by another 1.77% (OGB reduced rates for FY 13 by 7.11%). Based upon information provided to the LFO from the DOA, the 1.77% decrease will result in state agency savings in the amount of $9.9 M, state employee savings of $3.9 M, school board savings of $9.3 M for a total premium savings of approximately $23.1 M. Essentially, OGB's overall fund will have $23.1 M in less revenues to pay administrative costs and medical claims in FY 14. However, the DOA/OGB indicate this is possible due to the new TPA agreement with BCBS. *The LFO will continue to monitor this issue and provide updates to the legislature. A complete 12-month analysis of the specific savings as a result of the new TPA will be completed by the LFO in January 2014 and reported to the legislature.*

State IT Consolidation Update

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

The Division of Administration (DOA) announced in September 2013 that Deloitte Consulting was selected to provide consulting and management support services for information technology "policy, planning and transformation initiatives." Based upon discussions with the DOA, this vendor will study the state's current IT infrastructure, framework and current statewide IT costs and provide the DOA with a recommended plan for a new consolidated model for delivery of state IT services. The DOA is currently in negotiations with Deloitte Consulting and anticipates the final contract being brought before the Procurement Support Team (PST) at its October 2013 meeting for final recommendation and approval. The PST, which is created in statute (R.S. 39:1496), serves as an advisory group to the Director of the Office of Contractual Review (OCR). Members include representatives from the Attorney General's Office, the Legislative Fiscal Office and the OCR.

State budgetary adjustments for FY 14 that occur as a result of any consolidation will likely be approved via DOA in-house BA-7s. These budgetary adjustments will not require Joint Legislative Committee on the Budget (JLCB) approval due to Section 6B of Act 14 (HB 1). Section 6B of Act 14 provides language that allows the commissioner of administration to transfer functions, positions, assets and funds from one department to another related to the new IT delivery model. The specific language in Act 14 is as follows: *Pursuant to the authority granted to the Office of Information Technology in R.S. 39:15.1 through R.S. 39:15.3 and in conjunction with the assessment of the existing staff, assets, contracts, and facilities of each department, agency, program, or budget unit's information technology resources, upon completion of this assessment and to the extent optimization of these resources will result in the projected cost savings through staff reductions, realization of operational efficiencies, and elimination of asset duplication, the commissioner of administration is authorized to transfer the functions, positions, assets, and funds from any other department, agency, program, or budget units related to this optimization to a different department. The LFO will provide more details on this issue as additional information is made available. See the previous edition (Volume 2, Issue 2) for more information about this topic.*

Telemedicine Services for Offenders

Stephanie Blanchard, Fiscal Analyst, blanchas@legis.la.gov

The Department of Corrections (DOC) is exploring options to provide healthcare services at a lower cost. Telemedicine services allow patients to connect with doctors remotely on site with the use of video conferencing and other electronic communication.

Prior to FY 14, all DOC prisons and 13 parishes were equipped for telemedicine purposes and DOC began looking to expand the network. In FY 13, the LSU School of Medicine had the contract for telemedicine services with a budget of approximately $600,000. The contract included physician providers from the LSU School of Medicine, technical staff, network that the telemedicine clinics required to operate and the clinical staff that supports the physician during the encounter.

In order to expand services in FY 14, DOC used the competitive bid process and received 5 bids, including a proposal from LSU School of Medicine. The Austin-based US Telehealth was the lowest bid at $1.66 M, while LSU School of Medicine's bid was $2.85 M. Since US Telehealth was the lowest bid, it was selected to administer the telemedicine program for the entire state, instead of retaining LSU School of Medicine. However, DOC decided to utilize the LSU School of Medicine to provide services to south Louisiana prisons and US Telehealth would be limited to north Louisiana prison, which did not have access to these services previously. Since DOC decided to utilize contracts with both LSU School of Medicine and US Telehealth, the total costs are approximately $1,558,560.

The LSU School of Medicine contract is based upon a flat fee per 4-hour session, for up to 12 inmates per session. There will be 14 specialties offered and each specialty session will vary from $953 to $1,919 per session, with an average of $1,360 per session. The LSU School of Medicine will bill DOC for each actual session performed and the maximum amount of the contract is $1.002 M. The US Telehealth contract is based upon a flat fee of $1,200 per session for up to 15 inmates per session. There will be 14 specialties offered. The US Telehealth contract will bill DOC for each actual session performed and the maximum amount of the contract is $556,560. Both contracts are based upon a flat fee per 4-hour session. DOC estimates the volume of telemedicine checkups will increase from approximately 3,500 in FY 13 to approximately 20,000 in FY 14.

Louisiana Agricultural Finance Authority (LAFA) Bond Debt and Lacassine Syrup Mill

Stephanie Blanchard, Fiscal Analyst, blanchas@legis.la.gov

Approximately $52.9 M in outstanding debt remains for the Department of Agriculture & Forestry (AGRI) related to various building projects and equipment purchases. R.S. 27:392(B)(4) dedicates $12 M of racetrack slot proceeds into the LA Agricultural Finance Authority Fund (LAFA Fund). Per R.S. 3:277, these funds are to be expended for securing revenue bonds for the needs of the Boll Weevil Eradication Program (debt service payments) or other agricultural associated expenditures at the discretion of the department. The outstanding debt is associated with the following projects: Lacassine Sugar Syrup Mill project (original 2004 debt issuance), 2007 bond issuance for firefighting equipment (bull dozers and tractor trailers), and Lake Charles Cane Lacassine Mill (LCCLM) Guarantees

Information provided by AGRI projects total debt service payments at $9.7 M in FY 14. The debt service payments projected in FY 14 are:

FY 14 DEBT SERVICE PAYMENTS	
$7,584,914	Interest & principal - Lacassine Syrup Mill
$1,627,500	Interest only payments - Firefighting equipment
$499,777	Interest & principal on LCCLM Guarantees *(see below)*
$9,712,191	**TOTAL**

After the FY 14 debt service payments have been made, approximately $43.2 M in outstanding debt will remain including:

OUTSTANDING DEBT AFTER FY 14 PAYMENTS	
$1,660,133	Lacassine Syrup Mill Project
$34,474,976	Firefighting equipment
$7,051,756	LCCLM Guarantees *(see below)*
$43,186,865	**TOTAL**

The Lacassine Syrup Mill bonds will be *paid in full at the end of FY 15,* the firefighting equipment *paid in full by FY 18 and* LCCLM Guarantees will be *paid in full by FY 23.*

Lacassine Syrup Mill/Lake Charles Cane (LCCLM)

The Lacassine Syrup Mill was financed by the state for $56 M. Construction and operating expenses totaled $45 M, which was financed through revenue bonds secured by slot machine proceeds dedicated to the LA Agricultural Finance Authority (LAFA) in 2003. Interest due over the term of the $45 M bond issue totaled approximately $11 M.

The mill was to be used to make sugarcane syrup from cane grown in Southwest LA. The syrup would be used to produce ethanol on site or to be transported to other mills in LA for processing into raw sugar. Although construction began in May 2004, due to several delays the mill was not commissioned until March 2006.

In June 2006 LAFA signed a lease/purchase agreement with the LCCLM. In November 2006, LCCLM exercised its option to purchase the mill for $60 M. Other than a $300,000 security deposit, no upfront cash was put down. The terms of the sale included a 3% interest rate and 44 annual installment payments payable on December 31 of each year beginning in 2007. The first 4 installment payments were $100,000 each. After these 4 installments, the balance of principal and interest due was to be amortized over the remaining 40 years. LCCLM made the initial 4 payments of $100,000. The fifth mortgage payment of $2,948,147 was due on 12/31/2011 and was not paid. In addition, LAFA guaranteed $11 M of debts by LCCLM of which $6.2 M was unpaid to private banks.

In March 2012, AGRI announced plans to foreclose on the facility. In Fall 2012, LAFA decided to take full ownership of the mill by purchasing the notes and the Jeff Davis Loan and to finance such purchase through the issuance of revenue bonds. The amount of the bond sale was $6.7 M (LCCLM Guarantees). LAFA is in the process of selling the mill to Grupo Gloria, which has signed a purchase agreement. The Peruvian company has put down a 20% down payment and they have until October 31 to finalize the purchase.

Mental Health Courts

Matthew LaBruyere, Fiscal Analyst,
labruyerem@legis.la.gov

With the passage of the Mental Health Court Treatment Act (Act 346) of the 2013 Regular Legislative Session, each district court now has the ability to designate one or more divisions of the court to preside over a mental health treatment court program. Approximately 20% of the state inmate population is considered to have a mental and/or emotional health condition. To combat this part of the prison population, there are currently 4 mental health courts within Judicial District Courts (JDC) operating in the state. They are located in the 14th JDC (Calcasieu Parish), 15th JDC (Acadia, Lafayette, and Vermillion Parishes), 22nd JDC (St. Tammany and Washington Parishes), and Orleans Criminal District Court.

Structure – The Act set forth what defendants would be eligible and excluded from the court, the screening and assessment procedures for the defendants (also referred to as clients), and penalties for the defendants while in the program. In order for the mental health court to be successful, it requires a team to ensure the desired outcomes are achieved. Act 346 defines the team as including but not limited to a judge, prosecutor, defense attorney, probation officer, coordinator, treatment providers, behavioral health advocate, or case manager. For example, the mental health court team for the 22nd JDC includes the judge, a felony or misdemeanor probation officer (depending on the charge), a representative from the Department of Health and Hospitals (DHH) involved with the Forensics Division, a representative from the Florida Parishes Human Services Authority (FPHSA), a psychiatrist from the St. Tammany Parish Coroner's Office, an Assistant District Attorney, the defendant's attorney and a representative from the National Mental Health Association. The court is a post conviction model, which means the defendant must plead guilty to an offense in order to begin mental health program provided by the court.

The team of professionals coordinates a delivery of services for the client to achieve the best results. The services may include:

- Voluntary outpatient or inpatient mental health treatment, in the least restrictive manner appropriate as determined by the court, that carries with it the possibility of dismissal of charges or reduced sentencing on successful completion of treatment.

- Centralized case management involving the consolidation of cases that involve mentally ill or mentally disabled defendants (including probation violations) and the coordination of all mental health treatment plans and social services, including life skills training, placement, health care, and relapse prevention for each participant who requires such services.

- Continuing supervision of treatment plan compliance for a term not to exceed the maximum allowable sentence or probation for the charged or relevant offense and, to the extent practicable, continuity of psychiatric care at the end of the supervised period.

Funding – In order to achieve results that keep the client from reoffending and remaining out of jail, funding will be a main priority. There are many ways that the courts can be funded, although the most likely source at this time would be local funding. The next likely source of funding would be federal grants through the Department of Justice – Bureau of Justice Assistance. Currently, there is no funding in the Louisiana Supreme Court's budget in FY 14 for the funding of mental health courts.

In the case of the 22nd JDC, local funding ($50,000) from a millage for public health funds a case manager for the mental health court. Services for clients are provided by private providers (if the client has private insurance) or through state clinics. The 22nd JDC estimates that the cost to provide services for the 32 clients currently under the supervision of the mental health court would be approximately $300,000, or about $9,375 per client. Within this cost, it is estimated that 90% would be used for treatment of clients. It should be noted that the per client cost is an estimate and would vary depending on the client and his/her condition. The cost includes 8-10 hours per week of treatment services, drug screenings twice a week, and literacy training. By comparison, drug court requires 6-8 hours of treatment per week. The ability to pay for services would allow clients to begin receiving services sooner since there is about a 6-8 week wait period before a client can receive the initial mental health screening from a clinic. The sooner a client receives the screening and begins the program, the less likely the client is to recidivate and goes back to jail. It should be noted that if a client, who is Medicaid eligible, remains in jail for 30 days or more, the client loses his/her Medicaid benefits and must reapply for benefits, which would result in a longer time to complete the program.

To the extent a client does receive services, remains mentally competent, and remains out of jail after successfully completing the requirements of the mental health court, a state general fund savings could occur. A client that would have been sentenced to jail in lieu of the mental health court program would cost $8,902 per year in a local jail or $17,425 per year in a state facility. The potential savings would vary depending on how long the client would have been sentenced if he/she were not in the program and any goodtime that would be earned while incarcerated. To the extent a JDC receives additional local funding or receives a Federal grant to provide services, a potential state savings may also occur from not using state services from the human services authority (HSA) in the area or by contracting out services to the HSA or a private provider in the area.

Potential Additional Current Year Election Costs

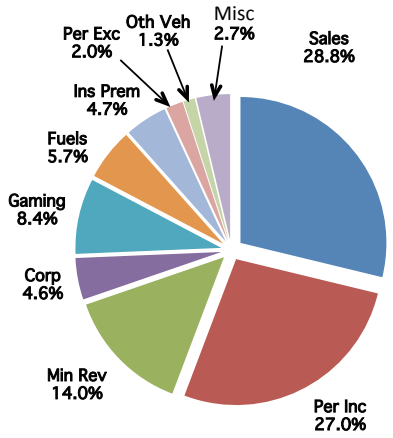
Evelyn McWilliams, Fiscal Analyst, mcwille@legis.la.gov

The Secretary of State (SOS) estimates that it will require an additional $2.7 M to provide for the fall elections. The agency attributes the projected cost to an increase in the number of local elections being held coupled with the addition of the special election for the U.S. Representative from the 5th Congressional District and the special election for the state representative from District 87 in Jefferson Parish. The primary election held in 2009 had 1,431 precincts participating and cost $1.6 M. The 2009 primary election was used to project the costs for the October 19, 2013 primary election. The upcoming primary election scheduled October 19, 2013 has 2,853 precincts participating, which is twice the number of precincts that participated in the 2009 primary. The addition of the 5th congressional district election added 412 precincts (of the 2,853) to the elections at an additional cost of $0.5 M. The SOS estimates the cost for the elections scheduled in October, November and December to total $5.4 M. The agency's FY 14 existing budget includes $2.7 M to provide for these elections.

Historically, the SOS has received increases in its budget during the latter part of the fiscal year to provide for increases in election expenses. Since the appropriation for election expenses are estimated, the Division of Administration (DOA) has authority to adjust the Secretary of State's budget. The DOA has increased the budget for election expenses during the past three fiscal years by adding $2.2 M in FY 13, $2.5 M in FY 12 and $2.8 M in FY 11. At this time, the LFO is unable to determine how the DOA intends to fund the additional estimated $2.7 M election costs needed for FY 14. The DOA has indicated that because the final cost of holding elections is impacted by runoffs, providing specific funding for the anticipated election costs will not happen at this time and the DOA will monitor SOS's expenditures.

REVENUE

Components Of The Forecasted State Revenue Base
FY 2012-13 Preliminary Actuals



	FY13	Annual Growth Since FY10 Revenue Trough FY13	FY12	FY11
Sales (w/ MV)	$2.938	1.2%	0.0%	11.3%
Per Income	$2.754	10.8%	3.3%	8.7%
Mineral Rev	$1.426	-1.4%	7.0%	4.1%
Corporate	$0.471	-7.5%	26.5%	31.8%
Gaming	$0.854	3.1%	0.7%	0.0%
Motor Fuels	$0.583	1.4%	-5.3%	3.3%
Ins Premiums	$0.479	13.5%	0.5%	2.0%
Per Excise	$0.193	-2.7%	-3.0%	3.7%
Other Vehicle	$0.130	-18.5%	21.8%	-0.5%
Misc	$0.380	-7.7%	31.0%	-8.2%
Total {$Bils}	$10.207	2.7%	3.9%	7.2%
Dedications	-$1.928	2.9%	4.5%	2.8%
General Fund	$8.279	2.6%	3.8%	8.3%

FY 13 State Tax Revenue, Preliminary Actual Collections

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The accompanying table and pie chart above depict the preliminary actual state tax revenue collections for the recently completed FY 13. The books actually close on September 28, 2013, but these preliminary figures will likely be close to what the final collections total will be. Approximately forty individual revenue sources are combined into ten groups for this depiction. The discussion below will focus on selected specific components of these ten groups. Total collections in FY 13 are estimated to be $10.207 B, with $1.928 B in dedications of this total amount, leaving a general fund total of $8.279 B. For SGF, this is $177 M more than expected at the May 15, 2013 REC meeting for FY 13, and $214 M of growth (2.6%) from FY 12. While these actual collections reflect a substantially better finish for FY 13 than expected, they do not necessarily translate into a comparable increase in the forecast for subsequent years. In addition, the FY 13 performance is actually a slow down from the pace of collections in FY 12, which grew 3.8% from FY 11 ($295 M).

Relative to the May 2013 SGF forecast for FY 13, there are a number of notable items. The largest component of baseline gain was the personal income tax that finished $69 M higher than expected, exhibiting 10.8% growth from FY 12. All of this strength occurred in the spring filing season of 2013, and was partially picked up in the May 2013 forecast when $107 M was added to the forecast and the growth rate was increased to 8% from 3.7%. This strong finish was largely in payments with returns reflecting nonwage income as taxpayers accelerated income in to 2012 to avoid federal tax increases effective for 2013. Withholdings, reflecting employment and wage growth, grew at a measured pace of 5.7% and make up over 70% of total final net collections. Thus, much of the surge in FY 13 collections cannot be expected to be carried forward into FY 14 and beyond.

General sales tax collections finished $19 M ahead of expectation. However, this reflects only a 0.1% growth (exclusive of vehicle sales tax) over FY 12, and is the second year of poor growth performance in this important tax (FY 12 experienced a 1.1% drop). This tax never gained traction during the year and has been surprisingly weak for two years now. Regardless of how other revenues are performing or what other measures of the economy are suggesting, households and businesses do not appear to be making purchases of sales taxable goods and services. This can be a worrisome reflection of underlying confidence, and does not offer support for even the modest current sales tax forecast growth rate for FY 14 of 2.4%.

