FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

March 2015

Volume 3, Issue 10

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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 provides information regarding the FY 16 Executive Budget that was released on February 27th, 2015. A detailed analysis of each agency will be available in the LFO's Analysis of the Executive Budget 2015 (Green Book). This issue contains information on how the $1.6 B deficit was solved, nonrefundable tax credits and FY 16 replacement revenues. The issue also contains analysis on Medicaid, Higher Education, debt defeasance, GEMS Recommendations and K-12 education. This will be the last Focus on the Fisc for FY 15. The next issue will be published in FY 16.

John D. Carpenter

FOCUS POINTS

How the $1.6 B Deficit was Solved

Legislative Fiscal Office Staff

At the February 2014 Joint Legislative Committee on the Budget (JLCB) meeting, the Division of Administration (DOA) presented the updated 5-Year Baseline Projection with a projected SGF imbalance of approximately $1.6 B ($1,588,691,653). Below is a high level summary of how the $1.6 B projected FY 16 deficit was solved in the proposed FY 16 budget.

FY 16 SGF Deficit (in millions)	**($1,589.0)**
Refundable Tax Credits ($153.8 M DHH, $372.1 M HIED)	$525.9
Replacement Resources	$320.3
Annualize FY 15 Mid-Year	$36.0
GEMS Reductions	$94.3
Not Funding Workload Adj (Utilization, Election Expenses)	$30.9
Not Funding New GO Bond Issue (New & Expanded)	$24.0
Not Funding Performance Adj & Inflation	$117.5
Higher Education Tuition Increase	$70.0
WISE Program Reduction	$11.2
Other Various Continuation Expenses	$44.0
Not Funding Other SGF Adjustments & MOF Swaps*	$315.0

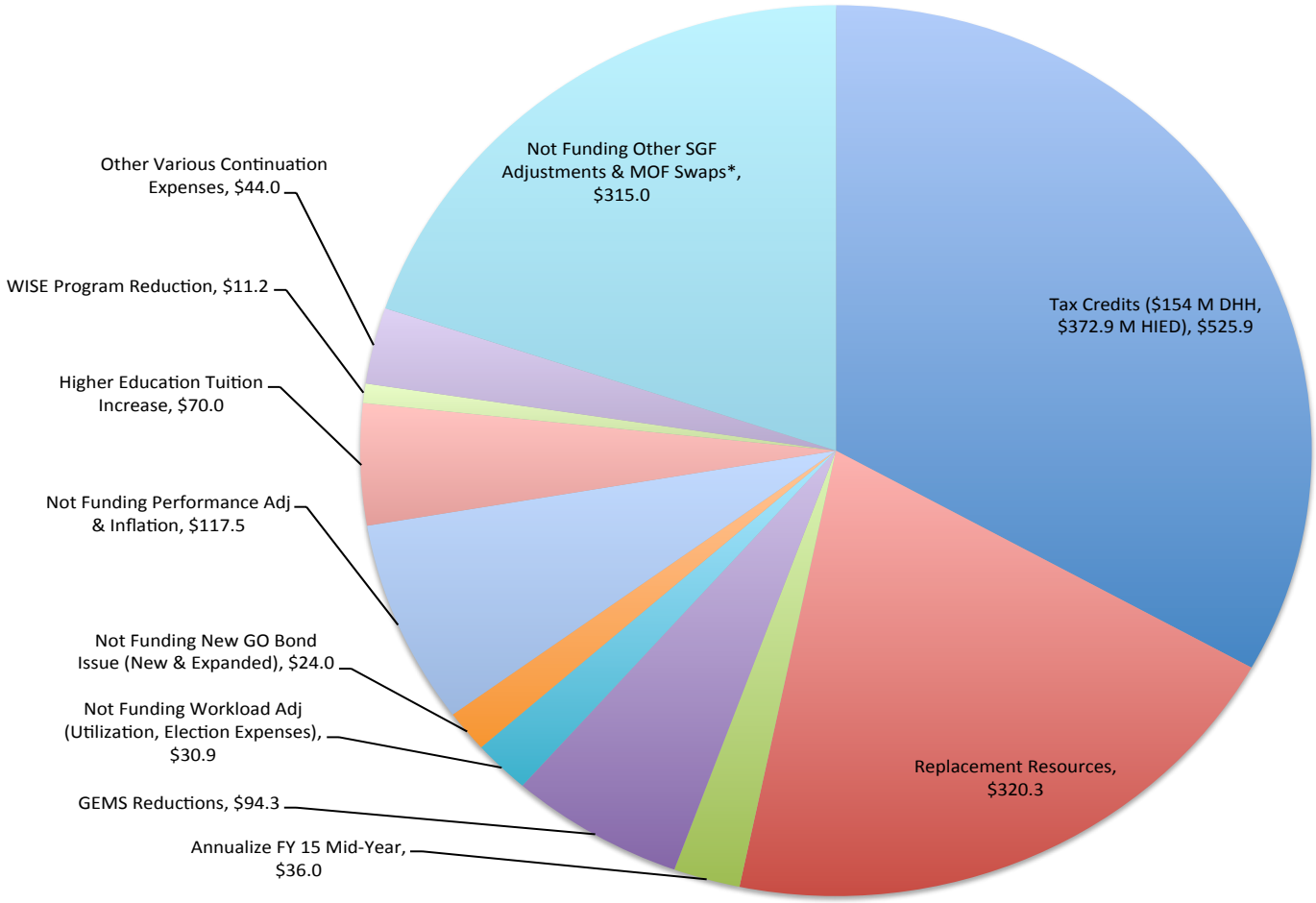
**Examples include: $27.9 M TANF Swap in DOE (LA-4 Program), $36.7 M DHH ACA Federal MOF swap, $18.6 M by not funding judgments, a total of 958 positions reduced (727 TO, 231 non-TO FTEs), $4.2 M State Police MOF Swap (additional TTF & Riverboat), $4.2 M AGRI reduction, $114.8 M Higher Education reduction.*

As presented in Chart 1 on the next page, approximately 53% of the deficit solution involves the use of $320 M of replacement revenues and pending passage of converting refundable tax credits to non-refundable tax credits that generate an additional $526 M of SGF resources that have not been considered by the legislature or the Revenue Estimating Conference.

NOTE: The Continuation Budget is a useful planning tool that compares projected SGF revenue with projected SGF expenditures necessary to sustain the current year's state operations and service delivery (FY 15 in this case) in subsequent fiscal years (FY 16 – FY 19 in this case). 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. Until an Executive Budget proposal is submitted, the ensuing year's budget is discussed in continuation budget terms.

How the $1.6 B Deficit Was Solved (in millions)(Chart 1)



Refundable Tax Credits Proposed To Fund The FY 16 Executive Budget

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

One of the funding mechanisms proposed by the FY 16 Executive Budget is the conversion of certain refundable tax credits to non-refundable status. The administration has estimated that this conversion would result in $526 M of additional general fund resources being made available to support the proposed budget. These resources have been suggested for use in the budgets for higher education ($372.1 M) and Medicaid ($153.8 M). It should be noted that these resources will not materialize without legislative action, and that these budgets have actually been reduced by at least these amounts. In the case of the Medicaid budget, by virtue of the federal matching contribution, the total dollar reduction associated with these resources is $406.9 M.

A refundable tax credit is one where the entire annual credit amount is provided to the person or firm claiming the credit without regard to the actual tax liability of the person or firm. To the extent the person or firm has a tax liability, that liability is first eliminated by the credit then any remaining amount of credit is paid to the person or firm as if it were a refund of taxes. A nonrefundable tax credit is one where the annual amount of credit provided to the person or firm is limited to the actual annual tax liability of the person or firm. Unused amounts of credit are typically allowed to be used to reduce or eliminate tax

liabilities in subsequent years. Thus, the entire amount of annual refundable credits reduces state resources each year, while the loss to the state fisc of the entire annual amount of nonrefundable credits is spread out over a number of years.

By converting refundable credits to nonrefundable credits, the amount refunded to persons or firms over the amount of the credit used to offset their annual tax liabilities is what would be retained by the state and be available to support the budget. Table 1 below itemizes the refundable credits selected for conversion to nonrefundable status, along with the total amount of credit claimed for each, the amount of that total used to offset tax liabilities, and the amount remaining to be retained by the state rather than be refunded to persons or firms claiming the credit. The last two columns indicate the share of each credit's total amount that is to be retained by the state, and the share of the total group that each credit makes up. These figures are based on claims made during FY 14 as reported in the Revenue Department Tax Exemption Budget, and are claimed against the corporate and individual income taxes, and the corporate franchise tax.

The administration's rationale for conversion of these credits from refundable to nonrefundable status is that the portions of the credits claimed in excess of tax liabilities and subsequently refunded to claimants constitutes spending that should be reduced in order to spend these funds on other priorities. The FY 16 Executive Budget has proposed expenditure of these funds in higher education and the Medicaid Program.

Table 1

Selected Refundable Tax Credits	FYE 6/14	Offsetting Tax	Refunded	% Refunded	% of Total
Ad Valorem - Inventory Tax	$452,676,421	$75,961,191	$376,715,230	83%	72%
Solar - total	$63,441,215	$6,280,828	$57,160,387	90%	11%
Ad Valorem - Offshore Vessels	$56,406,978	$13,356,040	$43,050,938	76%	8%
Research & Development	$24,380,813	$794,852	$23,585,961	97%	4%
Musical & Theatrical	$8,754,604	$185,497	$8,569,107	98%	2%
Telephone Co Property Tax	$22,643,842	$17,381,873	$5,261,969	23%	1%
Ad Valorem - Natural Gas	$4,534,210	$551,179	$3,983,031	88%	1%
Vehicle Conversion - Alternative Fuel	$4,148,005	$878,471	$3,269,534	79%	1%
Sugarcane Trailer Conversion	$2,744,431	$23,053	$2,721,378	99%	1%
Milk Producers	$1,555,702	$112,401	$1,443,301	93%	0.3%
Angel Invester	$1,568,555	$690,898	$877,657	56%	0.2%
Historic Rehabilitation - Residential	$275,657	$149,345	$126,312	46%	0.02%
Total	$643,130,433	$116,365,628	$526,764,805	82%	100%

For completeness, Table 2 below itemizes the refundable credits that have not been proposed for conversion to nonrefundable status by the administration.

Should this credit conversion proposal be utilized to help fund the FY 16 budget, certain issues are important to realize. The first is that these figures do not constitute a fiscal note on the legislation necessary to implement this proposal. These amounts reflect only one fiscal year of history (FY 14). These credits exhibit growth and volatility in total claims as well as amounts offsetting tax. More than one year of data will need to be looked at to ascertain a reasonable estimate of the affected amounts for FY 16 and beyond.

Table 2

Other Refundable Tax Credits	FYE 6/14	Offsetting Tax	Refunded	% Refunded	% of Total
Earned Income Credit	$47,849,737	$26,450,670	$21,399,067	45%	34%
Citizens Insurance Assessments	$45,677,785	$33,546,054	$12,131,731	27%	19%
Child Care Refundable	$13,773,978	$5,278,644	$8,495,334	62%	13%
Digital Interactive Media	$6,685,889	$6,963	$6,678,926	100%	11%
School Readiness - Directors & Staff	$8,114,353	$2,303,078	$5,811,275	72%	9%
School Readiness - Provider	$4,662,556	$256,260	$4,406,296	95%	7%
School Readiness - Refundable	$2,383,775	$85,643	$2,298,132	96%	4%
Digital Interactive Media & Software	$752,312	$328,766	$423,546	56%	1%
School Readiness - Business Supported	$624,842	$275,367	$349,475	56%	1%
School Readiness - Fees & Grants	$596,792	$250,030	$346,762	58%	1%
Quality Jobs Rebate	$2,529,606	$2,236,046	$293,560	12%	0%
Retention & Modernization	$180,941	$18	$180,923	100%	0%
Technology Commercialization	$201,377	$27,030	$174,347	87%	0%
La Hunting & Fishing Licenses	$131,204	$107,302	$23,902	18%	0%
Mentor-Protégé	$15,584	$7,250	$8,334	53%	0%
Property Insurance Credit	$34,939	$26,899	$8,040	23%	0%
Total	$134,215,670	$71,186,020	$63,029,650	47%	100%

The effectiveness language of the legislation necessary to implement the credit conversion proposal is significant. To retain these monies for the FY 16 budget appears to require that the all claims filed from 7/1/2015 will have to be converted regardless of when the activity occurred that generated the credit (for example inventory property taxes paid by 12/31/2014, or solar panel installations made during 2014).

Other issues to consider include carry-forward provisions. Most nonrefundable credits allow unused portions (the amounts not offsetting tax in ay particular year) several years of subsequent taxes to be offset.

If this is allowed for these conversions it will build up future exposure to state tax receipts, although in any particular year much of that exposure might not be realized. Another issue would be the permanence of the conversion. If the conversion is to only be temporary, for a year or two or three, are the annual amounts retained during these years to ultimately be refunded in the future? If so, then very large exposures will build up that will actually be realized against the state fisc in the future. To date, no legislation specifying the implementation of this conversion proposal has been reviewed.

FY 16 Revenue Replacements

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

The FY 16 budget includes approximately $320 M of "replacement revenues." These "one-time" resources are utilized within the budget to prevent further SGF reductions. These resources represent approximately 20% of the $1.6 B projected SGF deficit solution. The specific resources are currently recommended in the following areas of the budget:

$50,000,000 – 2013 Tax Amnesty Program (Medicaid Program)
$52,856,978 – Overcollections Fund (Medicaid Program)
$124,958,096 – FY 14 Ending Cash on Hand (GO Debt Service-Debt Defeasance)
$66,499,999 – Unidentified Resources+ (GO Debt Service-Debt Defeasance)
$26,000,000 – Bond Premium (Received in the Fall 2014 Bond sale; will be applied to FY 16 debt service)
$320,315,072 – TOTAL
+The unidentified resources will not be known until the Funds bill is filed.

As previously mentioned, there is approximately $52.9 M of Overcollections Fund resources recommended within the Medicaid Program for FY 16. Table 3 below depicts there is approximately $32.5 M Overcollections Fund resources still available. The remaining $20.3 M of resources that equates to $52.9 M will not be made known until the Funds Bill and the FY 15 Supplemental Appropriations Bill are filed.

The specific recognized sources of the Overcollections Fund are shown in the *"Recognized FY 15 Resources Not Utilized"* column.

Table 3

Overcollections Fund	REC Forecast (1/26/2015)*	Used In Round 1 Plan***	Used In Round 2 Plan	Total FY 15 Budgeted	Recognized FY 15 Resources Not Utilized
Self Insurance Fund	$12,000,000	$12,000,000	$0	$12,000,000	$0
Insurance Verification Fund	$15,000,000	$15,000,000	$0	$15,000,000	$0
Riverboat Gaming Enforcement****	$13,200,000	$5,000,000	$8,200,000	$13,200,000	$0
LA Office of State Building**	$473,213	$473,213	$0	$473,213	$0
LDR SGR or Fraud Initatives	$11,100,000	$0	$11,100,000	$11,100,000	$0
Motor Fuels Underground Tank Fund	$8,000,000	$0	$0	$0	$8,000,000
Employment Security Administration Account	$3,540,000	$0	$0	$0	$3,540,000
Penalty & Interest Account	$4,200,000	$0	$0	$0	$4,200,000
Telephone Community Property Assessment Relief Fund	$30,000,000	$0	$13,206,438	$13,206,438	$16,793,562
TOTAL	**$97,513,213**	**$32,473,213**	**$32,506,438**	**$64,979,651**	**$32,533,562**

**The sources listed are those items anticipated to be collected above and beyond the $102.24 M of FY 14 resources recognized as recurring.*
***Although the adopted forecast includes a revenue projection of $500,000 from the LA Office of State Building, the actual funding available from this source is $473,213. Thus, approximately $27,000 of actual resources is not available.*
****Although the approximately $32.5 M of resources were officially recognized at the last REC meeting (1/26/2015), these resources have not been appropriated to date, but will likely be appropriated in the FY 15 supplemental appropriations bill. In addition, there is $10,705,143 of Tax Amnesty resources (revenue offset to FY 15 SGF reductions in the Medicaid Program) that are included in the Round 1 Mid-Year Deficit Reduction Plan that have not been appropriated. These resources will likely also be appropriated in the FY 15 supplemental appropriations bill.*
*****As it stands today, $6 M of the $8.2 M in Riverboat Funds are currently double encumbered within State Police and Medicaid. At the 2/27/2015 JLCB meeting, the committee rejected the use of TTF funds within State Police's FY 15 budget, which would have "freed-up" Riverboat Funds for use in the current year Medicaid budget as offset for SGF cuts.*

Debt Defeasance
Deborah Vivien, Fiscal Analyst/Economist, viviend@legis.la.gov

The FY 16 budget includes $191.5 M in SGF revenue made available through a debt defeasance in FY 15. A defeasance acts as a prepayment of principle and interest, which frees up SGF in the subsequent year that otherwise would have paid the debt service. In this case, the defeasance covered one year of debt service.

The SGF made available by the defeasance is recommended within the overall FY 16 budget and is a major component of the revenue replacements included in the proposed budget. In order for the defeasance to occur, money must be placed with a trustee prior to the end of FY 15 to create a fund from which payments will be made and interest will be accrued through FY 16. Thus, the funds must be available approximately 2 weeks before the fiscal year ends or about the middle of June 2015.