Both severance tax and royalty receipts finished greater than expectations; $30 M for severance and $15 M for royalties. On a year-over-year basis both revenues actually dropped from FY 12 levels; -0.1% for severance and -5.2% for royalties, but their drops were less than expected and, thus, add to the FY 13 revenue excess. Adjustments in the 14th period can be material for royalties, and its FY 13 finish may be restated after the accounting close is completed. Forecasts going forward are driven by assessments of oil & gas prices and production, and exemption refund trends. The mineral revenue component of state revenues has been relatively stable, and barring significant swings in prices the forecasts are expected to be fairly stable.

Premium tax receipts finished $17 M stronger than expected, on the strength of underlying premium growth and greater than expected receipts from the first year of collections from the Bayou Health Managed Care programs. With that program incorporated, future growth relies on underlying premium growth. Strength in premiums can reflect strength in incomes, which is a good thing for all tax receipts, but can also reflect rising premium costs and divert household and business resources away from other purchases that are directly taxable and that stimulate the economy.

The revenue category Various Agency Receipts also finished stronger than expected by $32 M. This category is a miscellaneous catchall that can exhibit considerable variation from year to year, and is heavily influenced by end of year adjustments. Forecasts of this category are essentially averages of prior year performance and cannot anticipate its actual activity. Thus, it can materially contribute both positively and negatively relative to expectation in any given year.

Corporate collections fell only $3.7 M short of forecast for FY 13, but are notable nonetheless. This tax proved once again that its monthly collections tell us little about annual performance. At the end of the cash fiscal year, July 2012 through June 2013, the tax was 21% ahead of FY 12, with over $383 M of net collections. Then July 2013 experienced a negative $42 M of net collections (refunds greater than gross collections for the month). When accrual accounting was completed, FY 13 finished with $336 M of net collections; a 10% drop from the FY 12 total. What appeared to be the third year of continued growth in this tax turned into an absolute drop in one month at the end of the fiscal year. Simply out of caution, the forecast going forward will have to be kept at or very near the current collection level.

As shown in the pie chart on the previous page, the state's tax revenue structure is dominated by sales and income taxes, comprising over 55% of total tax revenue. Weakness in one of these slices can be offset by strength in the other, as occurred in FY 13. If both are weak the state budget will be in trouble, and a truly strong revenue outlook requires both to be growing. Largely on the strength of oil prices, mineral revenue has climbed back up to a 14% share, well above its nadir of 7% in FY 99 but still far below its last peak of 42% in FY 82. As large numbers of horizontally produced gas wells come out of their 24-month exemption periods, they have also contributed to the rising share of mineral revenue. The corporate slice diminished significantly over time, to less than 5% in FY 13, and even in the peak collection year of FY 07, with over $1 B in receipts, the share was still less than 10%. Tax avoidance facilitated by the tax code, the proliferation and growth of various tax exemptions, and spending charged against corporate gross receipts have worked to reduce the corporate share over the years to the point that even in years with large absolute collections the contribution share is relatively small. The gaming share has been relatively stable since its inception, at around 8% each year, and its absolute collections tend to be fairly stable once new venues or enhancements have been assimilated. Finally, premium taxes have an exhibited positive growth trend for a number of years, although still a relatively small share of total receipts at less than 5%.

EDUCATION

Higher Education Overview

Charley Rome, Fiscal Analyst, romec@legis.la.gov

Postsecondary education nationally has confronted significant funding and operational challenges since the recent financial crisis. Colleges and universities face significant limitations and uncertainty in philanthropic support, investment returns, state appropriations, and federal funding. States across the country have reduced funding for public postsecondary educational institutions.

Same-sex couples may be provided a state tax benefit (or cost) due to a provision unavailable to traditionally married couples

Deborah Vivien, Economist, viviend@legis.la.gov

On August 29, 2013, the Internal Revenue Service (IRS) announced in Revenue Ruling 2013-72 that it would accept married filing jointly or married filing separately income tax returns from same-sex couples with a legally recognized marriage, regardless of their state residency or state filing requirements. This filing status is retroactive for three or more years, and these couples are eligible to file amended returns for those years immediately. This situation may benefit same-sex legally married couples at the federal level and at the state level simultaneously under an option not available to traditionally married couples.

All exemptions and exclusions offered to traditional married couples are now available to same-sex legally married couples, including the exclusion of medical health insurance related to the spouse that may not have been claimed in the past. The federal government will soon report on the use of cafeteria plans, qualified retirement systems and other previously taxable events that may be required to adjust to the recognition of same-sex married couples.

The LA personal income tax form begins with the federal adjusted gross income (AGI) as calculated on the federal form filed by the taxpayer. LA also has a statute (R.S. 47:294) related to personal income tax filing status, which states "Taxpayers are required to use the same filing status and claim the same exemptions on their return required to be filed under this Part as they used on their federal income tax return." However, a Constitutional amendment approved by the voters in 2004 (Art. 12, Sec. 15) states in part that "No official or court of the state of LA shall recognize any marriage contracted in any other jurisdiction which is not the union of one man and one woman." Thus, the federal

(Continued on Next Page)

The July *Focus on the Fisc* publication included a table showing that SGF support for higher education in LA has decreased significantly since 2009. The state's general operating budget included approximately $1.55 B in SGF for higher education in FY 09. SGF for higher education has decreased approximately 66% since FY 09, decreasing by approximately $1 B to $525 M in FY 14. Furthermore, higher education funding from SGF represented approximately 17.6% of all SGF in the state's general operating budget in FY 09. This percentage has declined to approximately 6.7% in FY 14. SGF for higher education would need to increase by approximately $848 M to represent 17.6% of all SGF in the general operating budget in FY 14 since FY 09.

LA and other states have significantly increased tuition and mandatory fees to make up for decreases in state funding support. SGR for public higher education in LA has increased significantly over the last 5 years. Increases in mandatory tuition and fees represent most of the growth in SGR over the last 5 years. The state's general operating budget included approximately $735 M in SGR for higher education in FY 09. SGR for higher education has increased approximately 74% since FY 09, increasing by approximately $544 M to $1.279 B in FY 14. LA and other states are facing significant price sensitivity in tuition/fees and may reduce costs to maintain financial viability.

Higher education institutions face special challenges in lowering costs to match decreasing revenues. Most higher educations expenditures are for compensation of faculty and staff. The traditional faculty model includes tenured positions with special protection from layoff or termination of employment. Most institutions will not terminate employment of tenured faculty without declaration of "financial exigency". Regulation 4(c) by the American Association of University Professors (AAUP) defines financial exigency as an "imminent financial crisis, which threatens the survival of the institution as a whole." Furthermore, the crisis must be one that "cannot be alleviated by less drastic means" than the termination of faculty appointments. Institutions are reluctant to declare financial exigency because doing so can negatively impact recruitment of students/faculty, research/grants, and philanthropic support. Southern University in Baton Rouge declared financial exigency in October 2011 in response to significant funding challenges.

Institutions are exploring ways to decrease costs despite limitations on termination of tenured faculty employment. Potential cost cutting or revenue enhancement measures include the following:

1. Centralization and consolidation of support services such as human resources, fundraising, marketing, financial services, and information technology. The LSU System is working to achieve such savings by streamlining support functions under one administrative structure.
2. Consolidation of institutions and governing bodies. LA has considered consolidation of higher education management boards in the past. In 2011 the Legislature considered legislation that would have combined the University of New Orleans and Southern University at New Orleans.
3. Increased use of adjunct instructors. Adjunct instructors do not have tenure employment protection and many LA public postsecondary education institutions have increased the number of adjunct instructors to lower costs and increase flexibility in staffing.
4. Leasing space to expand course offering and develop satellite instructional sites.
5. Expansion of non-credit continuing education courses and marketing efforts towards non-traditional students to increase enrollment and fees.
6. Expansion of online educational services including distance learning, hybrid courses including classroom and Internet instruction, and online degrees. Southern University has focused on

filing status, which recognizes same-sex marriage by allowing a joint filing, is the basis of the state income tax form, which does not recognize these marriages and thus, the joint filing.

The LDR announced on September 13, 2013, that taxpayers filing jointly at the federal level as a same-sex married couple will be required to determine their federal AGI based on filing without the joint designation in order to begin the calculation of their state liability. The joint federal return will be disregarded by the state and replaced with a return calculating a liability as if the joint filing were not available. It is not clear whether this form will be filed at the state level, but it will not be filed at the federal level.

If filing jointly leads to a smaller federal liability for these couples, especially those without dependents, these couples will have a lower federal tax liability due to the joint filing but be allowed to claim a higher federal income tax deduction on their state returns, since the state return will be calculated as if they filed separately. Presumably, this also means the state has no recourse on retroactive federal refunds that will be due to the couple and would otherwise be subject to additional state tax. Overall, the fiscal impact to the state is not expected to be very large in comparison to total personal income tax collections since the impacted population, same-sex couples legally married filing jointly, is presumably relatively small.

If these couples are paid a refund due to an amended federal return using a joint status, there is currently no mechanism in place for them to file an amended state return to recalculate their state liability based on a lower federal income tax deduction. Thus, it appears that they will have the benefit of a lower federal liability and a lower state liability. It would work in reverse for those filing amended federal returns that provided for a larger federal liability. Those taxpayers would forego a smaller state liability because they could not file a joint state return increasing their federal deduction. *(Continued on Next Page)*

these services to address their funding crisis.

7. Elimination of programs with low numbers of students. The Board of Regents maintains a list of "low completer" programs and recommends closure of such programs.
8. Creative space utilization including weekend, evening, and summer courses. Some institutions move less critical administrative functions off campus to lower costs.
9. Changing pricing strategies including charging by credit hour for all courses and differential prices such as higher fees for high cost programs such as engineering. In 2011 the Legislature considered raising the standard full-time tuition and fees from a 12 credit hour basis to a 15 credit hour basis. The Fiscal Note on the proposed legislation estimated that the change would increase revenues by up to $75 M per year statewide.

It is not clear how the conflicting filings between state and federal returns for a certain taxpayer will be impacted by programs in place to detect these activities as fraudulent. Per the LDR announcement, it will now be appropriate for filing statuses to be inconsistent for certain sectors of the population, though this appears to be a direct violation of R.S. 47:294, and could presumably trigger a fraudulent filing flag under current systems.

Higher education is complex and dynamic. Funding constraints and increased public scrutiny have affected Louisiana public higher education in many ways. Over the coming months, the LFO will publish articles addressing the following: 1.) Plans by LSU to seek national accreditation to operate a Baton Rouge branch of the New Orleans based medical school, 2.) Accountability initiatives such as the Louisiana Grad Act and the Obama administration initiative to lower costs and increase affordability of higher education services, 3.) Methods used by Louisiana institutions to increase revenues and decrease costs, 4.) Overview of the Taylor Opportunity Program for Students (TOPS), 5.) Expansion of community colleges in the state.

Decreases in operational funding have had a significant impact on maintenance of higher education facilities. The following article describes challenges to maintaining the infrastructure of Louisiana's public colleges and universities. This issue also includes an article on $340 M in funding from the Overcollections Fund for higher education in the current year. The article describes cash flow concerns and funding issues in FY 15 and thereafter related to using the Overcollections Fund to support higher education and is located on page 1 of this edition.

Deferred Maintenance in LA Public Higher Education Institutions

Charley Rome, Fiscal Analyst, romec@legis.la.gov

LA public postsecondary colleges and universities face a significant and growing backlog in projects related to deferred maintenance, compliance with the Americans with Disabilities Act (ADA), and general life/safety code issues. Significant reductions in SGF support for LA's public colleges and universities have eliminated resources for routine maintenance and repair of infrastructure at LA public colleges and universities.

A study by a consulting firm in September 2006 reported $1.47 B in deferred maintenance needs statewide at LA's public colleges and universities. The latest estimate from March 2013 provided by the Board of Regents shows that deferred maintenance needs have increased 20% since 2006 to $1.76 B. Table 4 on the next page shows deferred maintenance needs by campus and system based on the March 2013 estimates.

For FY 14 the Board of Regents recommended 32 emergency projects for funding in the capital outlay bill. These projects required $63 M in funding in FY 14 and a total of $215 M over the life of the projects. The capital outlay bill passed by the Legislature includes $12.3 M in funding for 15 of these projects in FY 14. Most of these emergency projects recommended by the Board of Regents have been identified as critical for many years and have not been funded because there is significant competition for capital outlay funding from other state agencies and local governments. Costs from failure to fund emergency projects often multiply over time. For example when water penetrates structures it also causes damage to furniture and equipment within. Campuses lose valuable operating space because they often exclude habitation of structures with significant water intrusion due to health and safety concerns related to the growth of mold and mildew.

Facility Planning & Control (FP&C) operates the Statewide Roof Asset Management Program (RAMP) that provides funding and recommends contractors to repair roofs of state facilities that are in need of critical repair or replacement. FP&C operates RAMP because roofing failure is the biggest threat to any building and most construction litigation is roof related. FP&C decided to exclude roofing projects at public colleges and universities from inclusion in RAMP in 2011. Higher education has a significant number of roofing related repair/replacement projects and exclusion of these projects has significantly worsened the backlog and secondary damage associated with obsolete or damaged roofs.

LA higher education management boards have authority to authorize repair projects at campuses they manage if the total project cost is less than $175,000. Projects with costs from $175,000 to $500,000 require approval by the Board of Regents. Staff at the Board of Regents reviews recommended projects as quickly as possible and grants approvals administratively without prior approval by the Board of Regents if campuses can fund the projects. Projects with costs

greater than $500,000 require approval by FP&C. Approval by FP&C is a lengthy process assuming funding is available. Staff at the Board of Regents suggests that the threshold for project approval by FP&C be raised to $1,000,000 or more to lessen the time needed to address critical infrastructure problems. Such an increase will require statutory change by the Legislature.

The Legislature provided $40 M in funding from the Overcollections Fund in FY 14 for "deferred maintenance and general operations" at LA public colleges and universities. The Legislature allocated $10 M each to the following: LSU Board of Supervisors, University of Louisiana Board of Supervisors, Southern University Board of Supervisors, and the LA Community and Technical College System. The higher education management boards have Constitutional authority to use these funds in a manner approved by each board. However, the Commissioner of Higher Education sent a letter to each management board encouraging use of these funds for deferred maintenance projects.

System - Institution (Table 4)	Deferred Maintenance Estimate*
LSU Ag Center	$7,146,674
LSU A&M Academics	$234,651,811
LSU Roofing, Hazmat	$212,388,000
LSU Vet School	$19,449,854
LSU Lab School	$6,901,829
LSU Law School	$4,153,296
LSU A&M Auxiliaries	$186,128,541
Subtotal LSU A&M	**$670,820,005**
LSU-A	$14,870,382
LSU-E	$15,889,510
LSU-S	$17,074,006
LSU-Pennington	$10,827,747
LSU HSC-NO	$177,253,346
LSU HSC-S	$63,230,591
Subtotal LSU Other	**$299,145,582**
Total LSU System	**$969,965,587**
SU A&M	$155,000,000
SUNO	$107,500,000
SUSLA	$15,000,000
Total SU System	**$277,500,000**
GSU	$44,773,075
LA Tech	$35,860,000
McNeese	$27,269,105
Nicholls	$33,003,245
NSU	$20,182,384
SELU	$54,741,001
ULL	$43,945,000
ULM	$46,775,000
UNO	$19,761,097
Total UL System	**$326,309,907**
BRCC	$1,055,392
BPCC**	$0
Capital Area Technical College	$14,281,669
Center LA Technical College	$21,815,213
Delgado	$57,558,129
L.E. Fletcher	$8,699,058
LDCC	$14,681,251
Northshore Technical Community College	$7,357,934
Northwest LA Technical College	$17,410,532
Elaine P. Nunez	$1,908,851
RPCC	$2,574,027
South Center LA Technical College	$7,500,874
SLCC	$23,847,265
SOWELA	$10,642,406
Total LCTCS System	**$189,332,601**
TOTAL HIGHER EDUCATION	**$1,763,108,095**

**Estimate provided by institutions*
***Rented facility*

K-12 Teacher Salaries
Mary Kathyrn Drago, Education Section Director, dragom@legis.la.gov

The Minimum Foundation Program (MFP) formula calculates the amount of state funding that is provided to local public schools. The calculation begins with what is called a base per pupil amount and other factors are added to that base amount. In some previous years the MFP formula included a 2.75% increase to the base per pupil amount, which typically would equate to a $70 M increase to the MFP. FY 09 was the last year the MFP included such increase. For FY 14 the 2.75% increase was not provided in the MFP, however, an additional $69 M was added to the budget, which would equate to a 2.75% increase. If an additional $70 M had been added over the 4 prior years when there was no 2.75% increase, school districts would have received an additional $280 M.

When the MFP formula included a 2.75% increase in the past, at least 50% of that increase was required to be used to provide a pay raise to teachers. That requirement coupled with additional funding outside of the MFP formula for pay raises helped to keep LA's teacher salaries at the Southern Regional Education Board (SREB) average.

The Education Estimating Conference received average teacher salary projections at their September 2013 meeting showing that LA's projected average of $48,966 is approximately $600 below the average of the SREB states for 2012-13. LA has been able to remain close to or just above the SREB average for the past several years. Without the funding to provide continued pay raises, LA is starting to fall below the SREB average. The report received by the Education Estimating Conference shows that by 2016-17 that LA could be below the SREB average by at least $1,700.

HEALTH & HOSPITALS

LSU Health Sciences Center – Shreveport
Charley Rome, Fiscal Analyst, romec@legis.la.gov

The LSU Health Sciences Center Shreveport has been an academic medical center with a linked public university teaching hospital, School of Medicine and School of Allied Health. The annual operating expense for LSU Health Sciences Center in Shreveport (School of Medicine, School of Allied Health Professions and School of Graduate Studies) is approximately $100 M. Due to small class sizes necessary for clinical training, the allied health programs and medical school are not able to generate enough revenue solely through tuition to cover expenses (approximately $13.8 M from tuition and fees revenue). As such, LSU Health Sciences Center Shreveport teaching hospital has historically subsidized the medical school and allied health programs with patient generated hospital revenues. The LSU Health Sciences Center in Shreveport received the following amounts from the Shreveport Medical Center by fiscal year: FY 09 $24.8 M, FY 10 $30 M, FY 11 $26 M, FY 12 $23.4 M, and FY 13 $6.3 M.

The FY 14 hospital budget includes funding to operate the Shreveport hospital as an LSU public hospital through 9/30/13. The Biomedical Research Foundation of Northwest LA will operate the Shreveport hospital in the future and will not transfer hospital generated funding to the medical school and allied health programs at the LSU Health Sciences Center in Shreveport. The Legislature addressed the loss of hospital generated funding as well as other reductions in FY 14 by appropriating the remaining accumulated hospital operating capital of $41.5 M to fully fund the medical school and allied health programs.

Included in the state support of the medical school and allied health programs in FY 14 is $15.6 M in revenue from the Overcollections Fund. This funding as well as the $41.5 M (for a total of $57.1 M) appropriated to the medical school is considered one-time funding in the current year that will need to be replaced for FY 15 to maintain the current operational level at the medical school. It is unclear how this revenue gap will be addressed for FY 15.

Medical school administration has indicated a two-fold approach to partially offset the revenue gap. This includes generating additional revenue through contractual arrangements with the Biomedical Research Foundation and community partners, and offsetting expenses that may be considered expenses of the hospital rather than the medical school. Specific details have not been provided, but will be described in a Master Collaborative Agreement between both parties, which is not available at the time of this publication.

Hospital Lease Payments: An Update

Alan Boxberger, Fiscal Analyst, aboxber@legis.la.gov

In the previous edition of *Focus on the Fisc*, the LFO reported a potential shortfall of $38.75 M in the Overcollections Fund associated with lease payments from private partners taking over the state's public hospitals and chronic care clinics. That position arose from the LFO's direct review of the requirements outlined in the master lease agreements between all relevant parties. Subsequent to publication of that document, the administration and LSU Health Sciences Center – Shreveport reported their intent to revise the master lease agreement associated with the privatization of the LSU Shreveport Hospital and E.A. Conway Hospital to require the full annual lease amount during FY 14, rather than the prorated 9 months required in the existing document. Revising the document in this manner would result closing the projected shortfall in lease payment revenues by $9.7 M in FY 14.

The Division of Administration (DOA) also indicated that the University Medical Center Management Corporation (UMCMC) planned to exercise a permissive option in its lease agreement to make an additional advance rental payment in FY 14 equal to its obligation in FY 15 for the Interim LA Hospital (ILH), which further offset the projected revenue shortfall by $24.8 M. The permissive option to make this payment is contained within the Interim Term Quarterly Rent portion of the lease agreement as follows, "UMCMC may, at its option, make payments of the Rent annually, in advance, during the Interim Term." The Interim Term is defined as the time period from the start of the lease agreement until the opening of the New University Medical Center. A second similar permissive option is contained within the New Facility Quarterly Rent portion, allowing advance rent payments during the New Facility Term that is defined as the time beginning with the opening of the new facility. As these two permissive options are delineated separately, the LFO assumes the prepayment of the interim lease may result in a potential credit for lease payments in FY 15 or FY 16 (the projected interim term), which may result in a budget shortfall to be addressed by the legislature. However, to the extent prepayments may be credited beyond FY 16, the budget impact would be delayed.

The DOA indicated that UMCMC will also make an additional advance rental payment for the ILH equipment lease during FY 14 equal to approximately $9.8 M. However, the permissive language to make additional advance lease payments is absent from the equipment lease rental agreement. The LFO is unable to predict whether this payment is allowable under the existing agreement, though UMCMC may elect to make the payment outside the boundaries of the contract. Inclusion of all three additional advance lease payment options (Shreveport/EA Conway, ILH and ILH Equipment) would result in a surplus of lease payments over appropriations authority of approximately $5.65 M in FY 14. If the UMCMC advance lease payment for equipment is not made, the Overcollections Fund may still realize a lease payment deficit of approximately $4.2 M.

As indicated in the previous edition, a comparison table (Table 5) is included to highlight the similarities and differences between the master lease agreements and the LFO's 5-year projection of anticipated lease payments. This table can be found on the next page and on the LFO website: http://lfo.louisiana.gov/publications

Explanation of columns: ***Annual Lease*** – Annual Lease term outlined in the master lease agreement. This amount may be adjusted in the out years (see Adjustable Lease Terms below). ***Advance Lease Required*** – Required advance lease payments as per the master lease agreement. Some agreements provide for optional advance lease payments at the discretion of the lessee. ***Lease Term*** – The duration of the initial lease agreement, along with renewal options. ***Adjustable Lease Terms*** – Provides the frequency and terms upon which the annual lease payment totals will or may be modified and any relevant restrictions. ***Lease Paid*** – The frequency with which lease payments are due. ***Advance Lease Terms*** – Provides information regarding the credit terms for advance lease payments (the year within the lease term that will receive credit for advance payments). ***Commencement Date*** – The start date, or projected start date, of the master lease agreement.

Hospital Facility or Location	Annual Lease	Comments/Assumptions	Advance Lease Required	Lease Term	Lease Term Adjustments	Lease Paid	Advance Lease Terms	Commencement Date	FY 14	FY 15	FY 16	FY 17	FY 18
Interim Louisiana Hospital (Hospital and clinics)	$ 24,101,208	Lease payments projected to cease once New UMC is opened. LFO assumes 3% growth of CPI. LFO assumes a FY 17 opening of the New University Medical Center.	Permissive at the option of the lessee.	Until the opening of the new University Medical Center and transition of services to the new facility.	Adjusts annually to the Consumer Price Index (CPI), capped at no more than 5% annually and disallows CPI adjustments below initial lease amount	Quarterly	Advance rent is optional on the part of the lessee. The LFO assumes credit against the final year or months of the interim term.	06/24/13	$ 24,101,208	$ 24,824,244	$ 25,568,972	N/A	N/A
ILH Equipment	$ 9,878,816	Lease is subject to change quarterly and annually based on surrender of equipment back to LSU.	N/A	10 Year Initial Term, extendable by 5 years twice upon exercising option	Adjustable as equipment removed	Quarterly	N/A	06/24/13	$ 9,878,816	$ 9,878,816	$ 9,878,816	N/A	N/A
New University Medical Center	$ 69,409,750	Lease payment equals annual payment less prorated advance rent, with both adjusted to the Consumer Price Index. LFO assumes 3% growth of CPI. LFO assumes FY 17 opening of the New University Medical Center.	$ 110,000,000	20 Year Initial Term, extendable by 15 years three times by exercising option (45 years total extensions)	Adjusts annually to the CPI, capped at no more than 5% and disallows CPI adjustments below initial lease amount, Adjusts Fair Market Value at the end of each 20 year term	Quarterly	Credit against lease equalling 1/20 of advance rent annually for first 20 years of term., adjusted for CPI ($6,009,999 in Year 1 of New UMC - FY 17)	07/31/16	$ -	$ -	$ -	$ 63,399,752	$ 65,128,220
New UMC ambulatory care building and garage construction and occupancy	N/A	Payment is used for construction and occupancy of facility. Contractor will own the facility while state retains the option to buy or lease at end of CEA.	$ 143,000,000	Represents all future rent payments for construction and occupancy for first 40 years of new faclity term	N/A	N/A	N/A	N/A	$ -	$ -	$ -	$ -	$ -
New UMC Equipment	TBD	The facility will be equipped through a combination of capital outlay and FEMA funds. The total of the lease payments will be determined at time of occupancy based on fair market value.	N/A	TBD	N/A	TBD	N/A	TBD	$ -	$ -	$ -	TBD	TBD
UMC-Lafayette	$ 15,790,500	Annual lease payments include both facilities and equipment.	$ 15,790,500	10 years, extendable to a rolling 5 year lease at end of 5th year and annually thereafter	Adjusts to fair market value at the end of 5th year and every five year period thereafter	Quarterly	Advance rent payment provides advance credit against the final year of the initial lease term	06/24/13	$ 15,790,500	$ 15,790,500	$ 15,790,500	$ 15,790,500	$ 15,790,500
Bogalusa (Tentative)	$ 2,723,328	Lease payment in FY 14 equals one half annual lease amount due to 1/6/14 commencement date.	$ 5,219,712	10 years, auto-renewal plus 5 years unless opt out	Adjusts fair market value at the end of 1st term and every five year period thereafter	Monthly	Final 23 months of initial term, years 9 and 10 (backloaded)	01/06/14	$ 1,361,664	$ 2,723,328	$ 2,723,328	$ 2,723,328	$ 2,723,328
Sublease - Rent (Tentative)	$ 3,446,863	Lease payment in FY 14 equals one half annual lease amount due to 1/6/14 commencement date. Sublease agreement includes payment associated with Bogalusa Medical Foundation for outstanding bond debt service, plus $920,000 allowance for operating costs.	N/A	5 year option, extendable by 5 years twice by exercising option	N/A	Monthly	N/A	01/06/14	$ 1,723,432	$ 3,446,863	$ 3,446,863	$ 3,446,863	$ 3,446,863
Equipment (Tentative)	$ 1,354,626	Lease payment in FY 14 equals one half annual amount.	N/A	10 years, Extendable to 15 years in 1 year increments Years 11-15	N/A	Monthly	N/A	01/01/14	$ 677,313	$ 1,354,626	$ 1,354,626	$ 1,354,626	$ 1,354,626
Moss-Lake Charles	$ 2,487,000	Annual lease payments include both facilities and equipment.	$ 3,730,500	10 years, Extendable to 15 years in 1 year increments in years 11-15	Adjusts fair market value at the end of 5th year and every five year period thereafter	Quarterly	1/2 of 9th year and all of 10th year (backloaded) of initial term	06/24/13	$ 2,487,000	$ 2,487,000	$ 2,487,000	$ 2,487,000	$ 2,487,000
Chabert-Houma	$ 17,641,346	The CEA includes an annual Intergovernmental Transfer from Terrebone General to DHH (NO LEASE PAYMENT PROVISIONS). Outyear projections are unknown by LSU HCSD. No lease terms were included in Cooperative Endeavor Agreement.	N/A	N/A	LFO assumes an inflationary growth tied to the CPI.	N/A	N/A	06/24/13	$ 17,641,346	$ 18,170,586	$ 18,715,704	$ 19,277,175	$ 19,855,490
Huey P. Long	$ -	No lease terms included in Cooperative Endeavor Agreement. Huey P. Long will close and cease operations.	N/A	N/A	N/A	N/A	N/A	TBD	$ -	$ -	$ -	$ -	$ -
Shreveport/Conway	$ 38,763,891	Lease payment in FY 14 is prorated to reflect 3/4 year of contractor occupancy. LFO assumes 3% growth of CPI.	N/A	5 years, Extendable to 10 years in 1 year increments in years 6-10.	Adjusts annually to the CPI, and disallows CPI adjustments below initial lease amount, Adjusts Fair Market Value at the end of 1st term and every five year period thereafter	Monthly	N/A	10/01/13	$ 29,072,918	$ 39,636,079	$ 40,825,161	$ 42,049,916	$ 43,311,413
Equipment	$ 5,936,109	Lease payment in FY 14 is prorated to reflect 3/4 year of contractor occupancy. LFO assumes 3% growth of CPI.	N/A	5 years	Adjusts annually to the CPI, and disallows CPI adjustments below initial lease amount, Adjusts Fair Market Value at the end of 1st term and every five year period thereafter	Monthly	N/A	10/01/13	$ 4,452,082	$ 6,069,671	$ 6,251,762	$ 6,439,314	$ 6,632,494
EKL - Baton Rouge (Perkins Road Clinic)	$ 1,732,707	LFO assumes 3% growth of CPI.	$ 1,732,707	5 years, extendable to 10 years in 1 year increments	Adjusts annually to the CPI, capped at no more than 5%.	Quarterly	5th year lease payment, or last year if lease is extended	04/15/13	$ 1,745,702	$ 1,798,073	$ 1,852,016	$ 1,907,576	$ -
EKL - Baton Rouge (North Baton Rouge/Airline Clinic))	$ 750,496	LFO assumes 3% growth of CPI.	$ 750,496	5 years, extendable to 10 years in 1 year increments	Adjusts annually to the CPI, capped at no more than 5%.	Quarterly	5th year lease payment, or last year if lease is extended	04/15/13	$ 756,125	$ 778,808	$ 802,173	$ 826,238	$ -
EKL - Baton Rouge (North Foster Clinic))	$ 531,758	Lease agreement includes a base lease of $328,823 plus annual operating costs of $202,935). The advance rent payment is equal to the base rent portion only, or $328,823. LFO assumes 3% growth of CPI.	$ 328,823	11 years, 2 months and 16 days beginning 4/15/13.	Adjusts annually on January 1st and each year thereafter to the CPI, capped at no more than 5%	Monthly	5th year lease payment, or last year if lease is extended	04/15/13	$ 539,734	$ 555,926	$ 572,604	$ 589,782	$ -
EKL - Baton Rouge (Leo S. Butler Clinic)	$ 40,688	LFO assumes 3% growth of CPI.	$ 40,688	Month to month	Adjusts annually on January 1st and each year thereafter to the CPI, capped at no more than 5%	Monthly	5th year lease payment, or last year if lease is extended	04/15/13	$ 41,298	$ 42,537	$ 43,813	$ 45,128	$ -
EKL - Baton Rouge (Equipment - all clinics)	$ 811,000	The value of the equipment lease is still under negotiation. OLOL paid $811,000 as an initial year payment. The total may be adjusted in current and subsequent years after fair market valuation.	N/A	5 years, Extendable to 10 years in 1 year increments in years 6-10.	TBD	Quarterly	N/A	04/15/13	$ 811,000	$ 811,000	$ 811,000	$ 811,000	$ 811,000

Total Required Advance Lease	$ 280,593,426
Paid in FY 13	$ 272,521,000
Balance Due in FY 14	$ 8,072,426

	FY 14	FY 15	FY 16	FY 17	FY 18
Annual Lease Totals (Chabert-Houma excluded from lease)	$ 93,438,792	$ 110,197,473	$ 112,408,633	$ 141,871,023	$ 141,685,444

Contracted FY 14 Anticipated Advance Lease Payments

Bogalusa Advance Rent Payment	$ 5,219,712
EKL Clinics Advance Rent Payment (4 clinics)	$ 2,852,714

Permissive FY 14 Anticipated Advance Lease Payments

Interim Louisiana Hospital Advance Rent Payment	$ 24,824,244
Interim Louisiana Hospital Equipment Advance Rent Payment	$ 9,878,816
Shireveport/Conway Renegogiated Lease Agreement to include 12 months in FY 14	$ 9,690,973

Table 5

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

September 2013
Volume 2, Issue 2

INSIDE THIS ISSUE

1 Focus Points
3 IT Consolidation
5 Mega Fund
5 Act 597 Resources
6 Economic Impact & Incentive Subsidies
8 Major Revenue Collections Summary
8 Medicaid Trust for the Elderly (MTFE)
9 New Family Cost Participation for Early Steps
10 Course Choice

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Mary Kathryn Drago, Section Director
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hotstream, Section Director
Alan Boxberger, Fiscal Analyst
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Stephanie Blanchard, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst
Evelyn McWilliams, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Jean Pedersen, Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it, but we do encourage feedback.

The office was pleased to be a presenter at the Louisiana Legislative Black Caucus Budget Refresher, which was recently held in Alexandria. In addition to our Executive Assistant Debbie Roussel and myself, our Section Directors provided budget information in their subject areas as follows:

Greg Albrecht, Economics
Mary Kathryn Drago, Education
Shawn Hotstream, Health and Hospitals, and Children and Family Services
Travis McIlwain, General Government
Willie Marie Scott, Information including Capital Outlay

The next LFO newsletter will focus largely on issues related to higher education. Our higher education analyst Charley Rome will address topics ranging from deferred maintenance at institutions across the state, potential cash flow issues which may arise, including funding which is dependent upon the availability of resources dedicated to higher education from the Overcollections fund, and the rising cost of attending higher education institutions. In addition, his analysis will also include the potential funding shortfall for the Louisiana State University Health Sciences Center-Shreveport.

John D. Carpenter

FOCUS POINTS

Hospital Lease Payments
Alan Boxberger, Fiscal Analyst, aboxber@legis.la.gov
Charley Rome, Fiscal Analyst, romec@legis.la.gov

The FY 14 budget appropriation relies heavily on both finalized and pending lease payment agreements from private partners taking over the state's public hospitals and associated chronic care clinics. Under the agreements, private partners will lease public facilities and equipment that will generate significant revenues to the state.

Of the $414 M budgeted from the Overcollections Fund in FY 14, $140.25 M of that amount is projected to be generated from these lease payments. According to the Cooperative Endeavor (CEA) and lease agreements, private partners will send lease payments to the state agency of record (either LSU Human Services Division or LSU Board of Supervisors), which will in turn transfer the funds to the state treasury to be allocated into the Overcollections Fund for appropriation. Based on review of all signed lease agreements, along with drafts of all but one pending agreement, the Legislative Fiscal Office (LFO) projects that the level of lease payment revenues in FY 14 may be insufficient to support the current level of appropriation. The LFO will analyze and report the exact amount of the projected revenue shortfall upon receipt of all the finalized CEAs.