It is not known which funds have been identified for use in the defeasance. Due to interest accruing in the fund during the year and eligible for use in the defeasance, the entire $191.5 M will not be required, possibly closer to $185 M. Based upon committee testimony by the Division of Administration (DOA), the excess funds of $178 M identified during FY 15 (state's net cash portion) and used in part to offset the FY 14 budget deficit will make up a portion of the defeasement. However, those funds were declared non-recurring and are subject to deposits of 5% toward the Unfunded Accrued Liability ($8.9 M) and 25% to the Budget Stabilization Fund ($44.6 M) leaving 70% or about $125 M for use in the defeasement. The remaining $60 M has not been clearly identified or evaluated for timely availability. The specific source of these funds will not be made known until the Funds Bill is filed. The FY 15 budget included $210 M from a similar one-year defeasance.

Government Efficiencies Management Support (GEMS) "Savings"
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Included within the FY 16 budget are GEMS budgetary reductions that equate to a total of $94.3 M SGF ($163.2 M Total MOF). These budgetary reductions have various moving parts including: reduction associated with statewide initiatives such as procurement and human capital, agency specific GEMS adjustments and the creation of the Office of Human Capital and the Office of Procurement. Table 4 below is a summary of the net SGF and total means of financing (MOF) impact of the GEMS initiatives built into FY 16.

Table 4

SUMMARY (in millions)	SGF	Total MOF
Statewide GEMS Reduction	($46.7)	($57.9)
Human Capital/Procurement Consolidation & Billing	$1.0	$32.0
Statewide Adj Sub-Total	**($45.7)**	**($25.9)**
Agency Specific GEMS Reduction	($48.6)	($137.3)
TOTAL	**($94.3)**	**($163.2)**

Statewide GEMS Reduction ($46.7 M – SGF, $57.9 M – Total MOF)
The FY 16 budget includes a statewide adjustment that captures all anticipated expenditure savings from the statewide procurement initiative and the human capital initiative. Per the Executive Budget presentation, the breakdown is as follows:

	FY 15	FY 16
Procurement Initiative	$18.6 M	$17.3 M
Human Capital Management	$5.5 M	$5.3 M

According to the DOA, all these procurement and human capital GEMS initiatives will result in recurring savings at various state agencies and have been built into the FY 16 budget.

Agency Specific GEMS Initiatives ($48.6 M – SGF, $137.3 M – Total MOF)
The FY 16 budget includes various agency specific GEMS initiatives that are either annualized in the FY 16 budget (implemented in FY 15) or will be new initiatives in FY 16. The majority of this SGF reduction is contained within the Medicaid Program in the amount of $33.9 M SGF.

Other significant agency specified SGF GEMS reductions include $7 M within the Office of Juvenile Justice (OJJ) and $7.3 M net reduction adjustment within the Local Housing of State Offenders.

The $7 M in GEMS adjustments within OJJ is due to various initiatives including: probation & parole caseloads, relocation of youth, increasing Title IV-E Funds, improvement to monitoring non-secure resident-

ial contract providers & diversion program contract providers and span of control.

The $7.3 M aggregate net adjustment within Local Housing of State Offenders is associated with multiple initiatives, which seek to facilitate early release for certain offenders and increase participation in transitional work programs. While the projected savings total $13.2 M, the FY 16 budget includes implementation costs of $701,000 for Work Release and $5.1 M for Reentry Services.

Table 5 is a summary of the specific agency GEMS reductions included within the FY 16 budget.

Table 5						
Agency Specific GEMS Sumary	SGF	IAT	SGR	Stat. Ded	Federal	Total
01-EXEC	($100,000)	$0	$0	$0	$0	($100,000)
07-DOTD	$0	$0	$0	($2,205,192)	$0	($2,205,192)
08-CORR	($75,000)	$0	$0	$0	$0	($75,000)
08-DPS	$0	$0	($1,665,450)	($2,083,875)	$0	($3,749,325)
08-OJJ	($7,000,062)	$0	$0	$0	$0	($7,000,062)
09-DHH	($33,922,000)	$0	$0	$0	($56,570,520)	($90,492,520)
10-DCFS	($223,000)	$0	$0	$0	($863,824)	($1,086,824)
11-DNR	$0	($26,939)	($1,000)	($68,030)	$0	($95,969)
20-OTHER	$0	$0	$0	$0	$0	$0
21-ANCI	($7,322,851)	($25,196,000)	$0	$0	$0	($32,518,851)
TOTAL	**($48,642,913)**	**($25,222,939)**	**($1,666,450)**	**($4,357,097)**	**($57,434,344)**	**($137,323,743)**

Consolidation and Creation of the Office of State Procurement & Office of Human Capital (including agency billing) ($1.0 M – SGF, $32 M – Total MOF)
The FY 16 budget provides for the creation (within the Ancillary Appropriations Bill) of the Office of State Procurement and the Office of Human Capital. The statewide adjustments identified within the current budget are aggregate budgetary adjustments related to the transfer of various positions within state agencies to the newly created offices as well as the anticipated agency billings for FY 16.

The net budgetary impact of these 2 concepts is a SGF increase of $967,452 and a total MOF increase of $32 M and movement of 101 positions (state procurement), 316 positions (human capital), the transfer of 5 positions (from human capital to State Civil Service) and the reduction of 43 positions (relative to the human capital creation).

Note: To the extent the GEMS initiatives do not actually produce the anticipated savings as projected by the Division of Administration (DOA), the state agencies will have less resources in FY 16 than in FY 15.

GENERAL GOVERNMENT

FY 16 Election Expenses
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The cost of Election Day expenses for statewide elections to be held in FY 16 is projected at $20.3 M. These costs include, but are not limited to, commissioner pay, drayage, precinct rental, and ballot printing. The Secretary of State is currently budgeted $16.9 M, which is the full amount of these costs in FY 15 and requested an additional $3.4 M for additional statewide elections to be held in FY 16. These include the gubernatorial primary and general elections in the fall as well as the presidential primary in the spring of 2016. Additionally municipal primary and general elections will be held in Spring 2016. The FY 16 Executive Budget does not include funding increases for these elections.

Act 424 of 2013 definition of nondiscretionary expenditures which must be funded because of constitutional and other mandates includes the cost of elections and ballot printing as well as the salaries and related benefits for the registrars of voters and their employees. While these costs are not fully funded in the FY 16 Executive Budget, appropriations to the Secretary of State are "more or less estimated" so

election expenses, which are not included in the agency's budget authority must be funded in a supplemental funding bill or other instrument.

Furthermore, the FY 16 budget annualizes FY 15 mid-year reductions associated with funding for the Registrar of Voters staff ($997,181) and eliminates Voter Outreach Services ($335,585). Statutes require the Secretary of State to pay the state's share of salaries for the Registrar of Voters and their employees. Voter Outreach staff are responsible for encouraging qualified LA citizens to register to vote by developing and promoting a program of education for school-aged children and adults on the registration and voting process. The Outreach Division seeks to participate or sponsor at least one voter education outreach event in each parish annually.

HEALTH & HOSPITALS

Solving for FY 16 Medicaid - Executive Budget

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The FY 16 Medicaid Budget Request reflects approximately $900 M in SGF need for FY 16, $700 M in additional SGF need alone to replace non-SGF revenue sources that is used as state match to draw federal financial participation for provider payments. The requested MOF swap of $700 M represents funding to maintain FY 15 base services/spending (standstill budget) in the Medicaid Program for FY 16.

Although SGF support increased by approximately 29% ($530 M) in the Executive Budget, appropriated funding for the Medicaid budget (Medical Vendor Payments) essentially reflects a standstill budget for FY 16 ($94 M, or 1.2% increase). Standstill funding is achieved through replacement of $700 M in one-time revenues with SGF and other revenues that likely will require replacement in FY 17, implementation of cuts/efficiencies, adding new Federal funds to offset SGF, and not funding projected growth (in Medicaid Managed Care, the Public Private Partnerships, and mandatory provider categories).

FY 16 Executive Budget Solution

Replace Major One-Time Revenues ($700 M)

$232.9 M SGF used to replace Medicaid Trust Fund for Elderly means of finance
$266.3 M SGF ($213.5 M) and **new Overcollections** (OC) Fund revenues ($52.8 M) replacing FY 15 OC revenues
$156.5 M SGF ($106.5 M) and **new forecasted Amnesty revenues** ($50 M) replacing FY 15 Amnesty revenues
$46 M SGF to replace other Statutory Dedication revenues no longer available in FY 16

Note: *Approximately $153.8 M of SGF in Medicaid in FY 16 represents supplemental refundable tax credit rev*enue.

Cuts/Efficiencies (SGF Savings)

($33.9 M) GEMS efficiencies - SGF savings through various payment and program initiatives
($18.0 M) Elimination of legacy expenses associated with LSU HCSD and LSU Shreveport
($4.7 M) Eliminate High Medicaid DSH pool funding, implement triage and sub acute rate
($2.0 M) Eliminate Outlier payment pool funding
($2.1 M) Elimination LaHIPP Program (SGF savings)
($4.4 M) Annualize mid-year cuts (reduce payments for MHERE, High Medicaid DSH pool, Pediatric Day Healthcare facilities, and supplemental reimbursement to hospitals for treating certain Medicaid Patients with Hemophilia).

New Revenues (SGF Savings)

($36.7 M) – Federal match percentage increase reducing need for like amount of SGF in the LaChip Program
($67.2 M) – Non SGF state match source transferred from LSU to DHH for physician UPL payments

Projected Growth (Not Funded)

Public Private Partnerships – The FY 16 Executive Budget does not fund Uncompensated Care Costs (UCC) payment growth associated with the public private partnerships, nor projected UPL growth for hospitals other than Children's in New Orleans ($105 M UPL adjustment). A projection cost spreadsheet received from DHH reflects approximately $141.9 M (14%) projected payment growth in both UPL and UCC payments over the current appropriation (FY 15).

Bayou Health – The FY 16 Executive Budget does not fund additional projected costs associated with Bayou Health. The Medicaid Budget Request reflects additional plan costs in FY 16, which is anticipated to result in a modification (increase) to the actuarially sound rate range. Based on recommended level of funding, it is assumed the rate capitation rate point will fall below the current 50% within the rate range. To the extent the capitation rate point would fall below a newly established rate range, DHH could modify provider rates or restructure benefits managed by the plans. Based on Bayou Health re-procurement, the FY 16 budget projection as reflected in the FY 16 Executive Budget is approximately $3,297,831,062

Other – The FY 16 Executive Budget does not fund growth in certain mandated payment increases. These include rate increases to Federally Qualified Health Centers and Rural Health Clinics ($581 K SGF), Hospice mandated rate increase ($2.1 M SGF), 100% State General Fund 'Clawback' payments to cover the costs associated with prescription drug payments -Medicare Part D ($15.6 M SGF). In addition, other projected growth is not funded, such as Long Term Personal Care Services ($3.4 M) and Buy in premium increases ($4.9 M).

Items Funded with Tax Credit Revenue

The Medicaid budget for FY 16 includes approximately $153.8 M in contingent revenue that is based on revenue from elimination of certain refundable tax credits. Based on information in the FY 16 Supporting Document from the Division of Administration, this revenue is tied to certain payments in Medicaid and is reflected as a Supplementary Recommendation. Contingent revenues are tied to a portion of Public Private Partnership payments, rural hospital payments, managed care payments, and supplemental payments and provider rates.

Medicaid Outlook

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The FY 16 Medicaid budget contains $256.6 M supplementary and replacement revenues used as a state match source. Supplementary revenues are generated by proposed changes to refundable tax credits.

FY 17 Replacement Revenues

The FY 16 Medicaid budget contains approximately **$102.8 M** in funding from 2 separate sources that will likely have to be partially or entirely replaced with SGF or alternate revenue sources in FY 17. These sources of revenue include Amnesty tax collections projected to be collected in FY 16, and Overcollections Fund revenues. These fund sources are appropriated in Payments to Private Providers, and collectively will draw $169 M ($169,035,641) in federal match for a total of $271.9 M ($271,892,619) in claims payments.

Amnesty Revenues: The Executive Budget reflects $50 M in amnesty revenues appropriated in Medical Vendor Payments (Payments to Private Providers) for FY 16. Any revenues anticipated to be generated through a tax amnesty program are deposited into the 2013 Amnesty Collections Fund. Act 421 established the 2013 Amnesty Collections Fund through the LA Tax Delinquency Amnesty Act of 2013. All $50 M of these revenues will be used as a state match source to draw federal financial participation for claims payments to private providers. Based on the FY 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for LA Medicaid, $50 M in amnesty revenues will generate approximately $82 M in federal matching funds for a total of $132 M in Medicaid claims payments. To the extent amnesty tax revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments to providers will probably be reduced by a proportionate amount (inclusive of federal match).

Overcollections Fund Revenues: The Executive Budget contains $52.8 M in Overcollections Fund revenues appropriated in Medicaid (Payments to Private Providers) for FY 16. The known revenue sources that are projected to be in the Overcollections Fund include Motor Fuels Underground Tank Fund, Employment Security Admin Account, Penalty & Interest Account, and the Telephone Community Property Assessment Relief Fund. All $52.8 M of the Overcollections Fund revenues appropriated in Medicaid for FY 16 will be used as a state match source to draw down federal financial participation for claims payments to private providers. Based on the FY 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for LA Medicaid, $52.8 M in Overcollections Fund revenues will generate approximately $86.9 M in federal matching funds for a total of $139.7 M in Medicaid claims payments. To the extent Overcollections Fund revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments to providers will probably be reduced by a proportionate amount (inclusive of federal match).

The sources of revenue are reflected below:

Revenue Source	Amount
State Tax Amnesty Program Revenues	$50,000,000
Overcollections Fund Revenues	$52,856,978
FY 15 Non-SGF Match Sources Used as Match	$102,856,978

Supplementary Revenues

In addition to these above referenced non-SGF revenue sources used as state match, the FY 16 Medicaid budget includes approximately **$153,826,672** in contingent revenue resulting from the elimination of certain refundable tax credits. This revenue is used as a state match source for Medicaid DSH payments to providers.

	FY 16 Tax Revenue Appropriated	Federal Match	Total Payments Impacted in FY 16
Payments to Private Providers	$65,283,785	$107,287,679	$172,571,464
DSH Payments (UCC Costs)	$88,542,887	$145,759,539	$234,302,426
Total Tax Revenue	**$153,826,672**	**$253,047,218**	**$406,873,890**

Public Private Partnership Payments

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The FY 16 Executive Budget maintains base funding of $1,150,396,329 for Public/Private Partnership payments for FY 16, plus a $105,736,187 additional UPL payment to Children's Hospital in New Orleans, for total of $1,256,129,516 in funding for the partnerships in FY 16. 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 Medicaid payments. The UPL defines a payment level a state can pay certain Medicaid providers. Specifically, it represents a maximum aggregate payment a state can pay to a provider class. These payments to a provider type are above what a state (DHH) is paying for services to that provider class through its Medicaid provider rates.

UPL & DSH Payment Growth

The FY 16 Executive Budget does not fund projected payment growth in the partnerships associated with DSH payments. However, the budget provides for an increase in UPL payments by $105 M, specifically for Children's Hospital (ILH partner). Based on cost projection worksheets received from DHH, the partnership budget submission reflects a request of approximately $ 141.9 M in both UPL and UCC payment growth over FY 15 allocated funding.

Chart 2 reflects FY 14 and 15 partnership funding allocations, FY 16 budget submission (requested), and recommended funding.

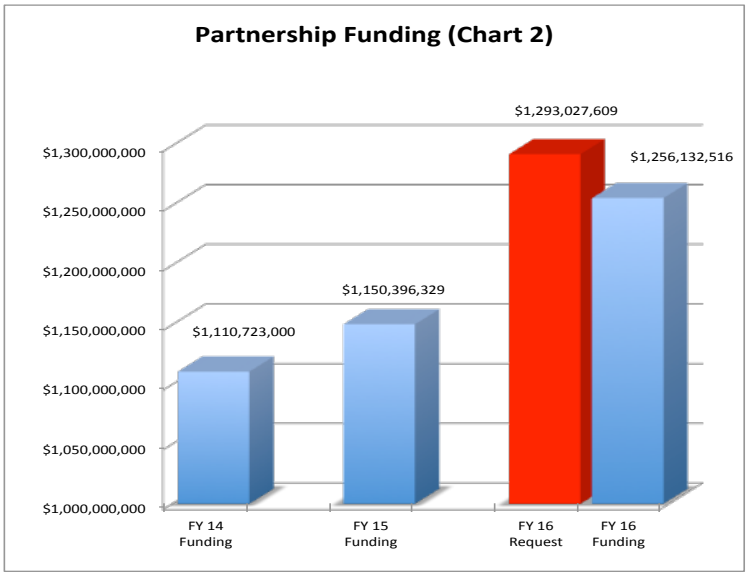

Table 6 below reflects FY 16 partnership payment history, exclusive of Lallie Kemp Regional Medical Center.

Table 6				
	FY 14 Allocated	FY 15 Allocated	FY 16 Recommended	Note
Title XIX claims	$177,999,183	$150,003,674	$150,003,674	(portion of claims in Bayou Health
UPL	$279,559,909	$263,857,238	$410,362,356	(Increase - Childrens' & Conway
UCC	$653,163,908	$736,535,417	$695,766,486	(EA Conway - DSH to UPL model
Total	$1,110,723,000	$1,150,396,329	$1,256,132,516	

Note: Total UPL payments are increasing as a result of EA Conway being financed through a

supplemental payment model (corresponding decrease in UCC payments in EA Conway), and as a result of increasing supplemental payments to Children's Hospital in New Orleans by $105.7 M.

Note: There is no direct funding in the partnerships for certain legacy expenses associated with LSU Health Care Services Division or LSU Shreveport. However, the Medicaid budget includes $177.8 M in total funding for Physician UPL payments to LSU. Information provided by the Division of Administration indicates a portion of these payments can be used for certain ongoing legacy expenses (such as risk management premiums).

MFP and LA Scholarships Programs FY 16 Funding

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The Minimum Foundation Program (MFP) provides for an equitable distribution of state funds to local school districts. The MFP is the major source of state funding to local schools. For FY 15, the MFP is funded at $3.59 B; $3.3 B in SGF and $291.6 M in Statutory Dedications from the Support Education in LA First Fund ($173.2 M) and Lottery Proceeds Fund ($118.4 M). The FY 16 Executive Budget includes an adjustment of $34 M for an anticipated increase of 6,284 students. Additionally, there is a $32.2 M MOF swap replacing Lottery Proceeds funds ($19.7 M) and SELF funds ($12.5 M) with SGF based on the most recent REC forecast. FY 16 recommended funding totals $3.62 B ($3.36 B SGF, $153.5 M Lottery Proceeds Fund and $105.9 SELF Fund).

The MFP Task Force formed by BESE in 2013 reconvened in September 2014 in response to a number of legislative requests passed during the 2014 R.S. The task force has recommended that BESE request that the Legislature fund a 2.75% inflation adjustment, (approximately $75 M), increase funding for high costs special education services ($5.4 M) and increase per pupil funding for career education and dual enrollment (Course Choice) from $26 to $35 ($2.6 M). In light of the state's fiscal issues, the DOE instead recommended an increase of $1.38% ($36 M) while supporting the recommendations for the funding increases for special education and career education. On March 6, BESE voted to approve the recommendations of the DOE and to send the request to the Legislature for a total request of an additional $44 M. The MFP must be submitted to the Legislature by March 15.

The Student Scholarship for Educational Excellence Program (SSEEP) was funded at $46.2 M, in FY 15 with anticipated enrollment of 8,130 students at an average tuition of $5,557. Actual enrollment for the first two quarters has averaged 7,272 with an average tuition of $5,551. Based on historical attrition in the program, the LFO projects a program surplus of $5.4 M. As a result of the lower than expected enrollment, the program budget was reduced by $3.8 M as part of the mid year deficit reduction plan. Also included in the FY 15 budget was $4 M to improve program quality and provide support for choice programs. The DOE has awarded contracts totaling $2.6 M for organizations to launch new School Tuition Organizations, expand existing capacity and launch new scholarship schools.

For FY 16, the mid year reductions were not annualized, resulting in a standstill funding level of $46.2 M; the department projects an additional 679 students will participate in the program. However, in November 2014, the DOE reported that 15 participating schools did not meet required performance scores and voucher students at an additional 8 schools did not achieve proficiency rates. Those schools will not be permitted to enroll new student in the 2015-2016 school year. The extent to which the grant awards will generate new slots is not known, as the list of schools participating in 2015-2016 is not yet available.

Early Childhood Education FY 16 Funding

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Early Childhood Education for the Cecil J. Picard LA 4 Early Childhood Program is currently funded at $76.8 M ($34.5 M SGF, $35.5 M TANF and $6.8 M 8g) in the DOE. Additionally, the Child Care Assistance Program (CCAP) which helps low-income families pay for child care while working or attending school or training is funded at approximately $77 M with federal Child Care Development Funds (CCDF) in the Department of Children and Family Services (DCFS). In accordance with Act 868 of the 2014 RS, the transfer of the CCDF Lead Agency Status to the DOE will become effective 7/1/2015. Until that time, pursuant to Cooperative Endeavor Agreements between the departments providing for the transition, the DOE has begun to promulgate rules for the administration and oversight of child care and early learning

centers, including licensing regulations, minimum educational standards, training and certification requirements for staff as well as a transition from the current Quality Start rating system to a letter grade rating system.

As such, the FY 16 Executive Budget provides a number of adjustments relative to early childhood funding which include: 1) a $17.2 M increase in IAT authority for DOE to receive CCDF funding from DCFS; 2) a $59.9 M increase in federal funds to receive CCDF funds directly at the start of the federal fiscal year in October; and 3) an increase of 50 positions. As a result, funding for early childhood in the DOE is budgeted at $77.4 M for FY 16. In addition, a $27.9 M MOF swap replaces SGF with increased TANF funds for the LA4 Program.

HCR 61 of 2014 requested BESE to consult with the Early Childhood Advisory Council to develop a statewide model for the equitable funding and distribution of public funds for early childhood care and education for children aged birth to 5 and to submit recommendations to the Legislature 60 days prior to the 2015 Legislative Session. The funding model working group recommendations focused on 3 components for a combined funding request of $80 M for full implementation. The components included: 1) Upgrade Quality – by increasing per child funding from $4,580 to $5,185 for the current LA4/NSECD enrollment of 17,827 for a total cost $11M; 2) Create Equity – by increasing per child funding for 12,413 infant to 4 year olds currently in the Child Care Assistance Program for a total cost of $63 M; and 3) Increase Access – by increasing the number of at-risk 4 year olds to include an additional 5,012 children not being served currently (at $5,185 each) for a total cost of $26 M. The FY 16 Executive Budget does not contain funding for these recommendations.

Higher Education FY 16 Funding

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FY 15 EOB funding for Higher Education totals $2.63 B ($924.1 M SGF). The FY 16 Executive Budget recommends a total budget of $2.04 B ($390.9 M SGF) reflecting reductions of $583.4 M ($533.2 M SGF); this equates to a 58% reduction in SGF and an overall reduction of 22% for higher education. Most significantly, the recommended budget includes $372 M in potential revenues generated by proposed changes to the refundable tax credits (*see article entitled Refundable Tax Credits Proposed To Fund The FY 16 Executive Budget)*. As such, the level of funding for Higher Education in the Executive Budget is reflected at $2.4 B ($762.9 M SGF) reflecting reductions of only $211.2 M ($161.2 M SGF) equating to a 17% reduction in SGF and an overall reduction of 8% for higher education.

Significant adjustments include the elimination of $12.6 M including equity formula funding ($6.1 M), STEM funding ($2 M), and support for the Southern System ($4.5 M). Significant increases include $34.2 M for TOPS associated with tuition increases, $24.1 M MOF swap replacing non-recurring TOPS savings from a bond refinance with SGF. A $70 M MOF swap replaces SGF with tuition and fees associated with Grad Act tuition increases. Finally, $90.3 M in SGF associated with public/private contracts and the Health Science Centers has been moved off budget.

WISE funding in FY 15 included $16.85 SGF, $12.15 M IAT from the Community Development Block Grant (CDBG) Program appropriated in the operating budget (Act 15) and $11 M in Overcollections Funds appropriated in the Capital Outlay Bill (Act 25). The use of CDBG funds for this purpose requires HUD approval of an amendment to the State's Action Plan and expenditure of those funds is limited to 53 hurricane impacted parishes. To date, HUD has not approved the amendment. Additionally, the $11 M has not been deposited into the Overcollections Fund. As a result, only the SGF has been distributed to the institutions. The FY 16 Executive Budget includes $30 M in funding for the WISE initiative. $5.7 SGF and $24.3 M in CDBG funds. Table 7 on the next page summarizes the changes in SGF for higher education from FY 15 to FY 16.

The first column in the table shows the FY 15 SGF existing operating budget (EOB) by institution and system. The second column entitled "FY16 Recommended" shows the $391 M in SGF in the FY 16 recommended budget allocated to higher education. The recommended budget does not allocate specific amounts of SGF to individual institutions or systems. Instead, the recommended budget assigns all the SGF to the Board of Regents for allocation by the Board after passage of the appropriations bill. However, Table 7 on the next page illustrates the potential impacts of the SGF reductions on individual institutions

and systems. The table assumes that the Legislature will fully fund the SGF requirements related to the Scholarship and TOPS programs within the LA Office of Student Financial Assistance (LOSFA). Excluding LOSFA, the table assumes that remaining higher education institutions and systems will receive an 82% pro rata reduction in SGF. In reality, the funding formula adopted by the Board of Regents WILL NOT allocate funding to institutions and systems on a uniform basis. However, Table 7 is intended to GENERALLY illustrate the magnitude of the reductions in SGF faced by institutions and systems in the proposed budget.

The recommended budget includes $372 M in supplementary funding related to proposed legislation converting specific refundable tax credits to nonrefundable tax credits. The column entitled "FY 16 Recommended including Supplemental Funding" in the table shows the funding for higher education including the $372 M in supplementary funding. This column uses the same assumptions relative to allocation of SGF to LOSFA, and applies the additional $372 M in supplementary funding to the remaining higher education institutions and systems on a pro rata basis. Application of this additional $372 M in SGF results in an average decrease in funding of 30% from FY 15 to FY 16, compared to 82% without these supplemental funds.

Higher Education - State General Fund Summary by Institution and System (FY 15 Existing Budget to FY 16 Recommended Budget) Equal % Reductions in FY 16 Prior to Allocation of Formula Funding by Regents (Table 7)

Institution/System	FY 15 Existing Operating Budget (EOB)	FY 16 Recommended	% Change FY15 EOB to FY16 Rec.	FY 16 Recommended including $372 M Supplemental Funding	% Change FY 15 EOB to FY 16 Rec. including Supplemental Funding
LSU - Alexandria	$5,096,001	$952,710	-81%	$3,589,691	-30%
LSU - Baton Rouge	$115,136,522	$21,238,329	-82%	$80,023,308	-30%
LSU - Eunice	$4,560,182	$850,174	-81%	$3,203,346	-30%
LSU - Shreveport	$7,030,978	$1,298,113	-82%	$4,891,122	-30%
LSU HSC - New Orleans	$69,277,530	$12,789,346	-82%	$48,188,620	-30%
LSU HSC - Shreveport	$36,418,254	$6,720,792	-82%	$25,323,087	-30%
LSU Ag Center	$64,200,388	$11,857,963	-82%	$44,679,287	-30%
Pennington	$12,226,396	$2,260,588	-82%	$8,517,608	-30%
LSU System Total	**$313,946,251**	**$57,968,014**	-82%	**$218,416,069**	-30%
SU Board	$7,046,139	$1,303,270	-82%	$4,910,556	-30%
SU - Baton Rouge	$20,285,609	$3,742,602	-82%	$14,101,647	-30%
SU - New Orleans	$6,240,850	$1,151,615	-82%	$4,339,138	-30%
SU - Shreveport	$5,087,969	$940,114	-82%	$3,542,228	-30%
SU Law Center	$4,837,633	$893,746	-82%	$3,367,521	-30%
SU Ag Center	$2,360,193	$436,263	-82%	$1,643,784	-30%
SU System Total	**$45,858,393**	**$8,467,610**	-82%	**$31,904,873**	-30%
UL Board	$1,033,268	$191,116	-82%	$720,099	-30%
Grambling	$13,484,331	$2,488,764	-82%	$9,377,346	-30%
LA Tech	$26,711,053	$4,930,453	-82%	$18,577,316	-30%
McNeese	$17,150,879	$3,165,763	-82%	$11,928,189	-30%
Nicholls	$14,574,135	$2,689,955	-82%	$10,135,407	-30%
Northwestern	$19,998,358	$3,692,281	-82%	$13,912,042	-30%
Southeastern	$28,851,253	$5,325,838	-82%	$20,067,076	-30%
UL Lafayette	$43,862,785	$8,133,582	-81%	$30,646,297	-30%
UL Monroe	$23,821,070	$4,396,376	-82%	$16,564,982	-30%
UNO	$28,994,984	$5,349,929	-82%	$20,157,847	-30%
UL System Total	**$218,482,116**	**$40,364,056**	-82%	**$152,086,602**	-30%
LCTCS Board	$7,153,027	$1,323,041	-82%	$4,985,048	-30%
Baton Rouge CC	$14,486,430	$2,675,599	-82%	$10,081,315	-30%
Bossier Parish CC	$10,509,907	$1,941,999	-82%	$7,317,205	-30%
Central LA Technical College	$5,616,572	$1,037,470	-82%	$3,909,056	-30%
Delgado CC	$25,459,433	$4,702,520	-82%	$17,718,496	-30%
LA Delta CC	$7,815,254	$1,443,468	-82%	$5,438,803	-30%
LA Technical College	$10,747,501	$1,985,201	-82%	$7,479,982	-30%
L. E. Fletcher Technical CC	$2,895,998	$534,981	-82%	$2,015,740	-30%
Northshore Technical CC	$4,919,093	$908,701	-82%	$3,423,868	-30%
Nunez CC	$3,306,834	$610,892	-82%	$2,301,763	-30%
River Parishes CC	$3,268,547	$603,878	-82%	$2,275,334	-30%
South Louisiana CC	$12,400,527	$2,290,293	-82%	$8,629,533	-30%
Sowela Technical CC	$6,351,588	$1,173,513	-82%	$4,421,648	-30%
LCTCS Online	$1,295,904	$239,693	-82%	$903,134	-30%
LCTCS System Total	**$116,226,615**	**$21,471,250**	-82%	**$80,900,925**	-30%
LOSFA					
Scholarships	$26,339,725	$28,129,108	7%	$28,129,108	7%
TOPS	$169,900,750	$228,316,610	34%	$228,316,610	34%
LOSFA Total	**$196,240,475**	**$256,445,718**	**31%**	**$256,445,718**	**31%**
Board of Regents	**$31,099,579**	**$5,742,323**	**-82%**	**$21,636,340**	**-30%**
LUMCON	**2,296,246**	**$424,521**	**-82%**	**$1,599,541**	**-30%**
Statewide Total	**$924,149,675**	**$390,883,493**	**-58%**	**$762,990,068**	**-17%**

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

February 2015

Volume 3, Issue 9

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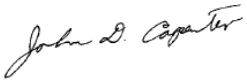
FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. This issue provides information on the January meeting of the Revenue Estimating Conference and the second round of the FY 15 Mid-Year Deficit Reduction Plan, as well as a summary of both reduction plans. Also discussed are Outstanding Fund Balance Transfers, Office of Group Benefits updates and Department of Corrections savings.

The March edition of Focus on the Fisc will provide an overview of the 2016 Executive Budget and will be the last Focus on the Fisc of FY 15.



FOCUS POINTS

Revenue Forecast Reductions: REC meetings of 11/14/15 and 1/26/2015

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The Revenue Estimating Conference (REC) has met twice this fiscal year, on November 14, 2014 and again on January 26, 2015, and at both meetings reduced overall state tax revenue forecasts for the current fiscal year (FY 15) and the ensuing fiscal year (FY 16) relative to the forecasts in place at the start of the current fiscal year which was established at the May 19, 2014 REC meeting. The combined results of the two meetings were state general fund tax forecast reductions of $297 million for FY 15 and $405 million for FY16, respectively. These forecast reductions have significantly been the result of dramatically falling oil prices, with consequent effects on mineral revenue collections and projections. However, the bulk of the projected funding shortfall for the FY 16 budget is not related to oil prices. The FY 16 funding shortfall was projected at nearly $1.2 billion before any oil price revisions were considered. Nearly $1 billion of that shortfall is associated with the use of ad hoc resources supporting the current FY 15 budget that will have to be replaced for the FY 16 budget. In addition, current FY 15 shortfalls have been financed, in large part, with additional ad hoc resources that add to the funding shortfall for FY16. The drop in mineral revenue projections has exacerbated the FY16 funding shortfall, comprising about 25% of that shortfall. Table 1 (found on page 2) displays the major forecast revisions for FY 15 and FY 16 as of the January 26, 2015 REC meeting compared to the forecasts in place as of the start of the current fiscal year.

Along with forecast reductions for FY 15 and FY 16, comparable reductions have been made in the forecast baseline out-years. The forecast for FY 17 is now $341 million lower, and for FY18 $527 million lower. A forecast for FY 19 has now been appended onto the outlook as well. These overall forecast baseline reductions largely reflect a new lower oil price baseline that drops sharply in FY 15 to $69.36 per barrel, bottoms out in FY16 at $59.64 per barrel, and then climbs to nearly $70 per barrel by FY 19. This new price path for oil amounts to nearly a $12 drop since the REC meeting in November, and a $23 drop since the May 2014 meeting that started the current fiscal year, and was held before oil prices began their precipitous drop.

The total general fund downgrades are largely the effect of mineral revenue reductions, but also weakness in the personal income tax. These reductions are partially offset by upgrades to other revenue sources. Increased dedications eat up some of the offsetting upgrades, with the net of all revisions reflected in the general fund bottom line. While masked by the REC switching to the LFO forecast for the November 2014 and January 2015 meetings from the DOA forecast at the May 2014 meeting, the forecast for general sales tax receipts is actually helping materially. This tax finally appears to be gaining some growth traction this fiscal year after three years of essentially no growth. Gaming receipts have been revised upward largely on the early-December opening of the new riverboat in Lake Charles. This revision relies on a net expansion of the state gaming market, and that scenario is likely since the new boat is located close to the Texas border. However, net statewide market expansion is not assured. When a third boat was added to the Baton Rouge market in September 2012, that local market permanently expanded but the statewide market and total riverboat gaming receipts did not. Vehicle sales taxes are not as strong as the double-digit growth seen a couple of years ago, but is still a solid tax exhibiting more growth than expected earlier in the year. The insurance premium tax also continues to come in stronger than expected.