Potential Shortfall in FY 14 Overcollections Fund
In consideration of executed or planned Cooperative Endeavor and Master Lease Agreements associated with privatization of public hospitals received and reviewed by the LFO to date, the LFO estimates that lease payments in FY 14 will total approximately $93.4 M. The state will receive an additional $8 M from advance lease payments associated with Bogalusa Medical Center and the Earl K. Long clinics, resulting in total collections during FY 14 of approximately $101.5 M. This level of lease receipts is substantially less than the projected $140.25 M budgeted in the Overcollections Fund from these sources. The projected shortfall of lease payment collections is $38.75 M.

Should the state reach an agreement with a private partner for the operation of Huey P. Long Medical Center, the projected deficit would shrink accordingly. However, it is not anticipated that lease payments associated with those facilities will be sufficient to close the gap between revenues and appropriation levels.

FY 14 Overcollections Fund Potential Shortfall

Budgeted Lease Payments	$140.25 M
Projected Revenue from lease payments	$101.5 M
Potential Shortfall	($38.75 M)

Act 14 (HB 1) appropriates $414 M from the Overcollections Fund *(See Table 1 below)*

FY 14 Overcollections Fund Appropriations (Table 1)	FY 14 Amount
Board of Regents (Higher Education)	$294,265,343
Termination Pay (Hospital Employees)	$24,000,000
Casino Support Contract	$3,600,000
Judgments	$12,000,000
Department of Justice	$4,563,971
Higher Education Boards	$40,000,000
DOTD Regional Districts	$36,000,000
FY 14 Appropriated Total	**$414,429,314**

To the extent the hospital lease payment receipts are less than $140.25 M originally appropriated in FY 14, a portion of the FY 14 Overcollections Fund appropriations listed above will likely be reduced.

The next issue of Focus on the Fisc will include a comparison table to highlight similarities and differences between the individual Cooperative Endeavor Agreements.

Interim LSU Public Hospital (ILH)

University Medical Center Management Corporation (UMCMC) signed a master lease agreement to operate the ILH hospital and clinics effective June 24, 2013. The master lease agreement also contemplates UMCMC operating the new university medical center upon its anticipated opening in early FY 17. Under the lease agreement UMCMC will pay an annual amount of $24,101,208 for use of the ILH hospital and clinic facilities, and an additional $9,878,816 for use of equipment, for total FY 14 payments equaling $33,980,024. The ILH lease payments are projected to end with the anticipated opening of the new university medical center in FY 17, at which point the annual lease payment is projected to increase by $35.4 M up to $63.4 M.

University Medical Center Lafayette (UMCL)

University Hospital and Clinics, Inc. (UHC) signed a master lease agreement to operate the UMCL hospital and clinics effective June 24, 2013. Under the lease agreement, UHC will pay an annual amount of $15,790,500 for the use of the UMCL hospital, associated facilities and equipment.

W.O. Moss Regional Medical Center (WOM)

Southwest Louisiana Hospital Association (SLHA) signed a master lease agreement to operate the WOM hospital and associated clinics effective June 24, 2013. Under the lease agreement, SHLA will pay an annual total of $2,487,000 for the use of the WOM hospital, clinics and equipment.

Earl K. Long Clinics (EKL)

Our Lady of the Lake Hospital, Inc. (OLOL), signed lease agreements for two clinics and sublease agreements for two additional clinics formerly operated by Earl K. Long effective April 15, 2013. OLOL signed a fifth lease agreement for the equipment used at the four clinics with the same effective date. Under the lease and sublease agreements, OLOL will pay an annual total of $1,732,707 for the use of the Perkins Road Clinic, $750,496 for use of the North Baton Rouge/Airline Clinic, $328,823 for the North Foster Clinic and $40,688 for the Leo S. Butler Clinic. OLOL agreed to reimburse an additional $202,935 to provide for operating costs associated with the North Foster Clinic. The total valuation of the equipment lease is still being negotiated, but OLOL will make a first year payment of $811,000 as an estimated, good faith credit. The total projected annual lease payments for the clinics are $3,055,649, and the total including equipment leases is $3,866,649.

The lease payments for all four clinics are to be adjusted on an annual basis to factor the latest Consumer Price Index (CPI) over-the-year growth factor. In the case of the sublease agreements (North Foster and Leo S. Butler), the CPI calculation is to occur annually on January 1st. In the case of the lease agreements (Perkins Road and North Baton Rouge), the CPI calculation will occur annually on the anniversary of the original lease agreement on April 15th. Because OLOL made its first lease payments in April of 2013, the FY 14 lease payments will include a pro-rata increase adjusted to the CPI for each of the clinics based on the respective lease adjustment dates. The LFO projects the FY 14 increase will be approximately $27,211 assuming a 3% CPI. This increases projected total clinic and equipment lease payments in FY 14 to $3,893,860.

Shreveport Hospital and E.A. Conway

The LSU Medical Center in Shreveport and E.A. Conway Medical Center in Monroe will cease operation as state-run hospitals on September 30, 2013. The Biomedical Research Foundation of Northwest Louisiana Hospital Holdings, L.L.C. (BRF) will begin operating these two hospital systems beginning on October 1, 2013. The proposed master lease agreement will require BRF to make annual payments of $38,763,891 for the use of the hospital and clinic facilities, plus an additional $5,936,109 for equipment leases. The total annual lease payments are projected at $44,700,000. The pro-rata lease payments for FY 14 (9 months operations) are projected to be $33,525,000.

Bogalusa Medical Center (BMC) – Agreement still under negotiation

The current proposed privatization agreement for the BMC provides for NEWCO, Inc. to take over operations

on a tentative date of January 6, 2014. Under the proposed lease agreement, NEWCO would make projected annual payments of $2,723,328 for utilization of the primary hospital facilities, $2,526,863 for a sublease payment associated with the Plaza Facility, and an additional operating cost payment of $920,000 associated with the Plaza Facility. NEWCO will also make an additional lease payment of $1,354,626 for equipment usage, resulting in total projected annual lease payments of $7,524,817. Due to the projected effective date in January of 2014, the LFO projects FY 14 payments to be half of the annual amount, or $3,762,409.

Huey P. Long Medical Center (HPL) – No CEA or lease agreement

During the 2013 Legislative session, the Jindal administration announced plans to close HPL in Pineville and move the hospital's operations to England Airpark. As such, the FY 14 budget includes funding for HPL as a public hospital only through September 30, 2013, assuming privatization of the facility after this date. The LFO has not received or reviewed a proposed CEA to privatize HPL. The hospital will expend its allocated operating funds after the first quarter of FY 14 without a private partner to operate the hospital.

The FY 14 budget includes nine months of anticipated lease payments associated with privatization of HPL but the LFO does not know the amount associated with the projected payments. Absence of lease payments from the privatization of HPL would result in a significant reduction of monies deposited in the Overcollections Fund in FY 14 and a corresponding current year budget shortfall.

Leonard J. Chabert Medical Center (LJC)

Under a Cooperative Endeavor Agreement, the Hospital Service District No. 1 of the Parish of Terrebonne, The Southern Regional Medical Corporation (a 501(c)(3) non-profit in which Terrebonne is the sole member) and the state agree to allow Terrebonne to take possession, use and occupy the LJC facility in order to continue providing medical education and clinical services. Under the agreement, Terrebonne will send $17,641,346 to the Department of Health and Hospitals to provide for Medicaid partner payments. These are not lease payments and will not be deposited into the Overcollections Fund. The LFO assumes the annual payments will increase according to adjustments in the CPI based on language included in the CEA and Right of Use and Occupancy documents.

FY 14 Advance Lease Payments

The state is anticipated to receive advance lease payments associated with the privatization of BMC and the EKL clinics during FY 14. The projected advance lease payments for BMC total $5.2 M, while the total for the EKL clinics total $2.85 M. In both instances, these advance payments are made to fulfill lease obligations in the future years of the lease contract term (up to the final 23 months in the case of BMC's 10 year agreement and the fifth year of payments for EKL). These prepayments will create funding issues for the state as the lease terms approach closure, as revenues generated from lease payments are currently allocated to provide for non-specified, recurring operating costs within higher education.

GENERAL GOVERNMENT

5-Year Baseline Projection & Budget Stabilization Fund

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

At the August 9, 2013 Joint Legislative Committee on the Budget (JLCB) meeting, the Division of Administration (DOA) presented the 5-Year Baseline Projection. According to the 5-Year Baseline Projection, the FY 16 imbalance is projected to be $562 M, which is approximately $330 M less than what should be illustrated. Prior to Act 420 (HB 452), current law (R.S. 39:94(C)(b.)) effectively provided that no deposits of mineral revenue shall be made into the Budget Stabilization Fund until the official forecast exceeds the SGF revenue collections for FY 08. This language allowed mineral revenues to flow into the SGF (for financing the state budget) as opposed to flowing into the Budget Stabilization Fund up to its current allowed maximum balance of $776.7 M. Act 420 (HB 452) provides that this section of law shall be null and void on July 1, 2015 (FY 16). This will result in mineral revenues flowing into the Budget Stabilization Fund as opposed to the SGF beginning in FY 16. The current Budget Stabilization Fund balance is approximately $444 M, and is allowed a maximum balance of $776.7 M. Based on these current parameters, approximately $330 M of mineral revenues could flow into the Budget Stabilization Fund in FY 16, as opposed to the SGF. Monies cannot be withdrawn from the Stabilization Fund unless revenue forecasts decline and a 2/3 vote of the legislature is obtained.

The changes to Title 39 in Act 420 are not illustrated in the FY 16 column in the 5-Year Baseline Projection. Thus, the $562 M imbalance is understated by approximately $330 M. The DOA contends the reason the $330 M Budget Stabilization Fund dedication is not included in the 5-Year Baseline Projection is due to the fact that the current adopted revenue forecast (May 2013) does not include this dedication as a result of Act 420. However, the current adopted revenue forecast also does not include the $25.6 M of anticipated revenue currently presented in the 5-Year Baseline (passage of Act 423 & Act 425). Thus, based upon this logic FY 14 may be overstated by $25.6 M. *Note: In its fiscal status statement, the DOA is anticipating Act 423 (HB 571) & Act 425 (HB 653) generating $25.6 M of additional SGF revenues. However, according to the Enrolled fiscal notes for these bills, the total anticipated revenue is approximately $5.1 M.*

State IT Consolidation

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

In July 2013, the Division of Administration (DOA) issued an RFP for a vendor to provide consulting and management support services for information

technology "policy, planning and transformation initiatives." The DOA anticipates awarding this contract in September 2013. Based upon discussions with the DOA, this vendor will study the state's current IT infrastructure, framework and current statewide IT costs and provide the DOA with a recommended plan for a new consolidated model for delivery of state IT services. The DOA anticipates any new IT consolidated plan to span over multiple fiscal years.

The specific state cost savings as a result of this new model for IT delivery is unknown at this time. However, savings could result in the current fiscal year and subsequent fiscal years in the following: software license consolidations, volume equipment purchases, platform consolidations (mainframes), shared services and staff reductions. At this time the DOA anticipates such savings to equate to approximately $6.5 M in FY 14. Any subsequent fiscal year savings will likely be built into the FY 15 Executive Budget.

The specific number of staff reductions is unknown at this time. However, the DOA anticipates a portion of these potential reductions to occur through normal attrition and not through civil service layoffs. In addition, it is possible that some of the agency IT personnel could be transferred from their existing state agency to the DOA depending upon the IT consolidation plan. According to the State Civil Service System, the total classified employee count of all IT employees in the state is approximately 1,200 individuals with total salaries of approximately $69.8 M.

Any FY 14 state budgetary adjustments will likely be approved via DOA in-house BA-7s. These budgetary adjustments will not require Joint Legislative Committee on the Budget (JLCB) approval due to Section 6B of Act 14 (HB 1). Section 6B of Act 14 provides language that allows the commissioner of administration to transfer functions, positions, assets and funds from one department to another related to the new IT delivery model.

Although the consolidation of IT delivery may result in a total net savings to the state, the potential does exist for costs to be incurred in order to facilitate such a transition. Some examples of the up-front costs may include: consultant fees (vendor completing the analysis and plan development of new IT delivery system), staff augmentation contractors (current state employees have existing responsibilities, thus vendors will likely be brought in to complete consolidation transitions) and the potential for new hardware purchases. These specific up front costs will not be known until the DOA and the consultants have determined a course of action.

Note: At this point in the process, the IT consolidation plan will most likely impact the cabinet agencies. It is unknown at this time if elected officials, higher education and off-budget governmental entities (boards & commissions, retirement agencies, etc.) would be included.

Bayou Corne State Expenditures

Evelyn McWilliams, Fiscal Analyst, mcwille@legis.la.gov

As of June 26, 2013, the state has incurred approximately $8.3 M in expenditures associated with its response to the Bayou Corne sinkhole incident since August 2012. Approximately $5.3 M or 64% of the expenditures provided are associated with a contract the Department of Natural Resources (DNR) has with the Shaw Environmental Group. The Shaw Group (including its subcontractors) is responsible for planning, testing and drilling activities to determine the cause of the sinkhole. The second major expenditure category includes costs for salaries and related benefits. Approximately $1.8 M or 22% of the total expenditures provide for salaries and related benefits for state employees (primarily scientists and enforcement personnel within various state departments). Other expenditure categories include the following: $0.6 M for equipment usage (boats, dump trucks, backhoes, Department of Environmental Quality's (DEQ) monitoring station and scientific equipment); $0.3 M for professional services contracts with other contractors responsible for drilling wells and performing testing activities; $127,727 for operating services, travel and supplies; and $112,672 for other charges.

The approximate amount incurred by each state agency responding to the incident is as follows: DNR $6.5 M; DEQ $0.6 M; DOTD $0.6 M; Public Safety Services (State Police and Liquefied Petroleum Gas) $0.3 M; Wildlife & Fisheries (WLF) $0.1 M; DHH Office of Public Health (OPH) $0.1 M; Governor's Office of Homeland Security & Emergency Preparedness (GOHSEP) $0.1 M. Although DNR has adequate budget authority to provide for the sinkhole expenditures, it lacks the cash required to pay for the expenses. DNR received a seed (loan) in the amount of $8 M from the State Treasury to provide for its sinkhole expenditures. DOTD utilized budget authority in the Capitol Outlay Bill (Act 23 of 2012), from the Secretary's Emergency Fund. GOSHEP received a $152,383 (IAT) appropriation in the FY 13 supplemental bill (Act 54 of 2013). DEQ, DPS, WLF and OPH utilized funding in its existing budget. The state has requested reimbursement from Texas Brine, the company responsible for the sinkhole incident, for all expenditures it has incurred in response to the sinkhole incident. If reimbursement is received, the state will be able to replace the revenue previously utilized to provide for the sinkhole expenditures. The Attorney General's Office has requested payment from Texas Brine for reimbursement of the costs the state has incurred in responding to the sinkhole incident. No payments have been received. On July 2, 2013 the Attorney General's Office filed suit against Texas Brine to recover the state's cost associated with its response to the sinkhole incident.

Mega-Project Development Fund & FY 14 SGF LED Project Commitments

Charley Rome, Fiscal Analyst romec@legis.la.gov

The Mega-Project Development Fund is reserved for projects that create over 500 new jobs or offer at least $500 M in federal dollars or private capital investment (not including the state's contribution). The state's share of the project typically can comprise no more than 30% of the total project cost as specified in the cooperative endeavor agreement (CEA). Projects associated with companies in bankruptcy threatening at least 500 jobs or military bases subject to realignment or closure are also eligible. *See Table 2 for a fiscal history and total uses to date.*

Mega-Project Development Fund (Table 2)	
Revenue:	
FY 07 Initial Deposit	$150,000,000
Act 513 of 2008 RLS	$307,100,000
Interest to date*	$16,150,278
TOTAL REVENUE	**$473,250,278**
Total Uses:	
Federal City	$125,000,000
NASA/Michoud	$55,500,000
Foster Farms	$50,000,000
SNF Holdings	$26,550,000
ConAgra	$32,400,000
CenturyLink	$3,300,000
IBM	$23,000,000
Schumacher	$1,500,000
Support Worker Supplement	$48,600,000
ULM School of Pharmacy	$4,500,000
TOTAL COMMITMENTS	**$370,350,000**
Various Fund Sweeps:	
Act 22 of 2011 RLS	$81,448,446
Act 597 of 2013 RLS	$3,400,000
Act 420 of 2013 RLS	$11,300,000
Total Resources Transferred	**$96,148,446**
TOTAL FUNDS AVAILABLE	**$6,751,832**

**Interest will continue to accrue until the money is removed from the fund so additional funds could be available depending on the timing of the use of the fund (as of August 2013).*

1.) The NASA/Michoud project is on informal hold by LED until the federal government's commitment to the space program is clarified. The Federal Government eliminated funding for the Constellation project in 2011 and NASA reports that Constellation is no longer an active NASA program.
2.) The CenturyLink Cooperative Endeavor Agreement committed the state to total incentive of $19.4 M with $3.3 M appropriated from the Mega-Project Development Fund in FY 12.
3.) The Schumaker project commitments total $9 M with $1.5 M paid through the Mega-Project Development Fund and $7.3 M through Capital Outlay.
4.) The IBM project commitment also obligates $34.1 M in SGF in total between FY 15 and FY 30.
5.) The Benteler Steel project commitment utilizes $20 M from the Mega-Project Development Fund in FY 14 that were previously allocated to the NASA/Michoud Project.
6.) In Act 22 of 2011, this amount was transferred from the Mega-Project Development Fund to the Overcollections Fund for use by various state agencies.
7.) In Act 597 of 2012, this amount was transferred from the Mega-Project Development Fund to the SGF for use by various state agencies.