Table 1

MAJOR REC REVENUE FORECAST REVISIONS
As of January 26, 2015

	FY15			FY16		
Revenue Source (millions $)	**As of 5/19/14**	**As of 1/26/15**	**Forecast Change**	**As of 5/19/14**	**As of 1/26/15**	**Forecast Change**
Personal Income	$2,932.4	$2,869.4	-$63.0	$3,107.7	$2,987.8	-$119.9
Sales, General	$2,695.7	$2,700.6	$4.9	$2,766.3	$2,769.5	$3.2
Corporate	$350.8	$350.0	-$0.8	$363.0	$350.0	-$13.0
Severance	$808.5	$681.4	-$127.1	$802.7	$508.2	-$294.5
Royalty	$482.6	$334.3	-$148.3	$467.1	$385.4	-$81.7
Gaming	$771.4	$802.1	$30.7	$771.4	$790.6	$19.2
Sales, Vehicle	$380.1	$387.2	$7.1	$386.9	$399.2	$12.3
Premium Tax	$449.8	$469.2	$19.4	$457.9	$532.7	$74.8
Earnings	$42.1	$30.0	-$12.1	$39.3	$32.0	-$7.3
All Other	$1,727.0	$1,767.7	$40.7	1738.3	$1,778.7	$40.4
Total Tax	$10,640.4	$10,391.9	-$248.5	$10,900.6	$10,534.1	-$366.5
Dedications	$1,957.9	$2,006.3	$48.4	$1,978.8	$2,017.1	$38.3
General Fund	$8,682.5	$8,385.6	-$296.9	$8,921.8	$8,517.0	-$404.8
Transfer from TTF to General Fund			$22.5			

On the downside is the personal income tax. Sustained traction in that tax has yet to be exhibited. The filing season is beginning and refunds will be strong before payments dominate. Only modest growth is expected, but target growth has not occurred yet. The corporate tax forecasts are only marginally different, but performance can materially surprise on both the upside and downside in the last quarter of the fiscal year. General fund earnings also continue to weaken in the face of persistently low interest rates. Other net upgrades are essentially offset by comparable increases in dedications, leaving the tax-based general fund bottom line down by $297 M for FY 15 and $405 M for FY 16.

In addition, the REC recognized a $22.5 M transfer of Transportation Trust Fund monies to the general fund in FY 15 at the January 2015 meeting. This item is discussed in another article in this edition of the newsletter. This transfer was recognized as recurring revenue.

Reducing Funding to Higher Education $300 to $400 M and DHH $200 M to $300 M Presents a Partial Solution

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As has been reported by the news media, the FY 16 SGF support of Higher Education may be reduced approximately $300 M to $400 M and the FY 16 SGF support of the Medicaid Program may be reduced $200 M to $300 M for a total FY 16 SGF reduction of approximately $500 M to $700 M. To the extent these reductions are actually included in the FY 16 Executive Budget Recommendation, there will still be an approximately $900 M to $1.1 B problem which must be addressed.

In previous editions of *Focus on the Fisc*, the Legislative Fiscal Office has reported to the legislature the potential financing replacement needs in FY 16. Upon approval of the Round 2 FY 15 Mid-Year Deficit

Reduction Plan, this number has grown to approximately $1.2 B. In addition, since the beginning of the fiscal year the revenue forecast has been significantly reduced, which has resulted in a net SGF revenue loss for FY 16 of $405 M for a total "real" problem of $1.6 B SGF just to maintain the current level of state services (see Table 2). This problem does not include any potential additional funding increase needs such as TOPS enrollment growth, MFP student enrollment growth and/or health care/pharmacy utilization increases.

See the article titled Medicaid Outlook below by Shawn Hotstream that discusses the details of this specific issue relative to the Medicaid Program.

Table 2	
	FY 16
Financing Replacements (see Table 6 on Page 7 of this document)	$1,182.2
Oil Price Impact	$405.0
	$1,587.2

Medicaid Outlook

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The FY 16 Medicaid Budget Request submitted by DHH reflects $979 M in SGF need. This is based largely on replacing approximately $709 M in non-SGF resources that were used as a state match source to draw federal financial participation for payments to providers.

In addition, both the 1st and 2nd mid-year deficit reduction solution added approximately $114.5 M (Table 3) in revenues used as a state match source. The SGF reductions associated with mid-year reductions are still built into the Medicaid budget, as the budget freeze date of December was prior to the both deficit solutions.

Table 3	
Significant non-SGF Sources Used as State Match in FY 15	
HB 1 Enrolled	
$156,539,178	2013 Amnesty Collections Fund
$266,346,081	Overcollections Fund
$232,916,144	Medicaid Trust Fund for Elderly revenues
$655,801,403	
1st Mid-Year Deficit Solution	
$4,900,000	MATF
$47,000,000	Overcollections Fund
$23,448,257	Amnesty Collections
$6,601,110	Health Excellence Fund
$81,949,367	
2nd Mid-Year Solution	
$32,506,438	Overcollections Fund
$770,257,208	Total Non-SGF State Match Revs. Used in FY 15

Note: Both the 1st and 2nd mid-year deficit BA-7 were amended by the Joint Legislative Committee on the Budget to reduce certain proposed Statutory Dedication replacement revenues. The removal of these funds from the proposed BA-7 resulted in additional cuts to Medical Vendor Payments, and may become a supplemental need (it is anticipated that these funds reduced from the original BA-7s will be appropriated to DHH through a supplemental bill instrument in FY 15.) To the extent funds are added in supplemental, the amount of non-SGF used as a state match source in FY 15 will increase.

FY 16 Outlook

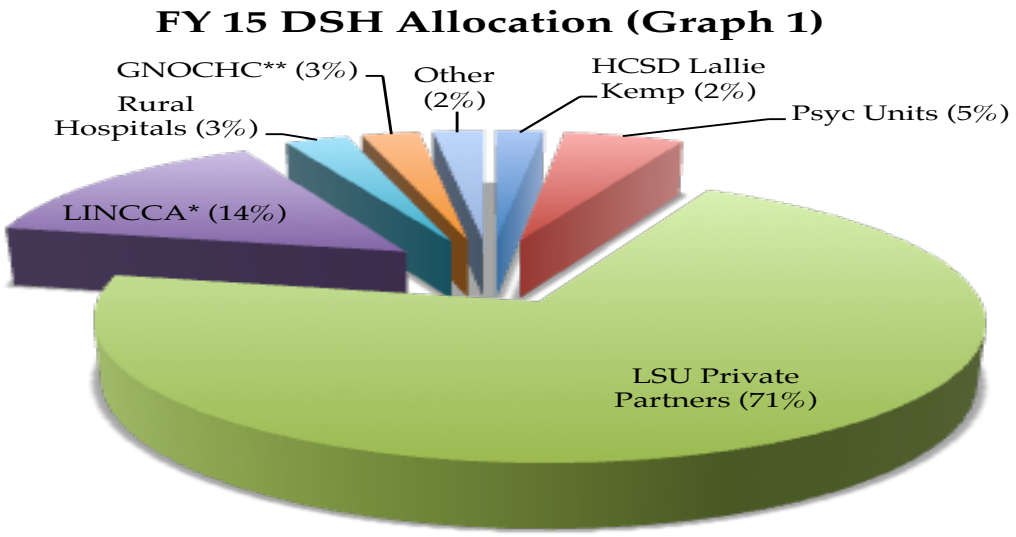
Due to the level of revenues likely needing to be replaced with SGF or similar fund resources in order to maintain a standstill budget in FY 16, it is assumed the level of means of finance swap requested in the Budget will not be replaced entirely with SGF. As an illustrative example, a $100 M state match source cut (or SGF means of finance swap) to Medicaid will still require an approximate $600 M solution to maintain a standstill budget. This assumes no new efficiencies would be built into the Medicaid budget for FY 16.

Illustration:

$709 M	State General Fund match Means of Finance Swap for standstill budget
($100 M)	Means of Finance swap or cut solution
$609 M	State match (SGF for other like resources) required for FY 16 standstill budget

Any SGF cut to Medical Vendor Payments (MVP) will have a match effect, resulting in the loss of federal matching funds. For Title XIX claims payments, the FY 16 budget is based on a blended federal match rate of 62.21% (37.83% state match). As an illustrative example, a $100 M SGF match reduction equates to a loss of approximately $164 M in federal matching funds, or a reduction in total claims payments of $264 M.

The magnitude of SGF cut allocated to Medicaid would likely determine a cut scenario. The LFO can not predict the level of cut to Medicaid if any at all, however possible scenarios could include reduction in eligible populations, services/program reductions, rate cuts, or other efficiencies. One of the larger optional payment programs include the Uncompensated Care Costs (UCC) Program that pays Disproportionate Share Hospital (DSH) payments for eligible costs to certain providers, the majority of which are allocated to the public private partnership. See DSH Allocation in Graph 1 below.



*Low-Income and Needy Care Collaboration Agreement (LINCCA)
**Greater New Orleans Community Health Connection (GNOCHC)

FY 15 SGF Mid-Year Deficit Reduction Plan (Round 2)
Legislative Fiscal Office Staff

The Revenue Estimating Conference (REC) met on 1/26/2015 and reduced the state tax revenue forecasts for the second time this fiscal year. The State General Fund (SGF) reduction totaled $126 M; the REC also recognized an increase in Transportation Trust Fund transfers into the SGF in the amount of $22.5 M, which had been approved as part of the FY 12 Deficit Reduction Plan (December 2011). As a result, the net SGF revenue forecast reduction totaled $103.5 M. In response, the Division of Administration (DOA) ***originally*** offered a second mid-year deficit elimination plan (Round 2 Plan) and presented the plan to the Joint Legislative Committee on the Budget (JLCB) on 2/20/2015, which anticipated SGF expenditure reductions totaling $71 M, non-SGF expenditure reductions totaling $32.5 M and revenue offsets to the SGF reductions totaling $42.9 M for a net expenditure reduction of $60.6 M. ***However, due to the JLCB's rejection of proposed BA-7 #18 (State Police), as of this writing there is $939,570 of the $103.5 M deficit problem outstanding.***

Note: *The JLCB anticipated that the DOA would propose an alternative solution at the next JLCB meeting, (2/27/2015). However, the DOA has submitted a proposed State Police BA-7 for the 2/27/2015 JLCB meeting that essentially proposes the same proposal that was rejected by the committee on 2/20/2015.*

Rejecting BA-7 #18 (State Police)
Pursuant to Title 39:75, BA-7 #18 within State Police originally provided that the Riverboat Gaming Enforcement Fund be reduced $939,570 in order to assist in closing the projected FY 15 mid-year deficit (Round 2). In addition to this reduction, the proposed BA-7 also included a Riverboat Gaming Enforcement Fund reduction in the amount of $6 M and a corresponding increase in Transportation Trust Fund (TTF) budget authority by a like amount (MOF substitution). This budgetary mechanism was proposed by the

DOA in order to "free-up" the $6 M of reduced Riverboat Funds in order for these same funds to be transferred into the Overcollections Fund (2015 Legislative Session Funds Bill) for use as a SGF revenue offset within the Medicaid Program. Rejecting this BA-7 has a twofold fiscal impact. First, it removed $939,570 of statutorily dedicated fund resources utilized to solve Round 2. The Round 2 Plan originally anticipated utilizing $32,496,040 of non-SGF reductions (statutorily dedicated funds, SGR, IAT) while the remaining $71,003,960 were SGF reductions. Rejecting this BA-7 effectively results in the projected deficit not being completely solved and technically not balanced in the amount of $939,570. This is highlighted in yellow in Table 4. Second, removing the $6 M Riverboat Gaming Enforcement Fund and TTF MOF substitution does not have direct impact to solving the Round 2 deficit. However, it effectively double encumbers the $6 M of the same Riverboat Funds within State Police and Medicaid.

TABLE 4

NET SGF REDUCTIONS AND NET NON-SGF REDUCTIONS TO ALLEVIATE FY 15 DEFICIT (ROUND 2)

FY 15 SGF Revenue Forecast Reduction (1/26/2015)			($126,000,000)	Total SGF Revenue Reduction
TTF Transfer into the SGF (FY 12 Deficit Reduction Plan)			$22,500,000	TTF Transfer to SGF
Net FY 15 SGF Mid-Year Deficit Problem (Round 2)			**($103,500,000)**	
	Executive Order	**JLCB**	**Total**	**Action Needed**
SGF Reductions	($67,066,176)	($3,937,784)	($71,003,960)	
Statutorily Dedicated Fund Reductions	$0	($26,433,740)	($26,433,740)	
Riverboat Gaming Enforcement Fund Reduction		*$939,570*	*$939,570*	*Rejected in Committee*
SGR Reductions	$0	($6,022,345)	($6,022,345)	
IAT Reductions	$0	($39,955)	($39,955)	
Sub-Total of Reductions	**($67,066,176)**	**($35,494,254)**	**($102,560,430)**	***Need to solve for $103.5 M***
Offset: Military Federal Funds	$0	$1,394,617	$1,394,617	JLCB Approved
Offset: Concealed Handgun Funds	*$0*	*$939,570*	*$939,570*	*Rejected in Committee*
Offset: LDR Self-generated Revenues or Fraud Initiatives (Overcollections Fund)	$0	$11,100,000	$11,100,000	JLCB Approved
Offset: DEQ Motor Fuels Underground Tank Fund (Overcollections Fund)	*$0*	*$8,000,000*	*$8,000,000*	*Removed in Committee*
Offset: Riverboat Gaming Enforcement Funds (Overcollections Fund) ***(See Note)***	$0	$8,200,000	$8,200,000	JLCB Approved
Offset: Telephone Company Property Assessment Relief Fund (Overcollections Fund)	$0	$13,206,438	$13,206,438	JLCB Approved
Offset: Construction Litigation Funds (DOA Auxillary Program)	$43,000	$0	$43,000	Executive Order
2/20/2015 Committee Action: DEQ Motor Fuels Underground Tank Fund	*$0*	*($8,000,000)*	*($8,000,000)*	*JLCB Committee removed these funds from DHH's proposed BA-7.*
2/20/2015 Committee Action: Concealed Handgun Funds	*$0*	*($939,570)*	*($939,570)*	*JLCB Committee rejected a State Police BA-7 that included these funds as backfill for State Police.*
Sub-Total of Revenue Offsets	**$43,000**	**$33,901,055**	**$33,944,055**	
TOTAL NET IMPACT OF PLAN	**($67,023,176)**	**($1,593,199)**	**($68,616,375)**	

**Note: 2/20/2015 Joint Legislative Committee on the Budget action rejected the use of $6 M of Transportation Trust Funds that were intended to be utilized within State Police's budget to offset the $6 M Riverboat Gaming Enforcement Fund reduction within State Police. This $6 M Riverboat Gaming Enforcement Fund reduction was intended to free up Riverboat resources to be transferred into the Overcollections Fund for expenditure within the Medicaid budget. Although the proposed budgetary mechanism that frees up $6 M of Riverboat funds was rejected, this authority is still budgeted within the Medicaid program. Thus, these $6 M Riverboat funds are currently appropriated in two places (State Police's budget and Medicaid's budget as Overcollections Fund).*

Note: BA-7 #24, which impacts the Medicaid Program, was not amended by $6 M to reflect the rejection of BA-7 #18. The amended version of BA-7 #24 still anticipates the program to receive $8.2 M of Riverboat Gaming Enforcement Funds.

Amending BA-7 #24 (Medicaid Program)

The JLCB amended BA-7 #24 by removing a DOA anticipated funding source of the Overcollection Fund. The committee removed the $8 M funds sweep from the DEQ Motor Fuels Underground Tank Fund. These funds were anticipated to be utilized as revenue offset (backfill) within the program to offset a portion of the SGF mid-year cuts within the program. The removal of these funds from BA-7 #24 results in a net reduction to Medical Vendor Payments and may become a supplemental need during the 2015 Legislative Session. Removing these funds has no impact on solving the actual Round 2 deficit. This amended BA-7 impacts the amount of resources available to offset (backfill) the SGF mid-year cuts to Medicaid.

Table 4 on the previous page provides a depiction of the amended Round 2 plan. As previously mentioned, the items highlighted in yellow represent the amount of FY 15 mid-year problem left to be resolved.

Transportation Trust Fund Impact

Of the $26.5 M statutorily dedicated fund reductions associated with round 2, the Transportation Trust Fund (TTF) is being reduced approximately $16.7 M including $14.6 M to the capital outlay appropriation. The LFO assumes these reductions will be allocated to the Highway Priority Program. DOTD reports that the DOA will authorize the use of an additional $5.5 M TTF-Regular recognized by the Revenue Estimating Conference (REC), $5 M in proceeds from surplus property sales and $500,000 in revenues from advertising on DOTD assets to backfill $11 M of the proposed $14.6 M capital outlay reduction in a subsequent action. This plan will require additional legislative action either through budget adjustment by the JLCB or supplemental appropriation by the legislature. The current REC estimate for the Transportation Trust Fund adopted on 1/16/2015 exceeds the recommendation used in constructing the current year budget allocations (adopted on 5/19/2014) by a total of $18.2 M. The proposed reductions assume GEMS related savings of $3 M in cost overrun reductions via implementation of a Quality Assurance and Control Engineering team and $500,000 by utilizing DOTD personnel in place of outside design and construction engineers. Table 5 above is a summary of the aggregate TTF resources being utilized to solve for the two mid year plans along with the existing TTF funds currently budgeted within State Police. As reflected in Table 5, a total of $94.1 M of TTF resources may be utilized in non-DOTD related expenditures.

Table 5

	Round 1	Round 2	Total
TTF Operating Expenditure Reductions (BA-7# 15)	($6,104,000)	($2,071,000)	($8,175,000)
TTF Capital Outlay Expenditure Reductions (BA-7 #39)	$0	($14,580,498)	($14,580,498)
TTF State Police Budget Authority Increase (BA-7 #18)	*$0*	*($6,000,000)*	*($6,000,000)*
TTF SGF Transfer (FY 12 Mid Year Deficit Plan)	$0	($22,500,000)	($22,500,000)
SUB-TOTAL	**($6,104,000)**	**($45,151,498)**	**($51,255,498)**
TTF EOB for State Police (before $6 M Increase)			($59,872,208)
Potential Backfill of Capital Outlay Reductions (requires legislative action)			$11,038,498
2/20/2015 JLCB Committee Action: Removed the $6 M TTF appropriation originally proposed in BA-7 #18			*$6,000,000*
Total Anticipated Net FY 15 TTF Resources Not Being Expended in DOTD and/or in the Highway Priority Program			**($94,089,208)**

Note: As previously discussed, at the 2/20/2015 JLCB meeting the committee rejected BA-7 #18, which would have appropriated an additional $6 M of TTF resources within State Police.

Summary of Both FY 15 Mid-Year Deficit Reduction Plans

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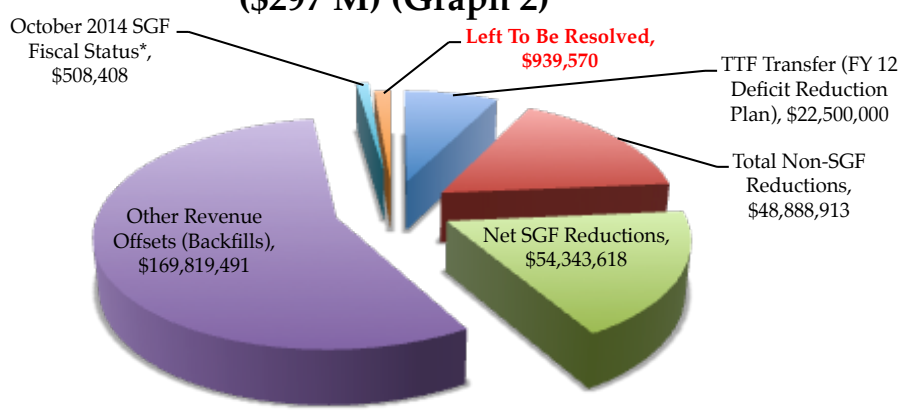
The total FY 15 SGF revenue forecast reduction equates to $297 M ($171 M – November 2014, $126 M – January 2015). Graph 2 is a depiction that illustrates that the majority of the FY 15 SGF deficit solution did not involve SGF funded expenditure reductions at all. In fact, the majority of the solution (81.7%) involves the use of other revenue offsets

FY 15 SGF Mid-Year Solution For Rounds 1 & 2 ($297 M) (Graph 2)



Note: *Approximately $508,000 of FY 15 SGF resources was still available as was depicted in the Division of Administration (DOA) SGF fiscal status statement presented at the October 2014 JLCB meeting, which was one month prior to the SGF FY 15 revenue forecast being reduced.*

(backfills) and cuts to non-SGF expenditures (statutorily dedicated funds, SGR & IAT). In addition, there is $939,570 of FY 15 mid-year problem outstanding, which will likely be addressed at the 2/27/2015 JLCB meeting.

FY 16 Impact

Utilizing approximately $170 M of other available resources for both FY 15 Mid-Year Deficit Reduction Plans and the $22.5 M transfer from the TTF will result in a like amount of FY 16 SGF need unless another source is identified or the expenditures these resources are supporting are reduced. Table 6 to the right is an updated version of the LFO's FY 16 financing replacement list.

Note: *At the 2/20/2015 JLCB meeting, the committee amended BA- 7 #24 by removing an $8 M appropriation from the Overcollections Fund (original source being the DEQ Motor Fuels Underground Tank Fund). This $8 M resource was intended to be utilized to offset SGF reductions within the Medicaid Program. To the extent another resource is identified during the supplemental appropriations bill process, the approximately $1.2 B replacement list will grow.*

TABLE 6

Program/Source	Potential Financing Replacement in FY 16 *(in millions)*
MVP - Overcollections Fund	$266.3
MVP - Medicaid Trust Fund for the Elderly	$232.7
MVP - 2013 Tax Amnesty Fund	$156.5
Advanced Debt Payment - SGF	$210.0
Bond Premium - SGF	$34.2
Department of Revenue	$20.0
TOPS Fund	$22.0
Health Insurance High Risk Pool	$16.0
WISE Fund	$23.2
LA Lottery Reserves	$9.0
FY 15 Deficit Reduction Plan (Round 1)	$135.9
FY 15 Deficit Reduction Plan (Round 2)	$33.9
Sub-Total	**$1,159.7**
TTF SGF Transfer (FY 12 Deficit Reduction Plan)	$22.5
TOTAL	**$1,182.2**

GENERAL GOVERNMENT

Outstanding Fund Balance Transfers

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Since FY 11 there have been 4 funds bills (Act 378 of 2011, Act 597 of 2012, Act 420 of 2013, and Act 646 of 2014) and a deficit reduction plan (FY 12) enacted that require the State Treasury to transfer fund proceeds from various statutorily dedicated funds in order to balance the state budget. To date, there is at least $107.9 M of various prior year fund transfers that have not taken place and according to the State Treasury are still outstanding. Although the accounting books for these fiscal years have been closed, the State Treasury is of the legal opinion that these transfers are an outstanding obligation of the respective statutorily dedicated fund. Since the prior legislative acts are still effective and the fact that all of these funds are still not available to transfer, State Treasury is still seeking to transfer these outstanding proceeds. Table 7 on the next page provides a summary of these outstanding fund transfers.

A recent example of this issue, as was indicated in the January edition of *Focus on the Fisc*, is $22.5 M of Transportation Trust Funds (TTF) transferred to the SGF in FY 15 that was officially recognized by the Revenue Estimating Conference (REC) in January 2015. These resources were originally to be utilized to help "solve" the FY 12 mid-year deficit, originally reported to the Joint Legislative Committee on the Budget (JLCB) in December 2011. At that time, the FY 12 SGF mid-year deficit problem was $251.3 M, which consisted of the following:

($197.7 M)	SGF revenue forecast reduction (November 2011 adopted revenue forecast)
($42.6 M)	MFP Underfunding Due to October 2011 Child Count
$2.9 M	Calculated SGF available after HB 1 enrollment (monthly fiscal status report)
($13.8 M)	FY 11 SGF End of Year Deficit
($251.3 M)	Total FY 12 SGF Deficit

At that time (December 2011), the Division of Administration (DOA) presented the FY 12 Deficit Elimination Plan to the JLCB, which consisted of $140.9 M of SGF Executive Order reductions (BJ 2011-25), $72.2 M of SGF reductions approved by the JLCB, $119.3 M of ad hoc resources utilized to offset SGF reductions and $38.2 M of statutorily dedicated fund expenditure reductions approved by JLCB, of which the TTF reduction ($24.4 M) represented 63% of the total statutorily dedicated fund expenditure reductions.

R.S. 39:75 (Avoidance of Budget Deficits) provides that once the governor has reduced the SGF by at least seven-tenths of one percent and a deficit still exists, the governor, with approval by the JLCB, can reduce statutorily dedicated funds by up to 5%. Financing becomes available from these statutorily dedicated funds after expenditures are reduced and is the reduced amount is eventually transferred into the SGF to offset the SGF revenue forecast reduction, likely during the 14th period (August) (end of year accounting FY close-out).

Table 7

Outstanding Fund Sweep Transfers (Source: State Treasury)	Act 378 of 2011**	FY 12 Deficit Reduction Plan*	Act 597 of 2012***	Act 420 of 2013****	Act 646 of 2014*****	TOTAL
Transportation Trust Fund - Regular	$0	$1,888,350	$0	$0	$0	$1,888,350
Youthful Offender Management Fund	$0	$22,978	$0	$0	$0	$22,978
Archeological Curation Fund	$8,856	$2,000	$0	$0	$0	$10,856
Poverty Point Reservoir Development Fund	$0	$45,125	$0	$0	$0	$45,125
Audubon Golf Trail Development Fund	$0	$2,375	$0	$0	$0	$2,375
Academic Improvement Fund	$0	$0	$86,911	$0	$0	$86,911
Tobacco Tax Health Care Fund	$325,715	$227,502	$0	$233,334	$0	$786,551
Bossier Parish Truancy Fund	$5,313	$0	$0	$0	$0	$5,313
Small Business Surety Bonding Fund	$0	$0	$0	$0	$44,873	$44,873
DHH Facility Support Fund	$0	$0	$0	$0	$238	$238
2% Fire Insurance Fund	$0	$0	$0	$0	$1,412,389	$1,412,389
Southeast LA Hospital Property Sale	$0	$0	$0	$17,840,000	$0	$17,840,000
SGR Department of Revenue	$0	$0	$0	$1,190,961	$0	$1,190,961
Motor Fuels Underground Storage Tank Trust Fund	$0	$0	$0	$0	$9,000,000	$9,000,000
LA Fire Marshal Fund	$0	$0	$0	$1,338,599	$0	$1,338,599
Right To Know Fund	$0	$0	$0	$175,500	$0	$175,500
Explosives Trust Fund	$19,646	$0	$0	$0	$0	$19,646
DPS Police Officer Fund	$238,006	$0	$0	$0	$0	$238,006
Incentive Fund	$0	$0	$0	$3,962,652	$0	$3,962,652
Legislative Capitol Technology Enhancement Fund	$6,757,502	$0	$0	$0	$0	$6,757,502
Energy Performance Contract Fund	$0	$0	$0	$153,933	$0	$153,933
Reptile & Amphibian Research Fund	$0	$115	$0	$0	$0	$115
Public Oyster Seed Ground Development Account	$0	$179,700	$0	$0	$0	$179,700
Utility & Carrier Inspection Supervision Fund	$0	$186,289	$592,400	$0	$0	$778,689
Transfer non-recurring Overcollections Fund to UAL	$0	$0	$0	$0	$6,000,000	$6,000,000
Transfer non-recurring Overcollections Fund to Rainy Day Fund	$0	$0	$0	$0	$25,000,000	$25,000,000
Transfer non-recurring Overcollections Fund to WISE Fund	$0	$0	$0	$0	$11,000,000	$11,000,000
Transfer LA Health Plan board funds to Mega-Project Fund******	$0	$0	$0	$0	$20,000,000	$20,000,000
DOA identified A&M savings transferred into Overcollections Fund	$0	$0	$0	$0	???????	$0
TOTAL OUTSTANDING FUNDS SWEEPS	**$7,355,038**	**$2,554,434**	**$679,311**	**$24,894,979**	**$72,457,500**	**$107,941,262**

**In December 2011, the DOA presented the FY 12 Deficit Elimination Plan to the JLCB, which consisted of $140.9 M of SGF Executive Order reductions (BJ 2011-25), $72.2 M of SGF reductions approved by the JLCB, $119.3 M of ad hoc resources utilized to offset SGF reductions and $38.2 M of statutorily dedicated fund expenditure reductions approved by JLCB.*

***Act 378 of 2011 outstanding fund transfers are to be transferred to the Medical Assistance Trust Fund*

****Act 597 of 2012 outstanding fund transfers are to be transferred to the SGF*

*****Act 420 of 2013 outstanding fund transfers are to be transferred to the Overcollections Fund & SGF*

******Act 646 of 2014 outstanding fund transfers are to be transferred to the Overcollections Fund*

*******Act 646 provides for the transfer of LA Health Plan board funds to Mega-Project Funds. $20 M is currently appropriated in FY 15.*

Note: At this point in time, we do not know the specific DOA identifed A&M savings that will be transferred into the Overcollections Fund

Upon approval by JLCB of statutorily dedicated fund expenditure reductions to resolve a mid-year deficit, R.S. 39:75(C)(2)(e) allows the State Treasury to transfer these reduced amounts from the statutorily dedicated fund to the SGF to solve the deficit. After the statutorily dedicated budget authority reductions, financing is supposed to be available as a result of the expenditure reduction for transfer to the SGF to close the deficit. However, in FY 12 the TTF never generated enough revenue collections above appropriated expenditures even after the mid-year reduction. Thus, State Treasury could not transfer these funds to the SGF until now (September 2014 – FY 15) because these funds have not been available. For context, in FY 12 the state finished with a $113.2 M SGF surplus. To the extent these TTF resources would have been transferred to the SGF during FY 12, the $113.2 M surplus would have been $24.4 M greater, or $137.6 M.

House Rule 7.19 (Geymann Rule) Resources Versus Replacement Financing Decision List
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Although HR 7.19 contains a definition of "one-time money," the rule does not clearly identify the significant financing decisions that will have to be made in the next budget year. Due to this issue, during the 2014 Legislative Session (FY 15 budget development process), the LFO not only provided the legislature the HR 7.19 list to comply with the House Rule, but also provided a list of significant potential FY 16 financing replacements as a result of the development of the FY 15 budget. For context, Table 8 provides a comparison of HR 7.19 defined resources in the budget to the replacement financing needs. In all cases, the HR 7.19 definition of "one-time" money is not indicative of the all the resources contained in the budget that may require other resources in the subsequent fiscal year.

Table 8

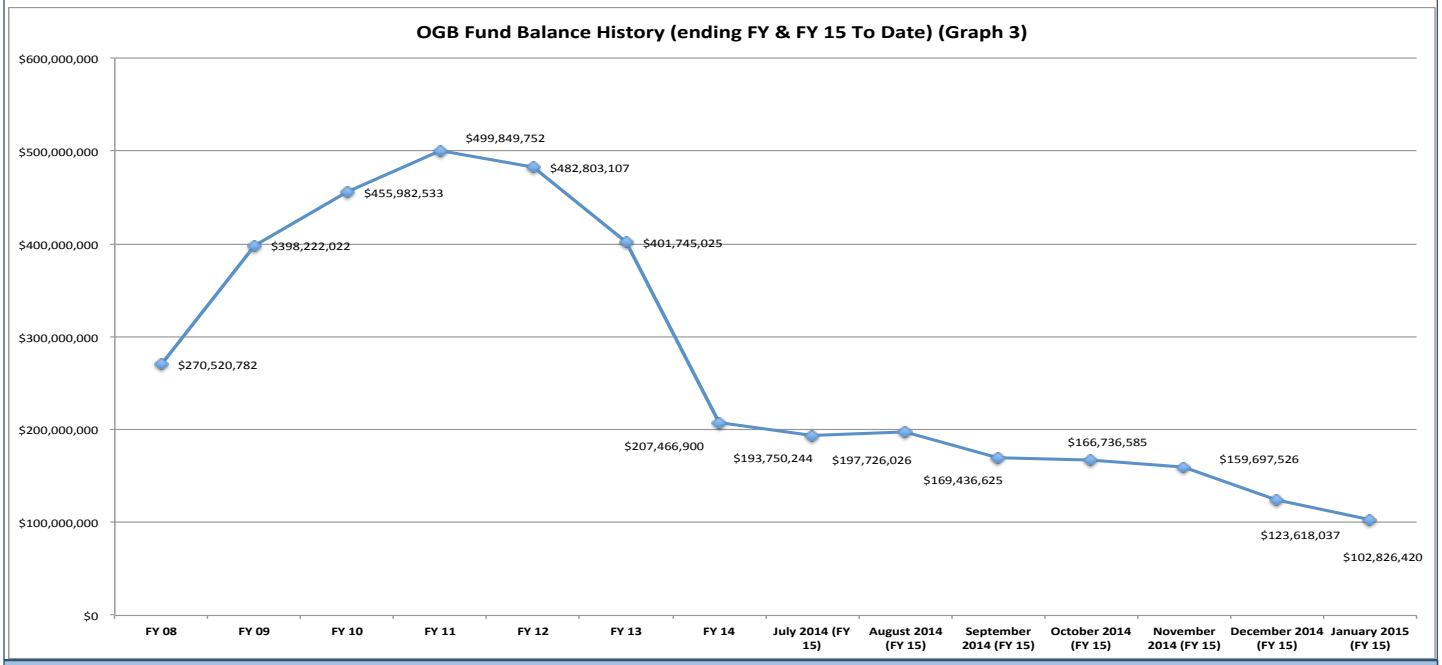
	HR 7.19 Defined One-time Resources	Replacement Financing Need
FY 15 Budget*	$50.5	$1,182.2
FY 14 Budget*	$86.5	$582.6
FY 13 Budget	$272.5	$443.5
FY 12 Budget	$315.8	$547.6

Source: Prior year Division of Administration (DOA) continuation budget documents & LFO fiscal highlights documents.