FY 14 SGF State Commitments (Table 3)	FY 14 SGF
Northup Grumman near New Orleans	$3,267,265
Union Tank Car Alexandria	$2,595,500
CG Railway, Inc. New Orleans	$1,359,188
Nucor in St. James Parish	$4,019,563
St. Gobain Container in Simmesport	$1,200,000
EA Sports in Baton Rouge	$615,000
SNF Holdings in Iberville Parish	$1,280,000
Global Star in Covington	$352,782
Blade Dynamics at Michoud in New Orleans	$2,142,570
Lighthouse for the Blind in Baton Rouge	$150,000
Gameloft in New Orleans	$200,000
Ronpak in Shreveport	$790,000
Sundrop Biofuels in Central LA	$1,400,000
CenturyLink	$300,000
GE Capital	$106,407
Ameritas	$125,000
TOTAL FY 14 SGF	**$19,903,275**

LED Debt Service/State Commitments (20-931)
Over the last 3 fiscal years, the appropriation for LED debt service and state commitments related to the LED projects is allocated under Other Requirements (Schedule 20). *See Table 3.*

Act 597 of 2012 RLS Action Not Materialized (Update)

Travis McIlwain, General Govt. Section Director, mcilwait@legis.la.gov

Based upon updated information provided to the LFO by the State Treasury, to date there are approximately $31.4 M of Act 597 resources that have not been transferred to the SGF, MATF or Overcollections Fund that have been appropriated in FY 13.

Act 597 Resources Not Transferred For FY 13 (Table 4)	SGF	MATF	Overcollections
*NOAH Excess**	$10,000,000	$0	$0
Coastal Protection & Restoration Fund	$20,104,310	$0	$0
Go Zone Bond Repayments	$0	$3,684,414	$0
DOI Administrative Fund	$0	$96,743	$0
LA Fire Marshal Fund	$0	$755,406	$0
LA Help Our Wildlife Fund	$0	$1,647	$0
Utility & Carrier Insp. & Supervisor Fund	$0	$760,050	$0
NOAH	$0	$0	$6,001,250
TOTAL	**$30,104,310**	**$5,298,260**	**$6,001,250**

SGF Transfer – Act 597 provides for transfer of $141.5 M of FY 12 resources into the SGF and $116.9 M of FY 13 resources into the SGF. To date, there is a $20,104,310 transfer from the Coastal Protection & Restoration Fund that has not taken place. This fund transfer never took place due to the legal interpretation by State Treasury of Section 9 of Act 597 of the 2012 RLS. The language within Section 9 of Act 597 provides for the State Treasurer to transfer funds from non-recurring revenue of the Coastal Protection & Restoration Fund comprised of cash recognized from "prior year end surplus." The State Treasury interprets "prior year end surplus" to mean FY 12 resources only, while these

$20.1 M of Coastal Protection & Restoration Fund resources were originally appropriated with designated non-recurring SGF prior to FY 12. Also, the FY 12 ending year SGF resources were never deemed as a surplus by the REC. Act 420 provides for these resources to be transferred to the FMAP Stabilization Fund.

**Note: In addition to the $20.1 M of Coastal Protection & Restoration Fund monies that have not been transferred, Act 597 provided for the excess proceeds from the sale of NOAH to be transferred to the SGF (proceeds received in excess of $35 M). The FY 13 budget originally appropriated $10 M of this excess. Act 54 (FY 2013 Supplemental Appropriations Bill) reduced the $10 M SGF. Thus, there will be no specific SGF fiscal impact as a result of not generating $45 M from the sale/lease of NOAH ($35 M – Overcollections Fund, $10 M – SGF). The Overcollections Fund sources are discussed below and are reflected in Table 4 on page 5.*

Medical Assistance Trust Fund (MATF) Transfers – Act 597 originally provided for the transfer of various resources into MATF for FY 13 expenditures. The specific amount of resources not transferred include $3.7 M from GO Zone Bond receipts and approximately $1.6 M from various funds sweeps for a total not transferred of $5.3 M.

Overcollections Fund Transfers—Act 597 provides for the transfer of $74.1 M of various resources. However, since the NOAH sale/lease is generating $29 M, the Overcollections Fund will not receive $6,001,250 of originally appropriated FY 13 resources.

Southeast LA Veterans Cemetery (Slidell)
Matthew LaBruyere, Fiscal Analyst,
labruyerem@legis.la.gov

The LA Department of Veterans Affairs currently operates two cemeteries in Keithville and Leesville and is in the construction phase of a third Veterans Cemetery in Slidell, which is projected to open in February 2014. The new cemetery is situated on 82 acres within the LA National Guard's Camp Villere. The master plan of the cemetery calls for infrastructure consisting of five roads and eight burial site phases. The burial site phases will accommodate burials and the veterans' community for approximately 80 years. The construction of Phase I is currently underway and is being funded through the U.S. Department of Veterans Affairs (USVA) Cemetery Grants Program.

Phase I of the cemetery construction will be 15 acres, which will contain 3,306 graves and support burial needs for approximately 10 years. The grant amount from USVA for construction of phase one totaled $8,420,877. In addition to the 15 acres of gravesites, construction of phase one also includes construction of the primary road, administration building, committal shelter, and maintenance building.

Once the cemetery construction of phase I is complete, the department projects operational costs for the remaining 5 months of the fiscal year to be approximately $155,000. This amount includes funding for 4 positions and related benefits ($84,393), travel ($3,294), operating services ($23,000), IAT ($4,364 - telephone), supplies ($20,000), and acquisitions ($20,000). Originally, the cemetery was to be funded at $203,168. However, since the completion date was pushed from October 2013 to February 2014, the funding was reduced by a Preamble cut of $48,117.

To the extent, the Slidell cemetery is funded in FY 15 at a comparable amount to the Keithville and Leesville cemeteries, an additional $245,00 in SGF will be needed to cover expenditures. The additional $245,000 SGF will increase the Slidell cemetery budget to approximately $400,000. The majority of the increase will be a result of fully funding the original 4 T.O. and increasing the T.O. from 4 to 8. The additional T.O. added would be 4 horticultural attendants. The cost of salaries and related benefits for these 4 T.O. would be approximately $151,000. It should also be noted that for each burial, the department would be reimbursed $700 by the USVA. The reimbursement for burials may result in a decrease in SGF once burials become more prevalent.

The projected FY 15 budget for the Slidell cemetery is merely an approximation and the FY 15 budget request is unknown.

REVENUE

Economic Impact Analysis and Incentives-Subsidies
Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The Joint Legislative Committee on the Budget (JLCB) recently held two meetings to approve three cooperative endeavor agreements between the State, via the Department of Economic Development (LED), and private companies involving investment projects being carried out by the firms and incentive-subsidies being provided by the State. Approval of two of the agreements was delayed from the first meeting, pending the provision of more information from LED and analysis by the Legislative Fiscal Office. These two agreements were subsequently approved at the second meeting. This provides an opportune time to discuss the use of economic impact analysis in the decision to provide packages of incentives-subsidies to private investment projects in general, and some of the various associated issues.

In developing incentives-subsidies packages to provide firms making investments in the state, LED will often augment its own internal assessment of a project's estimated economic and fiscal impact with a report commissioned from the LSU Division of Economic Development in the College of Business. These reports typically summarize the estimated results of adding the project to the economy in terms of total effect on employment, household earnings, gross business sales, and state tax receipts. State incentives-subsidies (fiscal costs) are then, essentially, structured to be less than the project's associated state tax receipts (fiscal benefits). This becomes the basis for the position that the incentives-subsidies do not impose a net cost on the state fisc, and that they actually generate more state benefits than they cost.

However, a close look at typical economic impact analysis and incentives-subsidies suggests that the state fisc does in fact incur net costs. Typical economic impact analysis tends to overstate true economic impacts and consequent fiscal benefits, and typical incentives-subsidies packages tend to understate the true total fiscal costs. The overstatement of economic impacts and fiscal benefits stems primarily from two factors, the nature of the underlying methodology of most impact models, and the omission of a state government balanced budget constraint. The understatement of total fiscal costs stems from the narrow focus on only the incentives-subsidies included in a project's agreement. In addition, the influence of incentives-subsidies on business investment actions is marginal. These realities combine to result in net fiscal costs to the state budget associated with economic development programs, just as is the case with all other government programs such as education services, health care, roads and bridges, law enforcement and corrections, and any other government activities.

Typical economic impact analysis is based on input-output models, the basis of which are national level estimates of the units of inputs necessary to produce a unit of output by each industry, at the point in time that the underlying industry relationships are measured. The model used by LSU for LED (the Implan model) is commercially available and widely used. This type of model does not account for certain realities of the economy. Crucial among the model assumptions are a proportional relationship between inputs and outputs, a lack of any supply constraints, and no affect on wages and prices by the spending being evaluated. This means that no matter how large the change in direct economic activity due to the new project, an unlimited amount of all inputs will be available to supply that activity in the same proportions as measured when the model was created with no affect on any wages and prices. If the project requires thousands of construction workers to build, and a large number of workers to operate, the model estimates the economic impact of those requirements without any consideration of the actual availability of those workers and the consequent upward pressure on wages that all firms will face. From a household consumption perspective, the model assumes that if earnings rise by 10%, 20%, or 30%, for example, then households will purchases 10% more, 20% more, or 30% more of all the same goods and services in the area that they purchased before their earnings increased. These model assumptions are clearly not realistic and result in the model overestimating the total economic and fiscal benefit of the project in question.

The balanced budget constraint of state government is almost always not recognized in impact analysis. Since state government has to balance its budget each year, devoting public resources to the support of a particular project (via infrastructure spending, cash payments directly to the firm, payroll subsidies, rebates of previously paid sales taxes etc.) necessarily foregoes the use of those resources for any other purpose. The reduction of expenditures elsewhere in the government budget should be included in the impact analysis as a negative change in spending with consequent negative effects in the overall economy, dampening the total effect on employment, household earnings, gross business sales, and state tax receipts. Omission of this reality is essentially a claim that the same dollar can be spent in both the public sector and the private sector simultaneously. This is obviously not possible, and this omission works to overstate the economic and fiscal benefits of the project in question.

From the fiscal cost perspective, it is the total costs associated with a project that matters, not just the costs of only the incentives-subsidies enumerated in an agreement regarding the direct employment and expenditures of the project firm itself. Much of the total economic impact of a project can be associated with the employment and spending by firms that supply to the project firm and from purchases by employees of the project firm and its supplier firms (the indirect and induced impacts of the project, as opposed to only the direct effect of the project itself). Not only are these effects the least reliable components of the impact analysis, some portion of these effects will themselves be eligible for various state incentives-subsidies through programs such as Enterprise Zones and Quality Jobs. These costs are not counted in the agreement with the project firm but will be costs borne by the state none-the-less. In addition, the project firm may be eligible for other incentives-subsidies that are not specifically included in the agreement, such as reimbursement by the state for local property taxes on inventory, and research & development costs, or natural gas severance tax rebates etc. Thus, the specific fiscal costs included in agreements are likely to understate the total fiscal costs to the state.

The contention that incentives-subsidies pay for themselves in terms of fiscal benefits rests on the implicit assumption that the fiscal benefits were caused solely by the fiscal costs; that is, the incentives-subsidies are what caused the firm's investment and hiring decision. That is a very strict assumption, and means that all other business fundamentals such as labor costs and productivity, transportation costs, access to key inputs, land and energy costs etc. are essentially of no consequence. This is obviously unrealistic, and to the extent these other factors actually influence the firm's decisions the estimated gross fiscal benefits should be discounted to reflect only those benefits attributable to the incentive-subsidies. Given the typical small amount that incentives-subsidies are in relation to the firm's total cost structure, the appropriate discount is likely to be large, and gross fiscal benefits generated by impact analysis are likely to overstate the relevant fiscal benefits to the state.

There are other reasons economic and fiscal benefits tend to be overstated, as well. These models do not account for what is referred to as cross hauling. Often, goods and services are imported from outside a region even though there

Major Revenue Collections Summary For July 2013

Greg Albrecht, Chief Economist, albrectg@legis.la.gov

July is a difficult month to interpret because it marks the transition from one fiscal year to another. Much of the cash collections in July will accrue back to the FY 13 books, although it is also the first cash month of the new fiscal year, FY 14. The final collections for FY 13 will be materially influenced by the accrual process occurring in July and August, and a discussion of those final collections will be provided in a later newsletter. For July, some comments on the cash collections can be provided at this point.

Most notable is the continuing poor performance of the general sales tax, with July 2013 coming in 9.4% less than July 2012. This important tax has failed to gain traction since FY11, with a 1.1% drop in FY 12 and another drop possible for the FY 13 year. Since no significant tax rate and base changes have been made since FY 10, two years of flat or falling collections reflect very weak conditions in households and businesses. This tax makes up roughly a quarter of state tax receipts and such a continued reticence to spend is worrisome for the FY 14 outlook, which currently assumes 3.6% growth in this tax.

In contrast to the general sales tax performance has been the improvement in the personal income taxes in the second half of FY 13, with 11.9% growth during the cash fiscal year through June. However, July 2013 collections were only 5.9% greater than July 2012. Some of the strong performance in 2013 finish may be attributable to the shifting of income into the 2012 tax year to avoid federal tax increases effective in 2013. The bulk of the income tax collections come in through withholdings, and those collections exhibited 5.7% growth in the cash year of FY 13; not an outsize growth rate, and more indicative of the FY 14 outlook than the filing season of 2013.

(Continued on the following page)

is an adequate supply produced within the region, but the models assume that the local suppliers are being utilized even when they are not. To avoid this problem, the analysis must use a detailed bill-of-goods approach that excludes these purchases from the direct spending of the project. This is difficult to do and is often overlooked in these analyses. Additionally, project spending should be permanent or persistent enough to allow its effects to fully work through the economy. Construction phases are often not persistent enough for this to occur, meaning that less hiring and purchasing from the local economy actually occurs than these impact models estimate.

Finally, the length of time it takes for economic effects to fully work through the economy is uncertain and not accounted for in these models. Results essentially imply an instantaneous response throughout the economy in a single year, when actual time frames can be much longer, especially if the size of the region of study is large. Most impact analysis for state projects encompasses a statewide region. In addition, whatever annual effects actually do occur ultimately depend on the timing and magnitude of actions by the project firm. Thus, annual estimates of impact benefit and costs are particularly variable and uncertain.

Economic impact analysis can inform policymakers of the general magnitudes and effects of projects and programs, once various qualifiers and cautions are realized. It can be useful in comparing and ranking projects along various metrics, and can help decide which are of high enough value to devote limited public resources. However, the absolute amounts of estimated benefits and costs, annual and cumulative, cannot be relied upon for budgeting decisions, and do not provide a justification for the use of public resources on the basis of fiscal benefits exceeding fiscal costs. Economic development programs and incentive-subsidies packages are costs to the public fisc just as any other government program or expense is a cost.

HEALTH & HOSPITALS

Medicaid Trust Fund for the Elderly Fund Balance

Shawn Hotstream, Health & Hospitals Section Director, hotstres@legis.la.gov

The Medicaid Trust Fund for the Elderly (MTFE) contains non recurring revenues (with the exception of any interest earned on the corpus of fund revenues) that are utilized for nursing home payments as authorized under revised statutes (R.S. 46:2691). The revenues deposited in the fund were initially generated through an intergovernmental transfer (IGT) in which non state public nursing homes provided a state match source to pull down federal matching funds for Medicaid supplemental payments (Upper Payment Limit reimbursement) for eligible expenses in these facilities. State Treasury fund balance documents reflect initial federal receipts of $306 M deposited into the fund in 2001, and reflect total federal receipts in excess of $800 M deposited into the Medicaid Trust Fund for the Elderly from multiple IGT's (not including interest on the corpus of the fund). Specifically, these Statutorily Dedicated revenues are used for annual nursing home rate rebasing, or re-calculation of the per day rate paid to certain nursing facilities for Medicaid patients.

The FY 14 Medicaid budget contains approximately $183.5 M in Statutory Dedicated revenue from the Medicaid Trust Fund for the Elderly. These funds, in addition to other revenue sources allocated for nursing home payments, are used as a state match source to draw federal financial participation. In FY 14, these statutory dedication revenues will draw approximately $312 in federal matching funds. The balance in the MTFE is approximately $410 M as of July 2013 (including the FY 14 appropriation). Based on the current level of MTFE revenue appropriation allocated in FY 14 and historical interest earnings of the fund *(See Line Graph below)*, significant SGF replacement revenue is anticipated in FY 16 Medicaid budget for nursing home payments. Based on a zero fund balance projection in the MTFE, the 5-year continuation budget reflects $244 M in SGF replacement

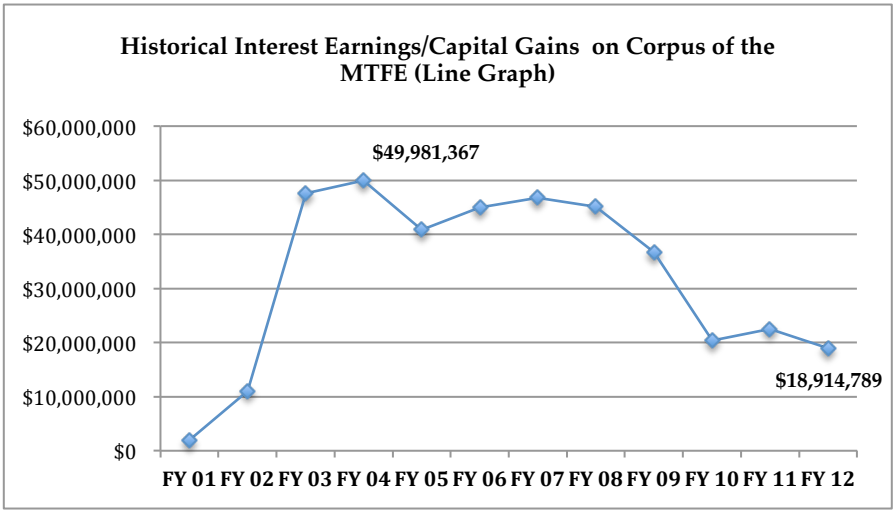
Although monthly corporate collections tell us little about annual performance, and these monthlies exhibit wide variation, corporate was one of the strong taxes during much of FY 13. Cash collections in FY 13 were 21% greater than FY 12. However, July 2013 collections were actually negative (more refunds than gross collections). Not until the accrual total is determined do we know how FY 13 actually finished for budget purposes. The FY 14 forecast is held the same as in FY 13. Thus, the FY 14 outlook is heavily dependent on the FY 13 finish. Regardless, one-half to two-thirds of these collections arrive in the last quarter of the fiscal year and the accrual process can be crucial. It is practically impossible to have confidence in this tax at any point during the fiscal year.