**Act 419 of 2014 requires the REC to officially forecast all state funds, which excludes REC projected funds from the one-time money definition contained within House Rule 7.19. This is the reason the HR 7.19 list of resources was significantly reduced from FY 13 to the current year.*

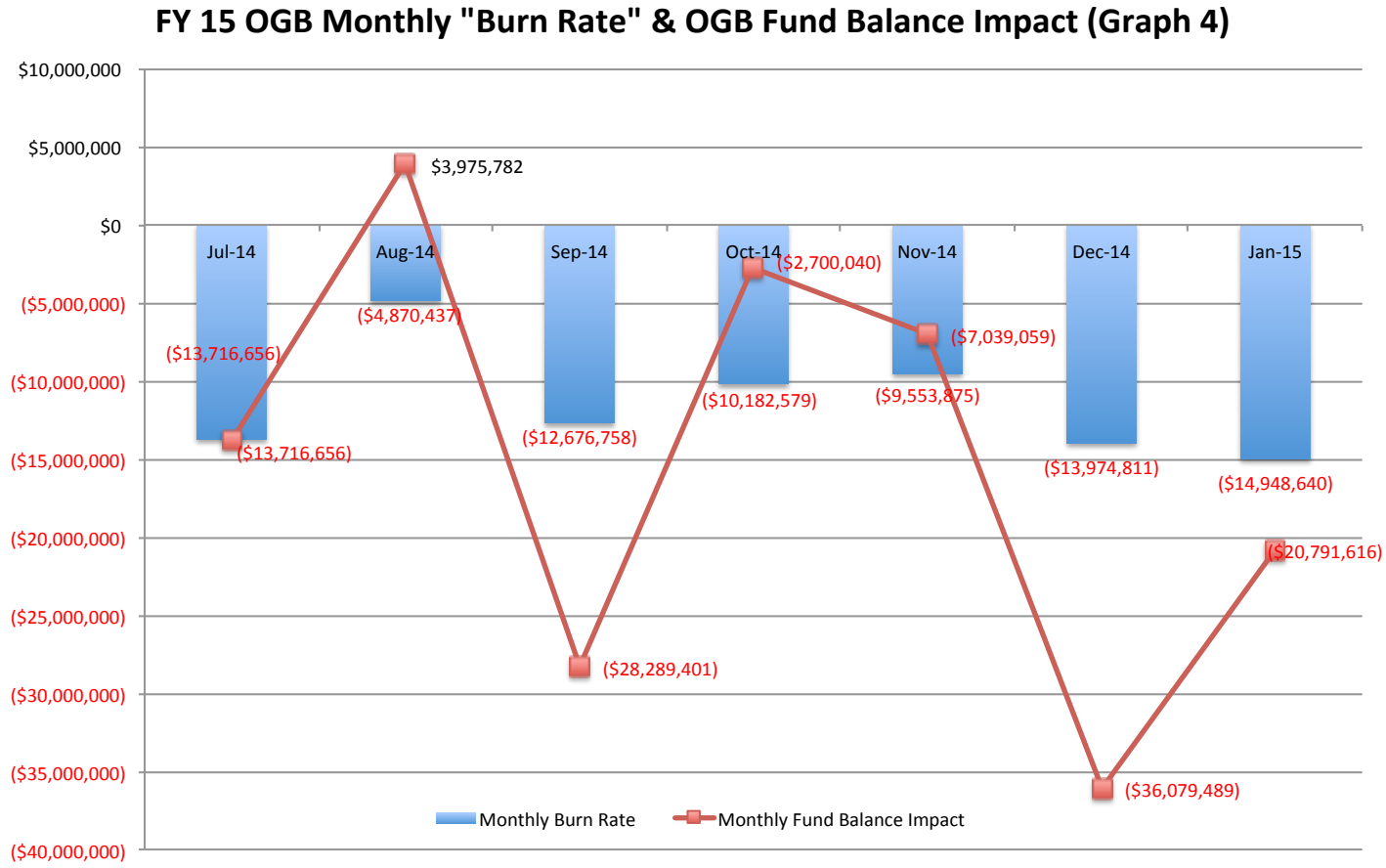
Office of Group Benefits (OGB) Update (February 2015)
J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Graph 3 below depicts the OGB Fund Balance History from FY 08 to FY 14 along with the ending balance for the months of July 2014 through January 2015 (FY 15). During the month of January, OGB's fund balance lost approximately $20.8 M, or a negative 17% fund balance change. Since the beginning of FY 15, OGB's expenditures have been approximately $104.6 M more than actual revenue collections through January 2015. This has resulted in the OGB fund balance decreasing from $207 M (beginning of FY 15) to $102.8 M (through January 2015). The decrease equates to an updated FY 15 monthly burn rate of approximately $14.9 M per month, which equates to an increase from the December 2014 monthly burn rate of $13.9 M per month. OGB's cash on hand through January 2015 is approximately $192.1 M. Table 9 on the next page portrays the monthly OGB fund balance impact in FY 15.



Graph 4 below depicts the FY 15 Monthly OGB fund balance burn rate along with the monthly fund balance dollar change. To the extent the burn rate does not change, OGB's FY 15 ending year fund balance could be less than $30 M. However, once the new plan design changes go into effect on 3/1/2015, the current burn rate of $14.9 M per month may be reduced. These changes may result in the OGB's FY 15 year-end fund balance equating to some amount greater than $60 M.

Table 9	
Month	**Fund Balance Impact**
July 2014	($13,716,656)
August 2014	$3,975,782
September 2014	($28,289,401)
October 2014	($2,700,040)
November 2014	($7,039,059)
December 2014	($36,079,489)
January 2015	($20,791,616)
TOTAL	**($104,640,479)**

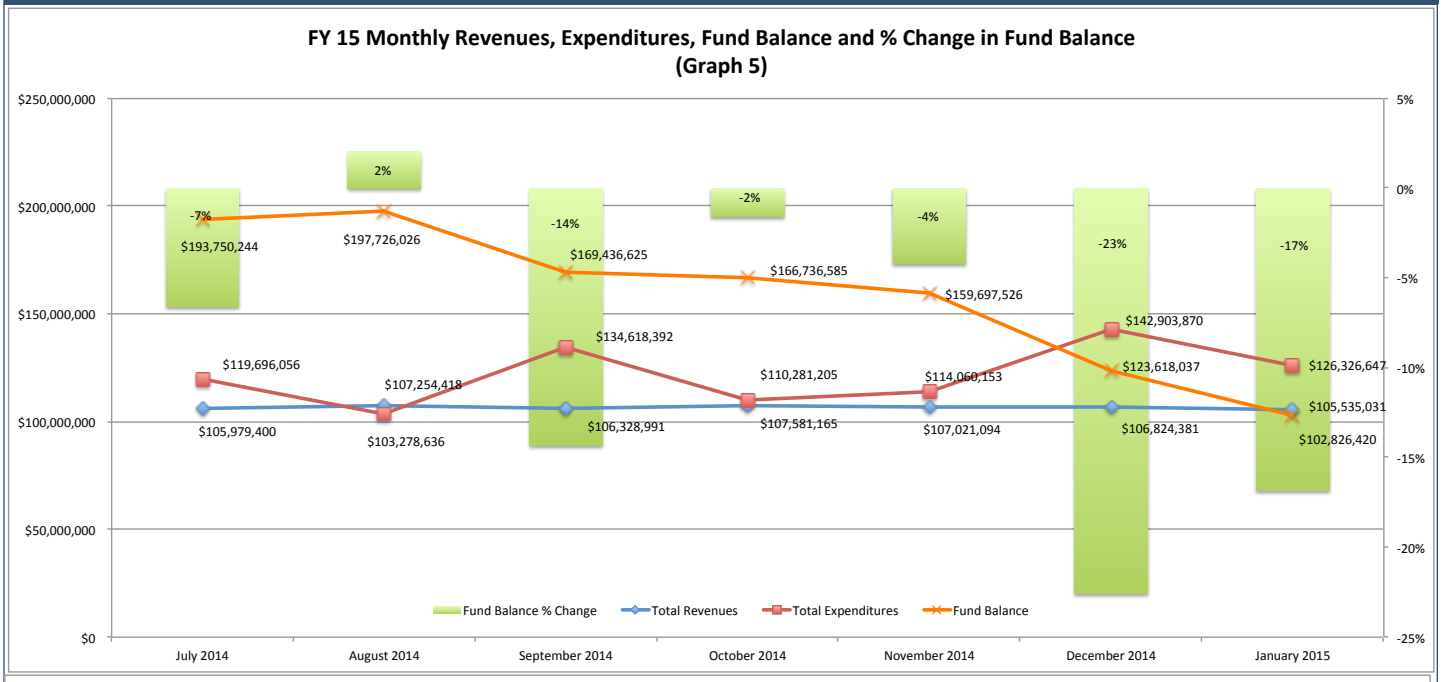


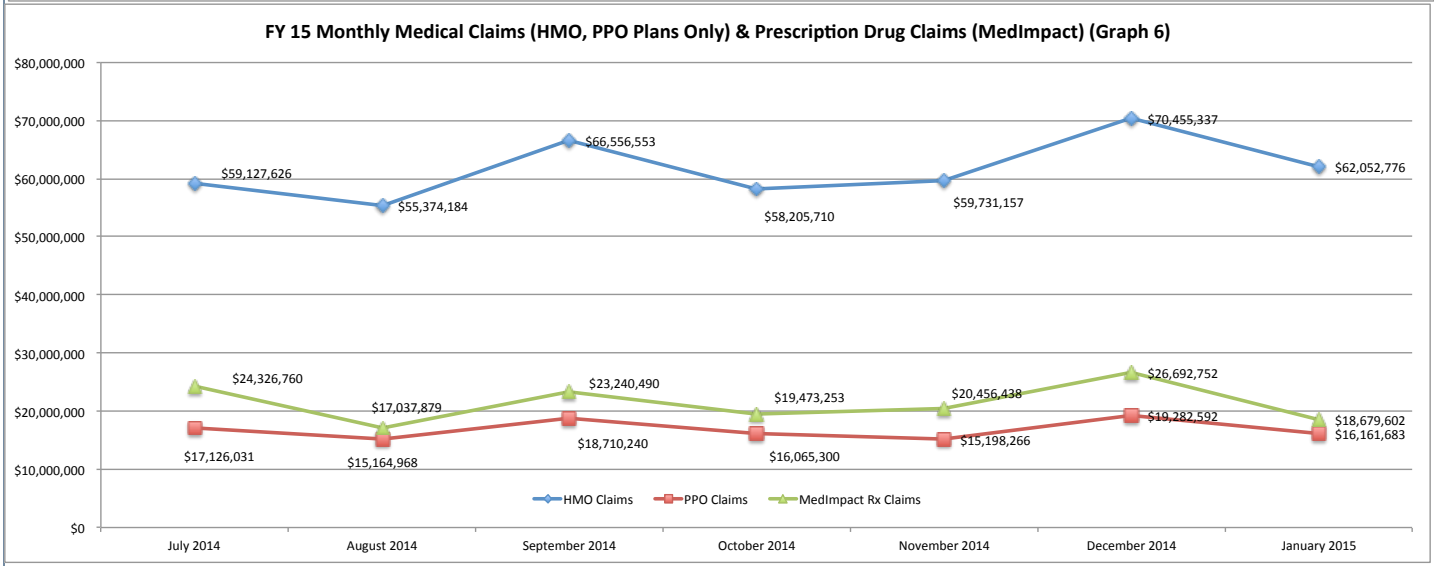
Graph 5 on the next page depicts FY 15 monthly OGB revenues, expenditures, fund balance and percentage change in fund balance through January 2015. January 2015 expenditure activity utilized approximately $20.8 M of OGB's current fund balance to pay expenditures, which is a decrease of fund balance use from December 2014. Approximately $36.1 M of the fund balance was utilized in December 2014, which is illustrated in the negative 23% change of OGB overall fund balance through the month of December. For the month of January that negative percent change slightly decreased to a negative 17% change.

Through January 2015 for every $1 of revenue OGB collects, the program is currently expending on average approximately $1.14. See Table 10 to the right for more detailed information.

For Every $1 Collected (Table 10)	
Month	**Expended**
Jul-14	$1.13
Aug-14	$0.96
Sep-14	$1.27
Oct-14	$1.03
Nov-14	$1.07
Dec-14	$1.34
Jan-15	$1.20
Average	**$1.14**

Graph 6 on the next page is a depiction of monthly medical claims expenditures through January 2015 (PPO, HMO and MedImpact Rx claims only) for FY 15. These specific expenditures decreased by approximately 12% from the December 2014 data.





OGB Enrollment by Plan (2015 Plan Year)

Table 11 below includes enrollment information provided to the Legislative Fiscal Office by the OGB of the health plan choice by its members during annual enrollment. The new health plans are effective 3/1/2015.

TABLE 11	ACTIVE ENROLLEES				RETIRED ENROLLEES				ALL ENROLLEES			
REGULAR PLANS	Plan Year 2014	Plan Year 2015	Difference	% Difference	Plan Year 2014	Plan Year 2015	Difference	% Difference	Plan Year 2014	Plan Year 2015	Difference	% Difference
Magnolia Open Access (PPO)	10,275	8,569	(1,706)	-16.6%	24,885	23,741	(1,144)	-4.6%	35,160	32,310	(2,850)	-8.1%
Magnolia Local	0	405	405	N/A	0	204	204	N/A	0	609	609	N/A
Magnolia Local Plus (HMO)	67,084	64,313	(2,771)	-4.1%	24,358	24,602	244	1.0%	91,442	88,915	(2,527)	-2.8%
Pelican HRA 1000	0	4,482	4,482	N/A	0	924	924	N/A	0	5,406	5,406	N/A
Pelican HSA 775 (CDHSA)	401	2,145	1,744	434.9%	0	0	0	N/A	401	2,145	1,744	434.9%
Vantage MHHP	2,910	3,062	152	5.2%	546	566	20	3.7%	3,456	3,628	172	5.0%
Regular Plans Subtotal	**80,670**	**82,976**	**2,306**	**2.9%**	**49,789**	**50,037**	**248**	**0.5%**	**130,459**	**133,013**	**2,554**	**2.0%**

Department of Corrections – GEMS Recommendations

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

The Alvarez & Marsal Government Efficiencies Management Support (GEMS) Report, which was completed in May 2014, recommended several cost savings measures for the Department of Corrections (DOC). Targeted savings from the recommendations total $9.5 M; and actual projected savings are $10.1 M in FY 15. The following savings are based on the $24.39 per day that DOC is required to pay local governmental units to house a state inmate, marginal costs of $12.00 per day, per inmate in a state prison, and $11.25 per day, per inmate to participate in a Transitional Work Program.

The following is an explanation of each recommendation that is included in the GEMS report, including the targeted savings. The progress made by DOC in implementing each recommendation and the projected savings is included in italics. The target savings and projected savings are noted in Table 12.

Table 12

Recommendation Name	Target Savings in FY 15	Projected Savings in FY 15
Expand DOC Certified Treatment & Rehabilitation Program	$6,582,000	$7,300,000
Expand Transitional Work Program in Orleans and Jefferson Parishes	$821,000	$539,000
Expand Reentry Center Program	$643,000	$726,000
Expand Day Reporting Centers	$205,000	$282,000
Increase Use of Self-Reporting	$1,020,000	$1,020,000
Increase DOC Span of Control	$217,000	$217,000
Total	$9,488,000	$10,084,000

Expand DOC Certified Treatment Rehabilitation Program (CTRP): Savings based on implementation of a two-part initiative to expand the impact of the CTRPs; (1) Increase the number of CTRPs available at both the state and local levels that allows inmates to earn credits for participating in community and education programs. The targeted cost savings is $5.9 M and is based on 2,727 offenders receiving 90 days CTRP credit. Due to investment costs of hiring 25 T.O. for reentry/transition for the local jails at a cost of $2.1 M, the net projected savings for this component is $3.8 M. (2) Conduct an audit of all currently certified programs and reassess the number of credit days inmates can earn per program in order for offenders to earn an additional 20 credit days. The targeted cost savings of $2.7 M is based on 5,590 offenders receiving 20 additional days of CTRP credit. The total targeted savings for these 2 initiatives in FY 15 is $6.5 M.

The realized savings for this recommendation as of December 2014 is $3.8 M and the total projected savings for FY 15 is $7.3 M. Projected savings are higher than targeted savings due to more opportunities realized for offenders to earn credits. The number of CTRP programs at state prisons and parish jails has increased more than expected. In addition, the overall number of credit days offenders are earning has increased more than anticipated after audits of existing programs were completed.

Expand Transitional Work Programs in Orleans and Jefferson Parishes: (Savings are based on increasing access to Transitional Work Programs in Orleans and Jefferson Parishes between 100 to 150 slots at each location.) Transitional work programs allow low-risk inmates to serve the last portion of their sentences in minimum-security settings while employed in the community. Decreasing the number of state inmates in local housing by 280 offenders for 223 days will decrease expenditures by $1.5 M. 223 days represents 7.5 months of implementation for this recommendation. These 280 offenders placed in transitional work programs at $11.25 per day for 223 days will cost $702,450. The targeted net savings for this recommendation is $820,462 in FY 15.

Actual projected savings for FY 15 is $539,000, which is approximately $282,000 less than targeted savings. Projected savings are lower than targeted savings due to the fact that participation will not increase in Jefferson Parish. The Jefferson Parish Council has not given site approval which has caused delays in implementing a program in Jefferson Parish. However, participation has increased in Beauregard, Grant, and Union Parishes to offset these delays.

Expand Re-Entry Services Program: (Savings are based on increasing the number of regional centers that offer reentry programs from 3 to 11.) These centers offer inmates nearing release from prison access to a 90 to 180-day training program that mirrors the 100-hour pre-release curriculum currently offered to

offenders in state institutions. FY 15 savings include $2,001,931 realized from a decrease of 912 offenders in local housing. Investment costs are $300,000 for the Second Chance Act Program and $1 M for the four additional reentry centers operating for a partial year. The targeted net savings for this recommendation is $643,728 in FY 15.

As of December 2014, three reentry centers have opened in Lafayette, Rapides and Madison Parishes. The Franklin Parish reentry center opened on January 1, 2015. The remaining four centers will open throughout FY 16. The current projected savings for FY 15 is $726,000. Projected savings are higher than targeted savings due to centers opening sooner than expected.

Expand Day Reporting Centers: (Savings are based on expanding the Day Reporting Center Program to 200 parolees per year in an additional 5 probation and parole districts that provide intense supervision and support.) These districts include Covington, Lafayette, Monroe, Lake Charles, and Alexandria. DOC will issue an RFP to award contracts to manage the new Day Reporting Centers statewide at an annual cost of $485,000 per year per center. A full year savings would be $3.2 M from a decrease of 273 offenders in local housing and 186 offenders in state facilities. The targeted savings for 3 months in FY 15 is $811,255. Investment costs are $606,250 for the five additional reentry centers operating for three months. The targeted net savings for this recommendation is $205,005 in FY 15.

A day reporting center was opened in Lafayette on 9/1/2014. RFPs have been submitted to DOA for Alexandria and Monroe with a proposed opening date of 4/1/2015 and for Covington and Lake Charles with proposed opening dates of 7/1/2015. The current projected savings for FY 15 is $282,000. Projected savings are higher than targeted savings since the Lafayette reporting center opened earlier than planned.

Increase Use of Self-Reporting: (Savings are based on the utilization of self-reporting supervision status for the lowest-risk offenders from 5% to 10% of the total probation and parole population currently under supervision.) DOC's Adult Probation and Parole is responsible for the community supervision of approximately 70,000 individuals. Approximately 3,500 or 5% are supervised under what is called "self-report status." Increasing the utilization of self-reporting supervision status by lowest risk offenders, allows DOC to reduce caseloads among Probation and Parole officers. As a result, increased supervision reduces recidivism in higher risk parolees. By increasing utilization of self-reporting by lowest risk offenders, 115 high-risk offenders are projected to not recidivate for a targeted savings in the amount of $1 M.

A projected savings in the amount of $1,023,771 will be realized by the end of FY 15.

Increase DOC Span of Control: (Savings are based on increasing supervisors' span of control through attrition.) The current "span of control" or ratio of supervisors to staff is 1:3.7. Savings result from increasing span of control from 1:4 to 1:4.5. This recommendation does not result in a reduction in positions but conversion of supervisor positions to line staff positions when they become available. The average annual DOC salary and related benefits for supervising staff is $75,016. For each supervisor position eliminated, DOC has hired staff positions since the beginning of the fiscal year at an average $55,000 salary and related benefits per position. The targeted savings for this recommendation in FY 15 is $217,000.

A total of 10 positions were converted to staff positions in July 2014 and all have been filled. The projected savings in the amount of $217,000 will be realized by the end of FY 15.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

January 2015

Volume 3, Issue 8

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. This issue provides information on the FY 15 Mid-Year Deficit Elimination Plan and how it affected various agencies. It also contains articles related to costs associated with Sexual Assault Forensic Exams and Fontainebleau State Park Cabin Repairs.

The February issue of Focus on the Fisc will discuss in detail the results of the January Revenue Estimating Conference.

FOCUS POINTS

Revenue Estimating Conference Meeting, 1/26/2015
Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The Revenue Estimating Conference (REC) met on Monday, January 26, 2015 and reduced the state tax revenue forecasts for the second time this fiscal year. While the bulk of the budget funding problem for next fiscal year is not related to oil prices, the steep decline in those prices since the current fiscal year began is exacerbating the FY 16 problem and is a major contributor to the FY 15 drop in revenue forecasts. At the general fund tax receipt bottom line, the REC adopted a reduction of $126.0 M for FY 15, and a reduction of $203.8 M for FY 16. Comparable reductions are made in the forecast baseline through FY 19. These reductions largely reflect a new lower oil price baseline that drops sharply in FY 15 from $81.33 to $69.36 per barrel, bottoms out in FY 16 from $83.54 to $59.64 per barrel, and then climbs to a new equilibrium near $70 per barrel by FY 19. This new price path for oil amounts to nearly a $12 per barrel drop since the last REC meeting in November, and a $23 per barrel drop since the May 2014 meeting which was held before prices began their precipitous drop.

The current mineral revenue drop is only partially offset by an upgrade to the forecast for general sales tax receipts, which finally appear to be gaining some growth traction this fiscal year after three years of essentially no growth. No changes occur in the forecasts of corporate tax or personal income tax. Riverboat gaming receipts were revised upward largely on the early-December opening of the new venue in Lake Charles. In addition, the REC recognized a $22.5 M transfer of Transportation Trust Fund monies to the general fund in FY 15 which was authorized by executive order in FY 12 to address a deficit in that year. Other positive and negative adjustments are made to various revenue sources, but these largely net out against themselves leaving the bulk of the mineral revenue drop at the bottom line of each fiscal year.

Changes were also adopted to various statutory dedications that are not directly related to general fund revenue but are part of the ad hoc funding utilized to sustain the budget. Major changes to these funds in that context include a $97 M increase in Overcollections Fund resources from various other funds. To the extent these increases materialize and are utilized to finance the current general fund downgrade they will likely add to the amount of funds that will have to be replaced in the FY 16, already in excess of $1 B.

FY 15 Mid-Year Deficit Reduction Plan (Round 1)

Legislative Fiscal Office Staff

Note: The following articles on pages 4 – 6 are all associated with the mid-year deficit reduction plan stated below.

On 11/14/2014 the Revenue Estimating Conference (REC) adopted a revised revenue forecast reducing FY 15 SGF revenues by $171 M. On 12/18/2014, the Division of Administration (DOA) presented the FY 15 Mid-Year Deficit Reduction Plan to the Joint Legislative Committee on the Budget (JLCB) to address the shortfall. The proposed plan uses specific SGF expenditure reductions of $34.6 M in contracts, operating expenses such as supplies and travel, and salaries and related benefits due to the elimination of 162 vacant positions. Other reductions were made to programs with projected excess funds due to lower than anticipated participation and utilization rates, as well as reductions to operating expenses of some elected officials (Commissioner of Agriculture & Forestry and the Commissioner of Insurance).

Additionally, the plan uses $135.9 M in "excess" revenues from the Overcollections Fund, Tax Amnesty collections, other various unobligated fund balances and projected end of year fund balances from various other funds as well as reallocation of other appropriated resources. This refinancing of existing expenditures, ultimately resolves 80% of the $171 M deficit.

Table 1 below provides a brief summary of the plan, which breaks down the total SGF reductions that will be completed via the governor's unilateral budget balancing authority (Executive Order BJ 2014-18), those adjustments that were approved by the JLCB, and those adjustments that have not yet been approved by the legislature pending recognition by the REC. Also included within the summary table is a listing of those resources and/or reallocations that are being proposed to **offset** such SGF reductions via MOF swaps or through reallocation of existing dollars. Due to this reallocation and the maximization of other revenue sources (mostly anticipated resources), the total net impact of this plan is a net reduction of $34.6 M with the governor reducing SGF $153.1 M and the JLCB reducing a total $17.4 M ($78,501 – SGF, $15 M – statutorily dedicated funds, $2.3 M – SGR). In addition, the JLCB appropriated $92.7 M of other resources to offset the SGF reduction and will likely appropriate another $43.2 M of resources which were recognized by REC on 1/26/15.

Table 1

NET SGF REDUCTIONS AND NET NON-SGF REDUCTIONS TO ALLEVIATE FY 15 DEFICIT

	Exec. Order	JLCB	Pending Legislative Approval	TOTAL	LEGISLATIVE ACTION NEEDED
SGF Reductions	($153,080,648)	($78,501)	$0	($153,159,149)	*$153.1 M SGF Reduction is anticipated to be reduced via Executive Order.
Statutorily Dedicated Fund Reductions	$0	($15,015,098)	$0	($15,015,098)	*$15.1 M statutorily dedicated funds & $2.3 M SGR reductions
SGR Reductions	$0	($2,317,345)	$0	($2,317,345)	require JLCB approval.
Sub-Total of Reductions (1)	**($153,080,648)**	**($17,410,944)**	**$0**	**($170,491,592)**	
Offset: DOA Existing SGR Freed-Up & State Land Funds	$0	$1,820,251	$0	$1,820,251	JLCB Approval
Offset: 2013 Tax Amnesty Fund Proceeds	$0	$23,448,257	$10,705,103	$34,153,360	JLCB Approval & $10.7 M pending JLCB Approval
Offset: Health Excellence Fund	$0	$6,601,110	$0	$6,601,110	JLCB Approval
Offset: Medical Assistance Trust Fund	$0	$4,900,000	$0	$4,900,000	JLCB Approval
Offset: Overcollections Fund (SGF Reversions)	$0	$12,400,000	$0	$12,400,000	JLCB Approval
Offset: Overcollections Fund (SGR/IAT Reversions)	$0	$28,600,000	$0	$28,600,000	JLCB Approval
Offset: Overcollections Fund (FEMA Reimbursements)	$0	$6,000,000	$0	$6,000,000	JLCB Approval
Offset: Insurance Verification Fund Anticipated Proceeds	$0	$0	$15,000,000	$15,000,000	Pending JLCB Approval
Offset: Risk Mgmt Proceeds	$0	$0	$12,000,000	$12,000,000	Pending JLCB Approval
Offset: Riverboat Gaming Enforcement Fund	$0	$0	$5,000,000	$5,000,000	Pending JLCB Approval
Offset: Resources from LA Office Building Corporation	$0	$0	$473,213	$473,213	Pending JLCB Approval
Offset: TOPS Fund	$0	$4,946,681	$0	$4,946,681	JLCB Approval
Offset: Lottery Fund Anticipated Proceeds	$0	$1,123,045	$0	$1,123,045	JLCB Approval
Offset: Mineral & Energy Operations Fund	$0	$688,365	$0	$688,365	$325,046 JLCB Approval
Offset: SGR from LED Debt Service	$0	$1,500,000	$0	$1,500,000	$78,501 JLCB Approval
Offset: Education Excellence Fund	$0	$669,411	$0	$669,411	JLCB Approval
Sub-Total of Revenue Offsets (2)	**$0**	**$92,697,120**	**$43,178,316**	**$135,875,436**	
TOTAL NET IMPACT OF PLAN	**($153,080,648)**	**$75,286,176**	**$43,178,316**	**($34,616,156)**	

(1) The Sub-Total of Reductions represents the total budgetary reductions to eliminate the $171 M FY 15 Mid-Year Deficit.

(2) The Sub-Total of Revenue Offsets represents the refinancing of reductions by utilizing "identified" monies to offset the budgetary reductions.

FY 16 Impact of FY 15 Mid-Year Reduction Plan

Utilizing the $135.9 M of other available resources for the FY 15 Mid-Year Deficit Reduction Plan will result in a like amount of FY 16 SGF need unless other funding sources are identified or the expenditures these

resources are supporting are reduced.

During the 2014 Legislative Session, the Legislative Fiscal Office (LFO) reported to the legislature the significant financing decisions that will have to be made in FY 16 relative to the current structure of the FY 15 operating budget. The LFO provided a list of potential significant FY 16 financing replacements that will have to be made as a result of the proposed FY 15 budget that equated to $991 M. Table 2 below provides an updated list that reflects an increase to $1.125 B. In addition, to the extent that additional resources are budgeted as a result of the REC meeting on 1/26/2015 and become part of an additional mid-year deficit reduction, this $1.125 B replacement amount will increase in FY 16.

The $135.9 M increase is due to adjustments made in the FY 15 Deficit Reduction Plan. Even though the SGF revenue forecast was reduced by $171 M in November 2014, the mid-year solution only results in a net budgetary reduction of $34.6 M. Approximately 80% of the solution involves MOF swaps replacing SGF that use one-time resources that will likely require another revenue source in FY 16.

Note: *The FY 16 Continuation Budget, which has an anticipated $1.6 B SGF imbalance, includes the items on the list provided on the next page. 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 15 in this case) in subsequent fiscal years (FY 16 – FY 19 in this case). 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. Until an Executive Budget proposal is submitted, the ensuing year's budget is discussed in continuation budget terms.*

Table 2

Program	Potential Financing Replacement in FY 16 *(in millions)*	FY 15 Funding Sources
MVP - Overcollections Fund	$266.3	$266.3 M REC Recurring Overcollections Fund - funds sweeps, various DOA SGR resources, Pharmaceutical Settlements, Self Insurance Fund, and Go Zone Bond Repayments. These resources are utilized to fund recurring Medicaid expenditures (09-306).
MVP - Medicaid Trust Fund for the Elderly	$232.7	Monies will be exhausted in FY 15 and other resources will have to be identified in FY 16.
MVP - 2013 Tax Amnesty Fund	$156.5	Remaining Phase I & projected Phase II resources. Phase III collections are anticipated to be approximately $100 M.
Advanced Debt Payment - SGF	$210.0	REC Non-Recurring Revenues & other revenues - LA Housing Corporation ($25 M), DOJ Mortgage Settlement Funds ($4.6 M) and SGF savings and reductions included in Act 55 (HB 1094) of 2014 ($7.4 M) along with FY 13 Prior Year Surplus and FY 12 Rescinded Capital Outlay Projects are being utilized to fund the advance debt payment. The use of these resources frees up SGF that would otherwise have been utilized on GO bond debt payments. This budget mechanism is essentially a mechanism to get non-recurring resources into the state's operating budget.
Bond Premium - SGF	$34.2	In FY 14 the state sold GO bonds that generated a bond premium. Much like the advanced debt payment discussed above, utilizing these resources reduces the amount of SGF allocated for debt payments. This resource basically frees-up a like amount of SGF to expend elsewhere in the FY 15 operating budget.
Department of Revenue	$20.0	SGF need due to exhausting all retained SGR proceeds from the Tax Amnesty Program.
TOPS Fund	$22.0	Remaining proceeds from the Tobacco Refinancing. These funds will have to be replaced in FY 16 from the TOPS Fund in the TOPS Program.
Health Insurance High Risk Pool	$16.0	Senate Finance Committee amendments provide for the remaining proceeds from the LA Health Insurance High Risk Pool to be transferred to the Mega-Project Development Fund once the plan has paid all of its current obligations. This risk pool is no longer needed due to Affordable Care Act (ACA) requirements. These funds are utilized to pay economic development obligations in lieu of utilizing SGF.
WISE Fund	$23.2	$12.15 M of CDBG Program Income and $11 M of non-recurring Overcollections Fund resources are being utilized to fund the WISE Initiative (HB 1033) for FY 15. These resources will have to be replaced in FY 16 as the current version of Act 803 of 2014 (HB 1033) contemplates an annual program with at least $40 M of appropriated resources obligated for this initiative.
LA Lottery Reserves	$9.0	Senate Floor amendment to Act 646 (Funds Bill) provides for the LA Lottery Corporation to transfer $9 M of its reserves to the State Treasury for deposit into the LA Mega-project Development Fund. These funds are utilized to pay economic development obligations in lieu of utilizing SGF.
FY 15 Deficit Reduction Plan (Round 1)	$135.9	The plan uses $137.2 M in "excess" revenues from the Overcollections Fund, Tax Amnesty collections, other various unobligated fund balances and projected end of year fund balances from various other funds as well as reallocation of other appropriated resources. This budget mechanism, or refinancing of existing expenditures, ultimately resolves 80% of the $171 M deficit. A Means of Financing (MOF) Swap will replace cuts made to the appropriated SGF budget with revenues from some of these fund balances once these resources have been recognized by the REC. The significant sources of funds include: $34.2 M - Tax Amnesty collections, $6.6 M - Health Excellence Fund, $4.9 M - Medical Assistance Trust Fund, $41 M - SGF/SGR/IAT reversions, $15 M - Insurance Verification Fund, $12 M - ORM, and $5 M - Riverboat Gaming Enforcement.
TOTAL	**$1,125.8**	

Department of Health & Hospitals (DHH)
Shawn Hotstream, Health & Hospital Section Director, hotstres@legis.la.gov

Medicaid Mid-year Deficit Solution
The Mid-Year Deficit Reduction Plan (Round 1) for Medical Vendor Payments (MVP) includes a reduction of $127,441,478 in SGF. Although the plan reduced SGF by $127 M, $126,445,728 (99% of the cut) was proposed to be restored with various Statutory Dedication means of finance to offset the SGF reduction in FY 15.

($127,441,478)	Total SGF reduction in MVP (09-306)
$126,445,728	Statutory Dedication funding used to offset SGF cut
($995,750)	**Net cut resulting in payment reduction to providers**

The specific Statutory Dedication revenues used to replace SGF reductions are reflected below:

$34,153,360	Excess Amnesty Collections
$7,919,155	Health Excellence Fund
$4,900,000	Medical Assistance Trust Fund
$79,473,213	Excess Statutory Dedicated revenue from the Overcollections Fund
$126,445,728	**Statutory Dedication revenue used to offset SGF cut**

However, the BA-7 originally proposed reflecting the above solution was amended in Joint Legislative Committee on the Budget. The amended BA-7 reduced the Statutory Dedication restorations used to offset the $127 M SGF cuts by approximately $44 M as a result of certain funds proposed to be used in the BA-7 not being recognized by the Revenue Estimating Conference (REC) prior to BA-7 approval. The Statutory Dedication revenues reduced in the amended and approved BA-7 include both Amnesty revenue collections and Overcollections Fund revenues in the amount of $70.4 M, in addition to $1.3 M in Health Excellence Fund revenues projected over anticipated collections in FY 15.

Based on the revenues amended from the original MVP BA-7 being recognized at the 1/26/2015 REC meeting, the only actual cut to Medical Vendor Payments will be $995,750 as proposed in the original BA-7 request. The cut will result in a reduction in payments to certain hospitals that receive Disproportionate Share Hospital (DSH) payments, and payments to Pediatric Day Health Care providers.