Severance tax finished the cash FY 13 with only very slight growth over FY 12, while royalty receipts finished the cash year 13% below the prior year. Accrual adjustments will determine the actual performance and those adjustments can be substantial, especially in royalty collections. The outlook for severance is very modest while royalty requires more growth. Much relies on energy prices and uncertainty here is always material.

Overall, after the May 15, 2013 REC upward forecast revision, total tax revenue for FY 13 is expected to experience very modest growth of 0.8%, and general fund tax revenue is expected to grow by only about 0.5%. There has been a mixed bag of performance, and this may suggest a turning point in revenue performance overall. The outlook for FY 14 calls for about 2% total tax growth and 3% general fund growth. These expectations will be re-evaluated once FY 13 actual collections are known, and will likely change. There is some optimism looking forward, with the question largely one of degree. However, the forecast in place already expects $248 million of general fund revenue growth for FY 14. Thus, much of any optimism may already be built into the revenue forecast.

funds will be required beginning FY 16-17 to draw federal matching funds to sustain projected nursing home payments.

$410,860,765 – FY 14 MTFE Fund Balance (State Treasury Fund Statement)
($183,505,794) – FY 14 MTFE allocation for nursing home payments
$227,354,971 – FY 15 Projected Fund balance (not including interest/gains)



New Family Cost Participation for the Early Steps Program
Patrice Thomas, Fiscal Analyst, thomasp@legis.la.gov

The Early Steps Program is Louisiana's early intervention system administered by the Office for Citizens with Developmental Disabilities (OCDD). Currently infants and toddlers aged birth to three years (36 months) who have an established medical condition likely to result in a developmental delay or who have developmental delays are eligible for services. With the enactment of Act 417 (HB 375) of the 2013 Legislative Session, some families receiving services for their child(ren) through the Early Steps Program will have a co-pay. Act 17 establishes Family Cost Participation, a sliding fee scale with a maximum monthly cap based on the Federal Poverty Level (FPL). While some Early Step services will continue to be available at no cost to all families, families earning at least 300% of the FPL will have a co-pay for many Early Step services. The maximum co-pay will be subjected to a monthly cap per family based on 3% of their annual income.

Early Steps Family Cost Participation Scale* (Table 5)

	300%	350%	400%	450%	500%
Income - Family of 4	$70,668	$82,446	$94,224	$106,002	$117,780
Co-Pay/Per Hour Service Cost	$18	$21	$23	$27	$30
Max. Monthly Cap	$176	$206	$235	$265	$294

**Based on the 2013 Federal Poverty Level*

Services Available at No Cost: Referral services, Evaluation & Assessment, Development of the Service Plan, Case Management or Support Coordination, and Implementing the family protections in the Early Intervention System.

Services Subject to Cost Participation: Occupational Therapy, Physical Therapy, Speech Therapy, Audiology, Psychology, Special Instruction, Vision & Hearing Services, Counseling, Social Work, Health, Medical, and Nutrition Services.

For example, a family of four at 300% of the FPL has earnings of at least $70,668. The family will have an $18 per hour co-pay for services and a maximum monthly cap of $176. Families of four earning less than $70,668 will continue to receive all Early Step services at no cost. *See Table 5*.

In FY 14, the Early Steps budget is $16.4 M ($8.2 M SGF, $1.8 M SGR and $6.4 M Federal). Implementation of the Family Cost Participation is anticipated to generate $1.8 M in SGR in FY 14. If the $1.8 M is not generated, some children become ineligible for services due to changes in eligibility criteria. Family Cost Participation is a continuation of efforts by the Department of Health and Hospitals (DHH) to sustain the Early Steps Programs with limited State General Funds. In May 2012, OCDD/DHH implemented more restrictive eligibility criteria for children to qualify for Early Steps resulting in approximately 2,500 children becoming ineligible to receive Early Step services.

Closure of Children's Special Health Services Clinics
Patrice Thomas, Fiscal Analyst, thomasp@legis.la.gov

The Children's Special Health Services (CSHS) Program in the Office of Public Health (OPH) within the Department of Health and Hospitals (DHH) ensures that children who have special health care needs in Louisiana have access to health care services designed to minimize their disabilities and maximize their probabilities of enjoying independent and self-sufficient lives. The CSHS Program provides direct sub-specialty medical care in state-operated regional clinics to children who have special health care needs. As a result of reduced funding in FY 14 of $794,000, beginning in July 2013, OPH will close 4 regional sub-specialty clinics and start transitioning children with special health care needs that received services from those clinics to private providers. *See Table 6.*

Region (Table 6)	Sub-Specialty	# of Children
Region 2 - Baton Rouge	Pediatric Orthopedic	153
	Cleft Lip & Palate	19
Region 4 - Lafayette	Neurosurgery	53
	Urology	29
Region 5 - Lake Charles	Neurology	34
	Urology	6
Region 9 - Hammond	Neurology	12
	Ophthalmology	19
Total		**325**

Clinics in the following regions will remain open: Region 3 – Houma/Thibodeaux, Region 6 – Alexandria, Region 7 – Shreveport, and Region 8 – Monroe. The CSHS clinics in Region 1 – New Orleans were closed in December 2010. In addition to closure of clinics, the CSHS will reduce and restructure contract funding by $270,000.

During the transition, OPH will provide families with care coordination to ensure that all children receive medical care. Families will be impacted during this transition. If they have Medicaid, some families may need to switch to Bayou Health and will no longer attend a CSHS clinic. Also, families with children already in Bayou Health may be required to switch health plans if they transition to a private provider that is not in their current plan's provider network.

EDUCATION

Course Choice Pilot Program
Mary Kathryn Drago, Education Section Director, dragom@legis.la.gov

The demand for the Course Choice Pilot Program has exceeded the initial available slots. Originally, the funding that was made available was intended to serve at least 2,000 students. The Department of Education (DOE) indicated as of Friday August 16th, over 3,500 requests have been received for students to enroll in courses for the 2013-14 school year. Out of the total requests, school's guidance counselors have approved approximately 2,800 students to enroll in the course selected by the student, while other students are waiting approval by a counselor or to be advised that they are not eligible to enroll in the course. Students will have until August 27th to register for courses so these number will likely increase.

Public school students may enroll in Course Choice courses at no cost if they attend a C, D, or F school or if the A or B school they attend does not offer the course they want to take. Initially, the program was being funded with $2 M from statutorily dedicated 8(g) funds instead of the Minimum Foundation Program (MFP) due to the LA Supreme Court ruling the use of MFP funds as unconstitutional. The Board of Elementary and Secondary Education had to approve changes to the 2013-14 8(g) budget to allow for the funding to be used for the program. A reduction of $1 million was approved to the block grant piece of the 8(g) budget, which reduced the base amount and per pupil amount each entity would have received. These funds may have been used for activities such as Pre-K or other instructional activities. In addition, $800,000 was reduced from the LEAP allocation as well as a $200,000 reallocation of Expanding High School Choice activities. These changes allowed for $2 million to be available to fund the Course Choice Program.

Due to the significant number of students attempting to enroll in courses, the DOE announced on August 15th that they have made an additional $1 M available for the program. The DOE has discontinued the administration of the Iowa Test of Basic Skills in 2nd grade as well as making cuts in the budget to travel and overhead expenses to come up with the $1 M in funding. The total funding available for the program is $3 M. The DOE anticipates this funding level will be sufficient to account for the students enrolling through the August 27th deadline.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

July 2013

Volume 2, Issue 1

INSIDE THIS ISSUE

1 Focus Points
2 Major Money Bill Summary
3 FY 14 Overcollections Fund Appropriations
4 FY 14 SGF Fiscal Status
4 Tobacco Master Settlement
5 Cash Balance Plan Update
5 State Police Training Academy
6 Higher Education Funding
7 FY 14 MFP
7 Baseline Revenue Update & Fiscal Notes
8 FY 14 Medicaid Outlook
9 FY 14 Medicaid Funding

John D. Carpenter, Legislative Fiscal Officer
Evan Brasseaux, Staff Director

Economic Section
Greg Albrecht, Chief Economist
Deborah Vivien, Economist/Fiscal Analyst

Education Section
Mary Kathyrn Drago, Section Director
Charley Rome, Fiscal Analyst

Health & Hospitals Section
Shawn Hostream, Section Director
Patrice Thomas, Fiscal Analyst

General Government Section
J. Travis McIlwain, Section Director
Alan Boxberger, Fiscal Analyst
Stephanie Blanchard, Fiscal Analyst
Matthew LaBruyere, Fiscal Analyst
Evelyn McWilliams, Fiscal Analyst

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel
Jean Pedersen
Rachael Feigley

LEGISLATIVE FISCAL OFFICE
900 North 3rd Street (P.O. Box 44097)
State Capitol Building, 18th Floor
Baton Rouge, LA 70804

Phone: (225) 342-7233, Fax: (225) 342-7243
Website: lfo.louisiana.gov

FROM THE DESK OF THE FISCAL OFFICER

Honorable Members of the State Legislature,

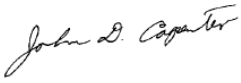
On behalf of your Legislative Fiscal Office, I am pleased to present the new and improved Focus on the Fisc. The intent of this interim publication is to provide succinct factual information on fiscal issues facing our state. As in previous editions, the analyst that prepared each article is provided. These analysts are prepared to discuss their issue and provide any additional information you may need. We encourage you to contact them.

The topics presented in this edition are generally the major fiscal issues discussed in the past legislative session. This is your publication. If there is any way it can be made more useful including additional topics for research and inclusion in one of our upcoming publications, please contact us.

I am also pleased to announce the accomplishments of two members of our staff. Shawn Hotstream and Stephanie Blanchard presented comparative data reports at the Southern Legislative Conference in Mobile, Alabama that ended on July 31, 2013.

Shawn Hotstream, Section Director, prepared and presented a report on Medicaid. Stephanie Blanchard, Fiscal Analyst, prepared and presented a report on Adult Corrections. These reports are two of five reports presented at the conference. The Legislative Fiscal Office has prepared and presented these two reports for over ten years. The reports on Medicaid and Adult Corrections are available on the LFO website and all five are available at the SLC website.

Look for the next edition at the end of August.



John D. Carpenter
Legislative Fiscal Officer

FOCUS POINTS

Repeal of Section 4 of Act 597, Creation of the FMAP Stabilization Fund, and Excess Mineral Revenue

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov
J. Travis McIlwain, General Govt. Section Director, mcilwait@legis.la.gov

Act 420 (HB 452) repeals Section 4 of Act 597 of the 2012 Regular Legislative Session, which required the Revenue Estimating Conference (REC) to promulgate FY 12 actual revenue collections. The state treasurer was directed to deposit into the Budget Stabilization Replenishment Fund (newly created by Act 597) the difference between those actual collections and the official forecast of those collections for FY 12 adopted on 4/24/2012, up to a maximum of $204.7 M. The state treasurer was then directed to transfer these same funds from the new Replenishment Fund into the Budget Stabilization Fund (commonly referred to as the Rainy Day Fund). This provision effectively returned to the Budget Stabilization Fund any unnecessary amount that was withdrawn late in the fiscal year to support the FY 12 budget. Relative to the April 24 forecast for FY 12, SGF revenue collections were $203.8 M greater than expected. After an adjustment for a portion utilized in the FY 13 operating budget ($78.3 M Go Zone Bond Repayments), $125.5 M of these excess collections were subject to be returned to the Stabilization Fund, as per the provisions of Act 597.

In addition, Act 420 (HB 452) creates the FMAP Stabilization Fund directing the state treasurer to deposit into

this new fund the difference between the official forecast for FY 12 adopted on 4/24/2012 and actual collections of revenue for FY 12 as promulgated by the Joint Legislative Committee on the Budget (JLCB), up to a maximum of $113,220,807. The General Fund Fiscal Status Statement is submitted each month to the JLCB, and contains a section titled "FY 2011-2012 Fiscal Status Summary". This summary reports a state general fund budget surplus of $113,220,807 for FY 12. However, the official forecast of revenue for FY 12 adopted on 4/24/12 was $7,861.7 M, and the actual collections of those forecasted revenues was $7,973.377 M; resulting in a difference of $111.677 M to be deposited into the new FMAP Stabilization Fund. These monies have been appropriated in Act 54 of 2013 (HB 678), the supplemental appropriations bill for FY 13, for the Payments to Private Providers Program (09-306 Medical Vendor Payments) in the Dept. of Health and Hospitals ($113,220,807 appropriated).

The repeal of Section 4 of Act 597 and the creation of the FMAP Stabilization Fund allow the FY 12 surplus to be utilized in the operating budget. Without these actions and per normal practice of the REC, these revenues would typically be designated as nonrecurring revenue. Such a designation would limit the use of these monies to the constitutional purposes in Article VII, Section 10(D)(2).

Prior to Act 420 (HB 452), current law (R.S. 39:94(C)(b.)) effectively provided that no deposits of mineral revenue shall be made into the Budget Stabilization Fund until the official forecast exceeds the SGF revenue collections for FY 08. This language allowed mineral revenues to flow into the SGF (for financing the state budget) as opposed to flowing into the Budget Stabilization Fund up to its current allowed maximum balance of $776.7 M. Act 420 (HB 452) provides that this section of law shall be null and void on July 1, 2015 (FY 16). This will result in mineral revenues flowing into the Budget Stabilization Fund as opposed to the SGF beginning in FY 16. The current Budget Stabilization Fund balance is approximately $444 M, and is allowed a maximum balance of $776.7 M. Based on these current parameters, approximately $330 M of mineral revenues could flow into the Budget Stabilization Fund in FY 16, as opposed to the SGF. Monies cannot be withdrawn from the Stabilization Fund unless revenue forecasts decline and a 2/3 vote of the legislature is obtained.

GENERAL GOVERNMENT

Major Money Bill Summary

J. Travis McIlwain, General Govt. Section Director
mcilwait@legis.la.gov

Act 14 (General Appropriations Bill), Act 420 (Funds Bill), Act 54 (Supplemental Appropriations Bill) and Act 24 (Capital Outlay Bill) all played a role in crafting the FY 14 operating budget. Act 420 (HB 452 – Funds Bill) transfers a total of approximately $525.7 M of various resources for utilization in the FY 14 budget or the FY 13 budget via the supplemental appropriations bill. In addition to the normal spending and funds bills, the FY 14 budget has anticipated SGF resources appropriated as a result of the enactment of Act 421 (HB 456), Act 423 (HB 571) and Act 425 (HB 653). *See table 2 on page 4 that summarizes the results of these various legislative instruments for FY 14 SGF.*

Non-SGF Resources Utilized in FY 14 Budget

Below is a listing of the major resources utilized in the FY 14 operating budget that were transferred by Act 420 (HB 452 – Funds Bill) into the Overcollections Fund or SGF in FY 14.

$140,250,000 Hospital Lease Payments – Provides for state agencies to deposit into the state treasury all receipts of lease payments for the lease of state hospital buildings and then provides for the state treasurer to transfer all payments for the lease of state hospital buildings to the Overcollections Fund. These receipts are associated with the newly formed public/private partnerships. The Division of Administration (DOA) is anticipating collecting $140,250,000.

$64,771,871 Legal Settlements – Provides for legal settlement proceeds from pharmaceutical companies to be transferred into the Overcollections Fund. Absent this legislation, a portion of these settlement proceeds would have likely been deposited into the DOJ Legal Support Fund and the Medical Assistance Programs Fraud Detection Fund. There is $64,771,871 of pharmaceutical legal settlements built into the FY 14 budget.

$20,000,000 Department of Revenue Fraud Initiatives – Provides that any amount over $3 M in recurring SGF revenue that is generated as a result of an additional fraud initiative within the Department of Revenue (LDR) is to be deposited into the Overcollections Fund. This is essentially a dedication of state general fund without a clear limit. The estimated value of the dedication is currently is $20 M, which has been calculated without substantial accuracy or certainty since the performance, or even the definition, of the fraud initiatives is unknown. Currently, these collections are included in the SGF forecast and are budgeted as such. The DOA indicates that such revenues are only those associated with the Lexis Nexis contract with LDR.

$28,284,500 Go Zone Bond Repayments – Provides for the transfer of loan repayments received from political subdivisions into the Overcollections Fund in the amount of $28,284,500. Absent this legislation, the $28.3 M of payments would otherwise flow into the SGF. Act 41 of the 2006 First Extraordinary Legislative Session authorized the state to issue state general obligation bonds pursuant to the Gulf Opportunity Zone Act of 2005 (Go Zone), which provided debt relief to various political subdivisions. The provision of the congressional act provided $200 M in gulf tax credit bonds with a state match of $200 M (General Obligation Bonds). There are currently 11 political subdivisions (2 have paid their debt in full) that owe the DOA a total of approximately $303.9 M in principal and $111.5 M in interest ($415.3 M). To date, the DOA has collected approximately $119.3 M in payments, which includes $77.9 M from the New Orleans School Board (paid entire debt in full in FY 12) and $18 M from the Orleans Parish Law Enforcement

District (paid entire debt in full in FY 13).

$10,000,000 Excess IAT/SGR Collections – Provides for the transfer of excess collections from IAT and SGR of at least $10 M into the Overcollections Fund. Unless noted in the appropriations bill, annual overcollections of SGR and/or IAT revenues revert to the SGF at the end of the fiscal year and are reported as part of the CAFR balance. This Act appears to recoup these excess resources before they become part of the CAFR balance at the end of the state's fiscal year. For illustrative purposes, last year the State Treasurer received approximately $41 M of SGF reversions from SGR and IAT overcollections from various agencies ($32.6 M - SGR, $8.4 M - IAT). Since more than half of these excess collections are received from the Department of Insurance ($15.4 M in FY 12) and the Office of Financial Institutions ($11.4 M in FY 12), the adopted revenue forecast is already projecting the SGF to receive $22 M in FY 14. Thus, this Act directs the state treasurer to transfer the remaining projected excess resources to the Overcollections Fund before these resources become part of SGF surplus.

$5,000,000 LPAA Resources – Provides for the transfer of $5 M of resources from the LPAA to be transferred into the Overcollections Fund. The LPAA is an ancillary agency that manages the state's moveable property and ensures that all state agencies comply with the State Property Control & Fleet Management Regulations. LPAA's main source of revenues is surplus auction sales of used state equipment and vehicles. In FY 12, the agency generated $5.4 M of SGR from sales of assets in FY 12. Revenues generated from the auction of state property accrues to either the selling agency or the LPAA, depending upon the original funding source used for the purchase of such property. If the property was purchased with federal grant funds, SGR or Statutory Dedications, the LPAA typically receives 20% of the proceeds, while the selling agency receives 80%. If the property was purchased with SGF, the LPAA receives the full amount generated from the auction. Because the LPAA is an ancillary agency, the agency keeps all unexpended funds from year-to-year. Based upon the FY 14 budget request, LPAA has approximately $7.3 M of prior year cash carryover. This bill seeks to transfer $5 M of this carryover amount into the Overcollections Fund.

$44,620,000 Various Property Sales – Provides for the sale receipts of various state properties to be transferred into the Overcollections Fund. The state properties to be sold and amounts included within the bill are as follows: $12 M - Pointe Clair Farms, $2 M - various Department of Wildlife & Fisheries (WLF) properties, $10.25 M - Baton Rouge State Office Building, $17.84 M - Southeast Hospital property, $350,000 - Wooddale Towers, $2.18 M – Hart Parking Garage Property. These anticipated sale revenues have been built into the FY 14 budget. Revenues generated from these sales would have otherwise likely flowed into the SGF, except for $17.84 M (Southeast Hospital Property), which would have flowed into the DHH Facility Support Fund and the $2 M from various WLF properties would have flowed into the Conservation Fund. Note: This bill provides for the sale receipts of other various property sites to be transferred into the Overcollections Fund. These sale receipts have not been built into the FY 14 budget. However, to the extent these property sales occur, proceeds would be available for FY 14 or FY 15 appropriation. Thus, there are no dollar amounts listed within the bill for these properties. The listed properties include: Greenwell Springs Hospital property, Pines Campus property, Southern Oaks Addiction Recovery property, Bayou Region property, and MDC Apartment property.

$13,132,881 excess SGR from the Department of Revenue – This amount represents excess SGR from the Charitable Gaming Program ($4.9 M), the Tax Collection Program ($5.9 M) and Alcohol, Tobacco & Firearms ($2.4 M).

$2,000,000 LA Housing Finance Agency (LHFA) – Provides for the LHFA (or newly created LA Housing Corporation) to transfer $2 M to the Overcollections Fund. The FY 13 budget includes $11 M from LHFA resources.

$16,000,000 Self-Insurance Fund – Provides for the transfer of $16 M from the Office of Risk Management's Self Insurance Fund to the Overcollections Fund.

$31,509,639 Funds Sweeps – Act 420 (HB 452) provides for the transfer of approximately $31.5 M from various funds into the Overcollections Fund for FY 14 expenditure.

Act 14 (HB 1) appropriates these transferred Overcollection Fund resources as follows:

FY 14 Overcollections Fund Appropriations (Table 1)	FY 14 Amount
Board of Regents (Higher Education)	$294,265,343
Termination Pay (Hospital Employees)	$24,000,000
Casino Support Contract	$3,600,000
Judgments	$12,000,000
Department of Justice	$4,563,971
Higher Education Boards	$40,000,000
DOTD Regional Districts	$36,000,000
FY 14 Appropriated Total	**$414,429,314**

Below is a listing major resources being transferred into the SGF for FY 14 expenditure.

$33,701,856 Funds Sweeps – Act 420 (HB 452) provides for the transfer of approximately $33.7 M from various funds into the SGF for FY 14 expenditure. These resources are listed in table 2 on page 4.

$4,201,724 Legislative Capitol Technology Fund – Act 14 (HB 1) provides for the transfer of $4.2 M from the Capitol Technology Fund into the SGF for FY 14 expenditure. As of June 2014 the State Treasury reports a cash balance of $2,946 within this fund. Although the current cash balance of the fund is $2,946, pursuant to R.S. 24:39 $10 M of SGF is transferred into this fund annually. Thus, on July 1, 2013, this fund will have an additional $10 M available for transfer to the SGF. However, Act 378 (HB 477 – Funds Bill) of the 2011 Regular Legislative Session provides for the transfer of $6.8 M to the LA Medical Assistance Trust Fund (MATF). To date, the State Treasury has only transferred $42,479, which equates to $6,757,521 of Legislative Capitol Technology Fund resources that have not been transferred to MATF to date.

FY 14 SGF Fiscal Status

J. Travis McIlwain, General Govt. Section Director, mcilwait@legis.la.gov

Table 2 below is a summary of the current FY 14 SGF Fiscal Status. This illustration is different than the DOA's presentation due to the following reasons:

- *$5.1 M Adopted Revenue Bills* – In its fiscal status statement, the DOA is anticipating Act 423 (HB 571) & Act 425 (HB 653) generating $25.6 M of additional SGF revenues. However, according to the Enrolled fiscal notes for these bills, the total anticipated revenue is approximately $5.1 M.
- *$13.423 M Bond Premium & $341.347 M Debt Service Payment* – In its fiscal status statement presentation, the DOA nets the bond premium against the FY 14 anticipated debt service payment. Based upon the latest anticipated FY 14 SGF Debt Service requirements, utilizing a $13.4 M bond premium, there is an approximately $3.2 M shortfall in the amount of SGF that has been set aside to make GO debt payments in FY 14. The DOA and legislature have set aside $324.7 M for Debt Service payments, when $327.9 M is the current projected amount. *See Table 3 below.*
- *$21.771 M Interim Emergency Board (IEB) Allocation* – In its fiscal status statement presentation, instead of allocating the constitutional amount of IEB, the DOA merely allocates an amount based upon prior year IEB expenditure history. Approximately $1.758 M SGF has been set aside in latest FY 14 Fiscal Status Statement. Thus, by not setting aside the full amount at the beginning of the fiscal year, the operating budget is being supported at the outset before knowing emergency needs for the upcoming fiscal year.

FY 14 SGF Available (in millions) (Table 2):	
State General Fund (5/15/2013 - REC)	$8,350.600
Act 423 (HB 571) & Act 425 (HB 653) (Act 14 assumes $25.6 M)	*$5.100*
Legislative Capitol Technology Fund	$4.202
Adult Probation & Parole Officer Retirement Fund	$2.000
Penalty & Interest Account	$4.159
Community & Family Support System Fund	$0.022
DOJ Debt Collection Fund	$0.213
Energy Performance Contract Fund	$0.472
Entertainment Promotion & Marketing Fund	$0.153
Environmental Trust Fund	$2.487
Health Care Facility Fund	$0.848
LA Filmmakers Grant Fund	$0.226
LA Life Safety & Property Protection Fund	$0.144
Medical & Allied Health Prof. Ed. Scholarship & Loan Fund	$0.107
Right to Know Fund	$0.176
Small Business Surety Bonding Fund	$1.900
Tax Commission Expense Fund	$0.049
Tobacco Tax Health Care Fund	$0.233
Variable Earnings Transaction Fund	$0.018
Vital Records Conversion Fund	$0.004
Riverboat Gaming Enforcement Fund	$5.800
Overcollections Fund (Risk Management Settlement Proceeds)	$5.000
Medical Assistance Program Fraud Detection Fund	$7.021
Higher Education Initiatives Fund ($267 dollars)	$0.000
Board of Private Investigator Examiners Fund ($76 dollars)	$0.000
LA Fire Marshal Fund	$0.792
2% Fire Insurance Fund	$1.878
Bond Premium	*$13.423*
Total FY 14 SGF Resources Available	**$8,407.027**
FY 14 SGF Appropriated Expenditures (in millions):	
Debt Service (Non-Appropriated Requirements)	*$341.347*
Interim Emergency Board (Non-Appropriated Requirements)	*$21.771*
Revenue Sharing (Non-Appropriated Requirements)	$90.000
General Appropriations (Act 14)	$7,777.940
Ancillary Appropriations (Act 44)	$0.000
Judicial Appropriations (Act 64)	$147.339
Legislative Appropriations (Act 74)	$69.264
Capitol Outlay Appropriations (Act 24)	$0.000
Total FY 14 SGF Appropriations & Requirements	**$8,447.661**
General Fund Revenue Less Appropriations & Requirements	**($40.634)**

FY 14 Debt Service (millions) (Table 3)	
FY 14 SGF Debt Service Req.	$341.3
Bond Premium Applied	($13.4)
Net FY 14 SGF need for Debt	$327.9
SGF set aside for FY 14	$324.7
FY 14 Amount short	**($3.2)**

Tobacco Master Settlement

Deborah Vivien, Economist, viviend@legis.la.gov

The Tobacco Master Settlement consists of payments resulting from the Master Settlement Agreement (MSA) between the states and the major tobacco companies. Each year in April, the state receives its allotted share of the settlement (2.2%) as a regular payment. The state securitized 60% of the settlement and that amount of the MSA payment is currently dedicated to the payment of the bonds. The remaining 40% is split between the LA Fund (25%) and the Millennium Trust Fund (the trust) (75%). An inflationary adjustment remains in the Trust; otherwise the remainder is used to fund TOPS.

The following are other budget issues related to tobacco this year:

Refunding of the Securitized Tobacco Settlement

Act 14 includes an appropriation of $67 M resulting from the refunding of the securitized Tobacco Settlement proceeds, which is 60% of the state's MSA payment, though only $61.3 M was made available from the actual sale. The additional funds are the result of lower interest rates available through the refunding and the delay of principle payments over the first three years of the amortization. Citibank was the lead underwriter with initial estimates of spendable cash of about $60 M in each of FY 14 and FY 15 as well as an additional smaller sum in FY 16. After the sale on July 2, 2013, the final amount available for budgetary purposes in FY 14 was $61.3 M and $22.1 M in FY 15 (compared to the initial expectation of about $60 M in each year).

It is estimated that the bonds will be fully paid in 2023, which is the same anticipated maturity date prior to the sale, and are structured with a modified turbo payment with annual callable bonds. This means the Tobacco Settlement Financing Corporation will determine in the early years whether to use the full amount of the regular payment

received, including that in excess of the amortized payment, to pay tobacco debt service or make it available for other uses within the budget. However, if the excess payment is not applied to tobacco debt service in a manner similar to a turbo payment, the bonds may not pay out in 2023, since the underlying assumption is that all regular payment receipts will be applied to the bonds.

Non-Participating Manufacturers (NPM) Settlement
Act 14 includes an appropriation of $28.3 M from the settlement of the Tobacco Arbitration concerning the disposition of the withheld payments for the Non-Participating Manufacturers (NPMs) adjustments that have been deducted from Tobacco Settlement Proceeds between 2003 and 2012. Since the payment was not separated from the regular MSA payment, the funds are included in the REC forecast as recurring SGF revenue and budgeted as such, though this may require additional review to determine the appropriate classification.

The payments included in the arbitration were withheld due to several factors, including the position maintained by the Original Participating Manufacturers (OPMs) that the state did not enforce the MSA by allowing NPMs, who are not subject to the MSA payments, to gain market share. The settlement has been signed by 19 states, including LA, out of 46 total states and was paid to the states in April 2013.

The agreement stipulates that the state will receive 100% of escrow funds and will repay 46% of the amount paid to the state under the regular payment that could qualify as retractable. The repayment will occur as a credit to the regular MSA payment over the following 5 years (50% in year 1 and 12.5% in the remaining 4).

The settlement paid out on April 15, 17 and 25 and, after deducting the first year credit, the state's portion (or 40%) of the MSA payment, including the regular payment and the settlement, was $84.3 M. However, 25% or about $7 M will be deposited to the LA Fund. The classification of the amount in excess of the regular payment is under question since it is not clear whether it will be distributed under current law to TOPS or under the law that was in place when the funds were placed in escrow, which was primarily contributing to the corpus of the Millennium Trust Fund. The Treasury Department has requested an opinion from the Attorney General that is expected to resolve the matter of determining how the funds will be classified for expenditure. It is of note that regular MSA payments between FY 14-17 will be subject to a 12.5% credit due to arbitration (estimated to be $5 M to $7 M per year or $30 M to $35 M in total), which will be deducted from the MSA payment. The credit amount may be offset by a reduced NPM adjustment but there is no certainty.

Exact amounts of MSA payments received by Treasury are below (Table 4).

Table 4	4/15/2013	4/17/2013	4/25/2013	To Date 2013
Bonds	$69,756,592	$44,521,388	$12,097,414	$126,375,394
State	$46,504,395	$29,680,925	$8,064,943	$84,250,263
Total	**$116,260,987**	**$74,202,313**	**$20,162,357**	**$210,625,657**

State Police Training Academy
Matthew Labruyere, Fiscal Analyst, labruyem@legis.la.gov

Act 14 of the 2013 Regular Legislative Session includes funding in the amount of $5.0 M, payable from the Debt Recovery Fund, for the Department of Public Safety – Office of State Police to conduct a training academy. Funding for the training academy was first added by a House floor amendment in the amount of $4,141,440. The $4.1 M was a combination of $2.6 M from the Criminal Identification and Information Fund and $1.5 M from the Overcollections Fund. This funding was eventually stripped by the Senate Finance committee and replaced with the $5 M from the Debt Recovery Fund. Act 399 of the Regular Legislative Session specifies that the first $5 M collected by the newly created Office of Debt Recovery would be allocated to fund a state police training academy.

For the department to conduct a 50-cadet academy class, the cost would be

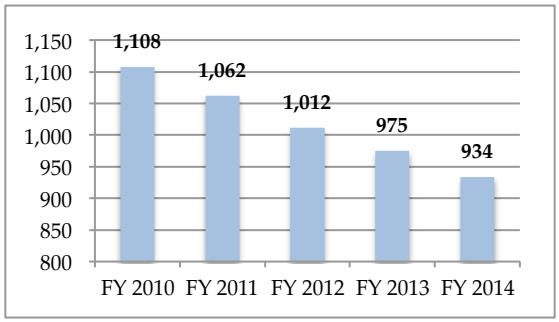
Cash Balance Plan Ruled Unconstitutional
Matthew LaBruyere, Fiscal Analyst
labruyem@legis.la.gov

On June 28, 2013, the Louisiana Supreme Court affirmed the district court's judgment that Act 483 of the 2012 Regular Legislative Session was enacted in violation of the constitutional requirements found in Article X, Section 29(F) of the Louisiana Constitution. The suit, which was brought fourth by the Retired State Employees Association, alleged that Act 483 (HB 61) did not receive approval of two-thirds of the elected members of the House of Representatives. Article X, Section 29(F) of the Louisiana Constitution states "no such benefit provisions having an actuarial cost shall be enacted unless approved by two-thirds of the elected members of each house of the legislature." The actuarial note prepared by the Legislative Auditor reported an actuarial cost.

During the 2013 Regular Legislative Session, a resolution was adopted that delayed the implementation date of the Cash Balance Plan to July 1, 2014. HCR 2, which suspends the provisions of the Cash Balance, passed unanimously by the House (99-0) and the Senate (35-0). The resolution suspends the implementation of the Cash Balance Plan while the Division of Administration seeks a determination from the IRS regarding the Social Security equivalency of the new plan. However, since the Supreme Court ruling, the Cash Balance Plan will no longer take effect and HCR 2 will no longer apply.

approximately $5.3 M. The bulk of the cost is associated with cadet salaries and related benefits, which make up 70% ($3.7 M) of the academy cost. Operating Expenditures for the academy total approximately $400,000 and include travel, uniforms, office and automotive supplies, and automotive maintenance. Additional expenses include $670,000 in academy costs for cadets, which include dormitory costs, classroom costs, facility rentals, and ammunition. Most acquisitions needed in a regular academy class such as vehicles, radars, and radios will not be needed since there is a surplus due to the decrease in troopers over the previous years.

Total Filled Trooper Positions By FY (Table 5)



The most recent class of new state troopers graduated in February 2009. Due to funding levels being insufficient to hold additional training classes and fill state trooper T.O. positions vacated through attrition, the statewide number of state troopers available to provide law enforcement activities on the state's highways has fallen by 133 since FY 10 *(Table 5 above).*

In addition to the attrition of state troopers over the previous fiscal years, more state troopers will be retiring and become eligible to retire in the next 2 years. In FY 13, 4 state troopers became eligible for retirement with 78 working past eligibility and 8 more completing DROP. In FY 14 there are 28 state troopers that will become retirement eligible, followed by 60 in FY 15.

It should be noted that the $5 M appropriation to State Police from Act 14 (HB 1), was not appropriated because the statutory dedicated fund, the Debt Recovery Fund, does not exist. During the debate of Act 399 (HB 629), the fund was to be created through House Floor Amendment and later deleted from the bill through an amendment in Senate Revenue and Fiscal Affairs Committee. Funding for the training academy will have to be appropriated through a BA-7 during the fiscal year or through a supplemental appropriation during the next legislative session.

EDUCATION

Higher Education Funding History – General Appropriations Bills
Fiscal Years 2008-2009 through 2013-2014 (in millions) (Table 6)

Higher Education Funding Sources	FY09 Actuals	FY10 Actuals	FY11 Actuals	FY12 Actuals	FY13 Budget	FY14 Approp. Letters	Change from FY09 to FY14	% Change FY09 to FY14
State General Fund (SGF)	$1,553	$1,153	$1,145	$1,060	$980	$525	($1,028)	-66.2%
Self-Generated Revenues	$735	$809	$801	$1,132	$1,200	$1,279	$544	74.0%
ARRA *	$0	$190	$290	$0	$0	$0	$0	N/A
Overcollections Fund	$0	$0	$0	$92	$0	$340	$340	100.0%
Other Funding Sources	$694	$681	$728	$733	$778	$485	($209)	-30.1%
Total	$2,982	$2,833	$2,964	$3,017	$2,958	$2,629	($353)	-11.8%
General Appropriation Bill Totals (Includes higher education and all other state agencies)								
SGF	$8,799	$7,144	$6,994	$7,657	$7,508	$7,778	($1,021)	-11.6%
Higher Education SGF as a Percentage of General Appropriation Bill SGF								
SGF	17.6%	16.1%	16.4%	13.8%	13.1%	6.7%		

* American Recovery and Reinvestment Act (ARRA).

Higher Education Funding
Charley Rome, Fiscal Analyst, romec@legis.la.gov

Table 6 above shows that State General Fund (SGF) support for higher education has decreased significantly over the last five years. The state's general operating budget included approximately $1.55 B in SGF for higher education in FY09. SGF for higher education has decreased approximately 66% since FY09, decreasing by approximately $1 B to $525 M in FY14. Furthermore, higher education funding from SGF represented approximately 17.6% of all SGF in the state's general operating budget in FY09. This percentage has declined to approximately 6.7% in FY14. SGF for higher education would need to increase by approximately $848 M to represent 17.6% of all SGF in the general operating budget in FY 14.

Table 6 above also shows that self-generated revenues (SGR) for higher education have increased significantly over

the last five years. Increases in mandatory tuition and fees represent most of the growth in SGR over the last five years. The state's general operating budget included approximately $735 M in SGR for higher education in FY 09. SGR for higher education has increased approximately 74% since FY09, increasing by approximately $544 M to $1.279 B in FY 14.

In addition, Higher Education funding for FY 14 includes $340 M appropriated from the Overcollections Fund *(See Table 7 to the right).*

Overall total net funding to Higher Education has decreased by $353 M, or 11.8%, from FY 09 to FY 14.

FY 14 MFP

Mary Kathyrn Drago, Education Section Director
dragom@legis.la.gov

The FY 14 budget for the Minimum Foundation Program (MFP) is $3,510,142,422, which includes approximately $69 M that was provided as a line item in the Appropriations Bill. The Legislature did not adopt a new MFP resolution for FY 14, and the LA Supreme Court ruled that SCR 99 (the FY 13 MFP) was not valid; therefore, HCR 130 of 2012 is being used to allocate funding for the 2013-14 school year. As a result of reverting to a previous formula, the Special School District, the LA School for the Deaf & Visually Impaired, and Student Scholarship for Educational Excellence (voucher) schools are not funded through the MFP. These schools are provided additional SGF to account for the MFP reduction in their individual budget. The Type 2 charter schools that were authorized prior to 7/1/2008 (Legacy Type 2 charter schools) are receiving the state and local per pupil share from the state. No local school district deductions will be made for these schools. In addition, the New Orleans Center for Creative Arts and LA School for Math, Science, & the Arts are included in this formula, but the schools are only receiving the state per pupil share for enrolled students. The Office of Juvenile Justice schools are continuing to receive a state per pupil share from the state and a local per pupil share, which will be deducted from the local school district's allocation.

The $69 M provided as a line item equates to a 2.75% increase in the Minimum Foundation Program. Language in the Appropriations Bill requires some of these funds to be used for certificated pay raises. A memo from the Department of Education dated June 25, 2013 was sent to all MFP recipients providing guidance on the $69 M appropriation. The department indicates that because local compensation plans include a mix of one-time and recurring funds, local school districts are urged, "to use the funds as they deem appropriate for the 13-14 school year in giving either one-time salary supplements or base-building pay raises to certificated teachers".

FY14 Higher Education Funding from the Overcollections Fund (Table 7)

Board of Regents	$5,917,489
LA Universities Marine Consortium	$977,910
LSU Board of Supervisors	$10,461,903
LSU and A&M College	$45,172,475
LSU Alexandria	$2,198,476
LSU Health Sciences Center - New Orleans	$29,156,691
LSU Health Sciences Center - Shreveport	$16,966,767
E A Conway Medical Center	$1,008,172
Huey P Long Medical Center	$652,671
LSU - Eunice	$1,957,544
LSU - Shreveport	$3,021,358
LSU Agricultural Center	$24,862,603
Paul M. Hebert Law Center	$1,947,681
Pennington Biomedical Research Center	$6,168,814
LSU SYSTEM TOTAL	$143,575,155
Southern Board of Supervisors	$11,012,879
Southern Univ-Agricultural & Mechanical College	$8,957,585
Southern University Law Center	$1,658,329
Southern University - New Orleans	$2,495,814
Southern University - Shreveport	$2,333,967
SU Agricultural Research/Extension Center	$1,008,205
SOUTHERN SYSTEM TOTAL	$27,466,779
University of Louisiana Board of Supervisors	$10,432,546
Nicholls State University	$6,262,344
Grambling State University	$5,381,028
Louisiana Tech University	$11,598,255
McNeese State University	$8,685,462
University of Louisiana - Monroe	$10,250,941
Northwestern State University	$8,539,165
Southeastern Louisiana University	$12,358,846
University of Louisiana - Lafayette	$18,812,403
University of New Orleans	$12,631,022
UNIVERSITY OF LOUISIANA SYSTEM TOTAL	$104,952,012
LCTCS Board of Supervisors	$12,993,421
Baton Rouge Community College	$3,680,676
Delgado Community College	$10,560,489
Nunez Community College	$1,276,274
Bossier Parish Community College	$3,021,570
South Louisiana Community College	$5,253,221
River Parishes Community College	$1,226,980
Louisiana Delta Community College	$3,314,164
Louisiana Technical College	$7,070,565
SOWELA Technical Community College	$2,233,117
L.E. Fletcher Technical Community College	$1,096,581
Northshore Technical Community College	$2,057,451
Central Louisiana Technical Community College	$2,383,149
LCTCS Online	$542,047
LCTCS TOTAL	$56,709,705
HIGHER EDUCATION TOTAL	**$339,599,050**

REVENUE

Baseline Tax Revenue and Fiscal Notes

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

Base Revenue: The state base tax revenue picture for FY 14 (and FY 13) appeared gloomy again as of December 2012. Weakness in the major areas of sales tax, personal income tax, and mineral revenues led to the downgrades in the general fund forecast of $129.2 M for FY 13 and $207.1 M for FY 14. However, the second half of the fiscal year saw a turnaround primarily in the personal income tax, and to some extent in mineral revenue, although sales tax has still to exhibit any upward traction. Improvement was recognized in the May forecast, and much of the earlier downgrade was

reinstated, amounting to a $128.8 M improvement to FY 13 and a $155.2 M improvement to FY 14. The May forecast not only recognized improvement in baseline revenues, it incorporated an acceleration in FY 13 to FY 14 year-over-year revenue growth from 2.8% growth in December ($221.7 M) to 3.1% growth in May ($248 M). While the run up to the session was dominated by the prospect of swapping income taxes for sales taxes, and then simply eliminating income taxes, those proposals were shelved early and attention turned to funding the FY14 budget. Various bills were considered involving tobacco tax increases and cutbacks of existing tax exemptions, credits, and rebates. In the end, though, only minor changes were adopted to base tax receipts.

Vendor's Compensation and Enterprise Zones: Acts considered to be base tax funding mechanisms for the FY 14 budget include Act 425 which reduces the compensation that vendors retain for collecting and remitting sales taxes to the state. The rate of 1.1% was reduced to 0.935%, effective July 1, 2013, and generating $4.3 M per year more in net sales tax remittances for the state. Also included is Act 423 which made various changes to the Enterprise Program, resulting in lower program costs to the state fisc. Since the changes apply only to new contracts (and renewals), cost savings will accumulate only over time, with FY 14 savings possibly being in the $800,000 range. Program savings should build over time and possibly achieve over $6 M per year in four to five years.

Tax Amnesty: The major tax funding bill adopted is not a change to base tax revenue, but a new tax amnesty program (Act 421). It is not expected to generate material new tax revenue, but only to accelerate from future periods what would have been normal base collections in the future. The budget anticipates $200 M of FY 14 amnesty collections, which have been appropriated to make Medicaid payments to private providers, supporting approximately $540 M of total Medicaid budget. The Act actually provides three amnesty periods over the next three fiscal years, but the incentives for taxpayers to participate, in terms of reduced penalty and interest charges, are heavily weighted to the FY 14 phase. Participation in the later two phases could be minimal. The Revenue Department has announced the dates of the FY 14 phase as September 23, 2013 to November 22, 2013. Thus, amnesty collections for this year's budget should largely be known by December 2013. The Revenue Estimating Conference has not recognized these collections. In the past, amnesty collections have been designated as nonrecurring, however, this program is structured differently than previous amnesty programs dealt with by the REC.

Other Fiscal Notes: A few bills with minor negative FY 14 effects were also adopted specifically, Acts 396 and 300, which grant sales tax exemptions to purchases of precious metals and numismatic coins and home construction materials by the St. Bernard Project, Inc., respectively. Combined annual revenue losses are estimated at $125,000. A more significant revenue loss will result from the authorization of additional state New Markets tax credits against the premium tax. FY 14 losses will be $7 M, and total losses over the four-year life of this version of the program will be $24.75 M (Act 265).

Dedications: New dedications will negatively impact FY 14 general fund revenue as well. After failure of a base broadening and tax rate lowering reform to the existing 5¢ per month tax on landlines used to fund telecommunications aids for the hearing impaired through the Telecommunications Fund for the Deaf, Act 300 dedicates $1 M per year of general sales tax collections from sales of telecommunications services to this special fund. These monies are diverted from the general fund. In addition, Act 420 dedicates general fund collections in excess of $3 M generated from Revenue Department fraud initiatives to the Overcollections Fund. These collections would otherwise be accounted for as base tax collections. These collections are reportedly from the Lexus/Nexus personal income tax refund filtering process installed this past spring, and the FY 14 budget anticipates $20 M of these collections. Performance of this initiative to date suggests that it is highly unlikely that this level of collections will occur.

Debt Collection: A new centralized debt collection program is established in the Department of Revenue by Act 399. Current activities of state agencies, the Revenue Department, and the Attorney General will be coordinated through a centralized process with additional enforcement tools. Interaction with the amnesty program of Act 421 is uncertain, but the debt collection program could work to at least accelerate collections, and possibly result in greater collections overall.

Budget Stabilization Fund: Finally, affecting the FY 16 budget rather than FY 14, Act 420 terminates a statutory provision that has prohibited excess mineral revenues from being diverted into the Budget Stabilization Fund, and away from the state general fund. This provision is terminated on July 1, 2015. General fund loss exposure of $330 M is based on current mineral revenue forecasts and balances of the Stabilization Fund. Once filled to its maximum in FY 16, no further diversions occur unless the calculated maximum balance increases and/or a withdrawal from the fund occurs.

HEALTH & HOSPITALS

Medicaid Outlook

Shawn Hotstream, Health & Hospitals Section Director
hotstres@legis.la.gov

The FY 14 Medicaid budget contains approximately $216,434,518 in funding from two separate sources that will likely have to be replaced in FY 15. These sources of revenue include Amnesty tax collections projected to be collected in FY 14 and Go Zone Bond re-payments (which represents an early retirement of bond debt from the Orleans Parish Law Enforcement District that was collected in FY 13 but appropriated in FY 14).

Act 14 (the GAB) reflects $200 M in Amnesty revenues appropriated in Medical Vendor Payments for FY 14.

Any revenues anticipated to be generated through a tax amnesty program will be deposited into the 2013 Amnesty Collections Fund in the treasury. Act 421 establishes the 2013 Amnesty Collections Fund through the Louisiana Tax Delinquency Amnesty Act of 2013. Up to $200 M of these revenues will be used as a state match source to draw federal financial participation for claims payments to providers. Based on the FY 14 blended Federal Medical Assistance Percentage (FMAP) of 62.96% (37.04% state match) for Louisiana Medicaid, $200 M in amnesty revenues will generate approximately $339.9 M in federal matching funds for a total of $539.9 M in Medicaid claims payments. To the extent amnesty tax revenues are not realized up to the level of appropriation in Medicaid for FY 14, claims payments to providers will be reduced by a proportionate amount (inclusive of federal match).

In addition, revenues appropriated in Medicaid from up front bond repayments (Go Zone Bond Repayments from the Orleans Parish Law Enforcement Division) will also be used as a state match source to draw federal matching funds. $16.4 M in Go Zone revenues will generate approximately $27.9 M in federal matching funds, for a total of $44.4 M in Medicaid claims payments. The sources of revenue are reflected in table 8 below:

Revenue Source (Table 8)	Amount
State Tax Amnesty Program Revenues	$200,000,000
Go Zone Bond Repayments	$16,434,518
Total FY 14 Revenues used as state match	$216,434,518

Note: The FY 14 5-year continuation budget reflects both Amnesty revenues and the Go Zone Bond Repayments as a State General Fund need in FY 15 and future fiscal years.

FY 14 Medicaid Funding

Shawn Hostream, Health & Hospitals Section Director
hotstres@legis.la.gov

In FY 14, the Department of Health and Hospitals is appropriated $7.7 B for the Medicaid program (Medical Vendor Payments). This represents an overall increase of $280 M from the 12/1/2012 budget freeze date (date on which baseline budget is established for purposes of establishing the Executive Budget). However, prior year actual spending (preliminary) in FY 13 for the Medicaid program reflects total expenditures of $7,158,548. Based on these actuals, the Medical Vendor Payments appropriation reflects an overall increase of $545,782,110 or 7.6%, from FY 13.

Significant adjustments to Medicaid are reflected below pertaining to the growth from FY 13 Medicaid base budget:

Utilization: The Medicaid budget includes $80,993,521 in additional funding for projected utilization increases in both fee for service Medicaid and Bayou Health (Medicaid managed care). According to the Department, approximately $61 M of the increase will be utilized for projected increases in Bayou Health, with the balance, or $19,673,189, allocated towards projected fee for service utilization growth in the private providers program.

In addition, the budget includes two additional utilization adjustments. These include $3.8 M in funding for utilization associated with the Woodwork effect, or individuals that are currently eligible for Medicaid but are unaware and predicted to enroll in FY 14. Also, approximately $980,656 is added for projected utilization in durable medical equipment services.

Nursing Home rate increase: The Medicaid budget includes approximately $52 M in additional funding for rebasing (recalculation of the average annual rate based on a cost based formula) nursing home rates.

Clawback: Act 14 provides $33M in increased state general fund for 'Clawback'. The clawback represents payments made from Louisiana Medicaid to the federal Medicare program as required by the Centers for Medicare and Medicaid Services (CMS) on a monthly basis to cover the cost of the Medicare Prescription Drug Program, Part D provided to dual eligibles. After January 2006, dual eligibles receive prescription drug benefits from Medicare and not Medicaid. The amount each state is designed to pay is based on what a state would pay if a dual eligible (individual enrolled in both Medicaid and Medicare) Medicaid enrollee would have continued to receive their prescription drug benefit under Medicaid. The adjustment is based on a projected increase in enrollees and increase in the monthly payment.

Rural Hospitals: Act 14 provided $34.8 M in additional federal matching funds to rural hospitals under the Rural Hospital Preservation Act. Information provided by the Department of Health and Hospitals indicates certain rural hospitals will certify Disproportionate Share Hospital (DSH) expenditures to the department, and federal matching funds will be drawn (up to $34.8 M) on these certifications and paid to the hospitals. No state match will be used to draw the federal matching funds.

Federally Qualified Health Centers (FQHC)/Rural Health Clinics (RHCs): Act 14 reflects an increase of $9,542,201 in claims payments funding associated with annualized funding for new centers and clinics that enrolled in Medicaid in FY 13, funding for new clinics and centers that are projected to enroll in FY 14, and rate increases for FQHC's and RHC's based on the Medicare Economic Index (MEI) rate formula. The MEI is a measure of inflation for physicians and used for determining allowable charges for physician services (such as physician practice costs, medical equipment, and general wage levels).

Waiver slots: Act 14 provides $4.2 M in additional claims payments funding for annualized costs of 1,072 waiver slots filled in FY 13 for Adult Day Health Care (ADHC) waiver, Children's Choice waiver, NOW waiver, the Residential Options and Supports waivers.

NOW Waiver Vetos: During the 2013 Legislative Session, $3.9 M ($1,447,000 SGF) was added to the Medicaid budget for 200 additional New Opportunities Waiver (NOW) slots that would have increased the number of slots to 9,032 in FY 14 from 8,832 in FY 13. With Governor Jindal's veto of the 200 additional NOW slots, the number of slots will remain constant at 8,832. Approximately 10,000 children are on the NOW waiting list and the average wait time to receive a waiver slot is 10 years.