In FY 16, $126 M in additional SGF or other like revenues will be required to be added to Medical Vendor Payments (to be used as a state match source) in order to maintain the level of services supported by this level of revenue offset in FY 15.

Department of Environmental Quality (DEQ)
Charley Rome, Fiscal Analyst, romec@legis.la.gov

The Mid-Year Deficit Reduction Plan (Round 1) includes $2,134,809 in reductions for the DEQ from all means of finance, including a reduction of $9,908 in SGF, reductions totaling $2,124,901 from statutorily dedicated funds, and elimination of 10 vacant positions. The reductions in statutorily dedicated funds represent 2% of DEQ's Statutory Dedications budget authority. These mid-year reductions are from the following broad categories:

1. Savings of $52,100 from a 1% reduction in contracts department wide with savings taken from the Environmental Trust Fund.

2. Savings of $1,146,217 per Executive Order BJ 2014-16, Executive Branch Expenditure Freeze with savings taken from the following funding sources: SGF ($9,908), Environmental Trust Fund ($379,369), Hazardous Waste Site Cleanup Fund ($51,890), Lead Hazard Reduction Fund ($2,000), Oil Spill Contingency Fund ($3,123), Motor Fuels Underground Tank Fund ($473,142) and the Waste Tire Management Fund ($226,785).

3. Savings of ($936,492) per Executive Order BJ 2014-1 - Limited Hiring Freeze including 10 vacant positions department wide with savings taken from the Environmental Trust Fund.

DEQ does not anticipate any significant operational impacts from most of the budget reductions described above. However, DEQ reports that the reduction of $473,142 to the Motor Fuels Underground Storage Tank Trust Fund may reduce resources for remediation of leaking underground motor fuel storage tanks. Fund revenues are derived from a fee imposed on the first sale of bulk motor fuel (wholesalers) and from an annual fee per tank on owners of underground tanks storing new or used motor oil. DEQ uses the fund to reimburse program participants for costs to remediate sites contaminated by leakage of motor fuels. This budget reduction is not likely to have an impact in FY 15 because the fund had unobligated balance of $11.8 M on 9/30/2014 (latest date available). However, LDEQ reports that the fund acts as in insurance pool to fund remediation costs for leaking storage tanks and the fund may face a shortfall in the future due to this reduction.

DEQ also reports that the reduction of $226,785 in the Waste Tire Management Fund may decrease resources to pay waste tire processors. These fees are derived from fees paid from new and used tire sales. The fund has a current balance of approximately $911,000 in early January 2015 prior to application of the mid-year budget reduction. However, the fund started the fiscal year with a beginning balance of approximately $360,000. Furthermore, payments to processers generally exceed revenues collected from fees on tire sales during colder months. As such, the fund has faced cash shortfalls in previous fiscal years. The budget reduction increases the likelihood of a cash shortfall in the fund in FY 15. If the fund runs low on cash, DEQ prorates payments to waste tire processors.

Higher Education Taylor Opportunity Program for Students (TOPS)

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The Mid-Year Deficit Reduction Plan (Round 1) included a MOF swap replacing SGF ($4,946,681) with a like amount from the statutorily dedicated TOPS Fund for TOPS awards. The reduction in the TOPS Fund is based on $7,498,361 in excess funds carried forward from FY 14 and a reduction in the Revenue Estimating Conference (REC) projection for the TOPS Fund of $2,551,680 producing a net estimated balance in the TOPS Fund of $4,946,681 in FY 15. Using TOPS funds in the current year leaves less resources to fund a $22 M SGF MOF Swap in FY 16 replacing tobacco restructuring/refinancing proceeds.

Department of Education

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Student Scholarships for Educational Excellence Program

As a result of the lower than projected enrollment, the Student Scholarships for Educational Excellence Program (SSEEP) budget was reduced $3,765,411 or 8% of the total budget. However, based on actual expenditures for the first two quarters, the annualized cost of the program is projected to be $40.8 M resulting in an additional $1.6 M in excess program funding in the DOE budget.

SSEEP, or voucher program, allows selected students to attend participating non public schools with tuition expenses paid by the state. To be eligible for a scholarship, a student must have a family income that does not exceed 250% of the federal poverty guidelines and must be entering kindergarten or enrolled in a public school which has a C, D or F letter grade for the most recent year of the school and district accountability program.

2013-2014 School Year

For FY 14, the Department of Education (DOE) received 11,916 applications for vouchers; there were 8,515 vouchers awarded (72% of total applications) and of those awarded, 6,778 were actually used by students (80% of the total awarded and only 56% of the total applications). The average tuition paid was $5,311 per student. The DOE was budgeted $43.2 M for the program; actual expenditures were $36 M with the remaining $7.2 M used in the supplemental bill to fund shortfalls in the MFP.

2014-2015 School Year

For FY 15, the budget was increased to $46.2 M based on a DOE projected enrollment of 8,130 students with an average tuition of $5,577. As of December 2014, the DOE had received 13,000 applications and had awarded 9,100 vouchers (70% of total applications). Of those awarded, only 7,362 are actually being used by students (80% of total awarded and 56% of the total applications). For the first two quarters of the year (July through December) the DOE paid an average tuition amount of $5,545 for a total of $20.2 M or $40.4 M on an annualized basis. The result is a projected surplus of $5.7 M, $3.7 M of which was used to address the mid-year deficit leaving a potential balance of $2 M in the DOE operating budget.

LA Economic Development (LED) Debt Service & State Commitments
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The Mid-Year Deficit Reduction Plan (Round 1) includes a $1.5 M decrease in SGF and $648,085 decrease in funding from the statutorily dedicated Rapid Response Fund. The LA Department of Economic Development (LED) Debt Service & State Commitments (Schedule 20) provides funding for economic development projects throughout the state and the Rapid Response Fund specifically provides funding for industrial or business development projects that promote cluster economic development and that require state assistance to create or retain jobs. The Rapid Response Fund currently has an unobligated balance of $8.9 M. LED will absorb the $648,085 mid-year reduction in the Rapid Response Fund from the fund's current unobligated balance of $8.9 M. Furthermore, LED will fund a $1.5 M payment to IBM that was funded with SGF prior to the mid-year cut with unobligated Rapid Response Funds until receiving a $1.5 M SGR payment from City of Baton Rouge for IBM that is due in June. When the SGR payment from Baton Rouge for IBM is collected in June, the intent is to appropriate these funds in the Supplemental Bill to replenish the $1.5 M paid to IBM from the Rapid Response Fund. However, LED is currently negotiating with companies for new economic development projects and use of unobligated Rapid Response Funds to absorb mid-year budget cuts may result in a shortfall in the fund by the end of FY 15.

GENERAL GOVERNMENT

Potential Costs of Paying for Sexual Assault Forensic Exams Under Executive Order BJ 2014-17
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In November 2014, Gov. Bobby Jindal signed Executive Order BJ 2014-17, which mandates that hospitals can no longer bill victims of sexual assault for medical services related to the standard forensic exam that each victim receives. The LA Coalition on Law Enforcement's (LCLE) Crime Victim Reparations Board (CVRB) will now assume certain medical costs deemed standard by the Department of Health & Hospitals (DHH) related to sexual assault Forensic Medical Exams (FME). With LCLE assuming these costs for LA's FME Program, net state expenditures will significantly increase.

CVRB receives its funding through a combination of fees levied on criminal court cases, as well as funding from federal grants, court-ordered restitution from criminals, donations, and interest. Currently CVRB has a cash balance of $1.5 M and an unencumbered appropriation of $2.4 M for FY 15.

CVRB was not liable to pay all medical costs related to hospitals or health care facilities performing forensic exams in the past. Previously medical facilities would bill sexual assault victims, their insurance, or another 3rd party payer for medical services related to FMEs. CVRB was only liable for costs brought to their attention by victims filing a claim for reparations, as is the process for victims of all other forms of crime. Over the last 16 months, CVRB only paid five awards for claims on medical services related to FMEs at an average cost of $2,700 per claim, or $13,500.

A proposed rule by CVRB would allow sexual assault victims to assign their right to collect medical expenses associated with FMEs to the facilities in which they are performed. It is important to note that the aforementioned rule will only cover medical expenses *related* to the FME. Currently state law mandates that parish coroners or the parish governing authority must cover non-medical service expenses related to the FME, such as the purchase of rape kits, as it is for evidence collection and preservation purposes.

To generate a potential range of costs for CVRB related to BJ 2014-17, a reasonable estimate of rapes must be generated. According to the FBI's Uniform Crime Reporting (UCR) database, Louisiana had 1,619 rapes in 2013. However, victims do not necessarily report rapes to law enforcement in all cases. The Rape, Abuse, and Incest National Network (RAINN), the largest anti-sexual violence organization in the United States, estimates 68% of rapes go unreported. As a result, the number of cases that CVRB may be liable to pay out is uncertain based upon historical data.

However, using data available at this time, it is possible to begin drawing conclusions about the potential fiscal impact of CVRB paying for medical services related to the FME program in Louisiana by examining the costs it has paid on average for medical services occurring at the time of FMEs ($2,700 per case), as well as the model of the State of Kentucky's Sexual Assault Program. Kentucky's statistical profile in the categories of population, rapes reported to law enforcement, and rapes per 100,000 inhabitants in 2013 are

quite similar to LA's during the same period. See Table 3 below for a comparison.

Kentucky's Sexual Assault Program has many of the features in place that BJ 2014-17 tasks state agencies to create for LA, including a standardized FME protocol and standardized rape kit as noted in the Kentucky Administrative Regulations. Kentucky has also standardized pay pay rates for services included in their FME protocol, totaling a chargeable max of $1,995 that hospitals can bill its Crime Victims Compensation fund. Removing non-medical service expenses such as the examination facilities fee ($250) and an examiner fee ($200), Kentucky has a chargeable max of $1,545 for purely medical expenses. The following figures represent Kentucky's chargeable max for medical expenses of $1,545 and LA's average award of $2,700 for medical expenses at financial exposure levels of 100%, 75%, and 50% multiplied by the reported number of rapes in LA (Table 4).

Table 3			
State	Population	Rape (Revised definition)[1]	Rapes/100,000 inhabitants
Kentucky	4,395,295	1,611	36.7
Louisiana	4,625,470	1,619	35

[1] The revised UCR definition of rape is defined as "Penetration, no matter how slight, of the vagina or anus with any body part or object, or oral penetration by a sex organ of another person, without the consent of the victim."

Furthermore, using assumptions from other sources, such as RAINN's estimation that 68% of rapes go unreported, it is possible to extrapolate a potential maximum exposure. By using RAINN's figure on the unreported percentage of rapes, it is possible to generate a reasonable estimation of the true number in Louisiana in 2013. If 1,619 is the reported number of rapes at a rate of 32%, then the **estimated** number of rapes in Louisiana is 5,059. Using the generated number of rapes, the amounts of financial exposure change dramatically using both Kentucky's Sexual Assault Program and Louisiana's average payout models (Table 5).

Table 4				
Potential Financial Exposure Ranges Based Upon Known Cases of Rape				
Model	Max Charge	100% Exposure	75% Exposure	50% Exposure
Kentucky	$1,995	$3,229,905	$2,422,429	$1,614,953
LA CVRB Payout Avg.	$2,700	$4,371,300	$3,278,475	$2,185,650

Table 5				
Potential Financial Exposure Based Upon Estimated Cases of Rape				
Model	Max Charge	Max. Exposure	75% Exposure	50% Exposure
Kentucky	$1,995	$7,816,155	$5,862,116	$3,908,078
LA CVRB Payout Avg.	$2,700	$13,659,300	$10,244,475	$6,829,650

These are not authoritative figures for the potential costs of Louisiana funding the FME program, and come with a number of caveats. First, the $2,700 per-case average payout for FMEs by CVRB is derived from only five cases, which may be too small of a sample to be representative of a true per-case cost statewide. Next, the figures given only represent a range of potential costs based upon the data available at this time. The range of potential costs between $2.1 M and $13.7 M only serve as an estimation. LCLE has not provided the LFO with any data or information indicating that CVRB will hit the maximum exposure point for paying claims on medical services related to FMEs. To the extent that the number in reported rapes increased beyond the known figure of 1,619, the total cost would increase beyond the projected minimum of $2.1 M reflected in this report. Lastly, DHH has not established which medical procedures will be deemed "standard" as they relate to sexual assault victims, and as a result pay rates for these "standard" services are unable to be established. DHH and the Department of Public Safety have convened a task force meeting in an attempt to determine a standard FME protocol which may look quite different from Kentucky's current model.

It is also important to note that CVRB has standing federal assistance in carrying out its duties. For every dollar approriated for CVRB in a particular fiscal year, it receives 60 cents from the federal Office for Victims of Crime (OVC) in the next fiscal year by way of the Victims of Crime Act. Therefore, increased state expenditures in a particular fiscal year related to medical services for sexual assault victims receiving FMEs may result in additional federal funding.

Due to the number of unknowns within this issue, fiscal analysis will likely change as the agencies responsible devise and implement policies pursuant to Executive Order BJ 2014-17.

Fontainebleau State Park Cabin Repairs

Drew Danna, Fiscal Analyst, dannad@legis.la.gov

Since their completion in 2005 the cabins on the banks of Lake Pontchartrain in Fontainebleau State Park have not been consistently open due to hurricane damage. Just as the cabins were completed and set to be open, Hurricane Katrina heavily damaged the cabins. Repairs to the cabins were completed in 2008 and the cabins remained open until Hurricane Isaac struck in 2012. Damages to the cabins and the secondary structures surrounding the cabins from Isaac was estimated to be $2.63 M by the Office of State Parks (OSP), $1.86 M of which was attributed solely to the cabins. Incorrect assessments by insurance adjusters, damage to necessary on-site facilities, and interagency disputes over what party would be responsible for repairs lead to delays in the project spanning over the next two years. After corrections were made and some assignment of responsibility agreed to, a $1.4 M contract has been approved to begin the first portion of reconstruction (Phase I – see below).

Due to the Office of Risk Management (ORM) being the FEMA applicant for all permanent repairs, ORM wanted to complete all repairs covered by State insurance before having FEMA cover non-insured damages. This caused various delays that have resulted in the cabins still not being open. The cabin structures were covered by the ORM policy, but the access board walks and utilities that had been destroyed would presumably not be covered due to their close proximity to the water, a condition that defies ORM standards of coverage. This would mean the Office of State Parks (OSP) would be responsible for covering approximately $140,000 of the repairs with possible FEMA reimbursement. OSP has had difficulty in funding the $140,000 for repairs as a result of budget reductions and a fund trasnfer from the State Parks Repair & Improvement Fund. Since FY 12, approximately $29 M of $38 M in revenues from the State Parks Repair and Improvement Fund has been transferred from the fund for use elsewhere in the state's operating budget. In addition, there is a chance that the reimbursements provided by FEMA may not fully cover the expenses OSP would have to take on for the project.

Despite other disputes, OSP and ORM did agree that the reconstruction should take place in 2 phases as some repairs would be more straightforward than others, providing an opportunity to work through early coordination of funding and scope for the rest of the project. Phase I would consist of the cabins and walkways leading to the cabins with an estimated cost of $1.437 M, in which ORM will pay $1,299,522 and OSP will pay $137,478. At the time of this report, the repairs for Phase I are approximately 80% completed with an estimated finishing date in early March 2015. Phase II would cover secondary structures like the Visitor's Center, maintenance building and other structures that worked in support of the cabins. Phase II is still in the design phase meaning the full scope of work is still being determined and cost estimates are unknown at this time. According to OSP estimates, the repair costs will be approximately $990,000, while adjusters from ORM estimate the repairs to be $286,000.

In addition to the interoffice coverage disputes, the floodwaters destroyed the walkways leading to the cabins and ruined the utilities and sewage facilities at the site. With no proper walkways to reach the cabins and no utilities to connect equipment, contractors faced a difficult time properly assessing the damage. The scope of work contained errors of what materials had been used to construct the cabins as well as outright omissions of other items damaged in the storms. The scope of work is an assessment from an insurance adjuster that provides the cornerstone from which the complete project costs will be estimated. As a result, the initial adjusters report for Phase I estimated costs at $421,000 while OSP estimated the damages at $1.8 M. These inaccuracies lowered replacement costs and lead to disputes over how much was to be budgeted for reconstruction.

With Phase I of the project anticipated to be finished in early March 2015, it will become necessary to hire new personnel to manage the cabins once they reopen. According to the FY 16 OSP budget request, 2 positions will be needed at an estimated cost of $157,000 for salaries and related benefits. It is unknown at this time if these requested expenditures will be funded in FY 16. In addition, it is also unknown if ORM or OSP will seek FEMA reimbursement for the repairs for Phases I or II.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

Janaury 2015

Volume 3, Issue 7

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FROM THE DESK OF THE FISCAL OFFICER

We hope you had a wonderful holiday and wish you a Happy New Year.

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 provides information on TOPS funding projections, retirement issues, and hospital cooperative endeavor agreements. In addition, this issue discusses state employment growth and Department of Revenue budgetary obligations.

Shawn Hotstream, Health Section Director for the Legislative Fiscal Office, participated in a meeting in New Orleans December 3rd, 2014 sponsored by the National Conference of State Legislatures (NCSL). The purpose of the meeting was to provide a forum for certain state officials and staff to learn about health care and payment trends, ways to implement Medicaid efficiencies, payment reforms, and quality initiatives. Additionally, state teams were tasked with generating ideas and strategies to improve the states' Health System Performance.

The next January edition of Focus on the Fisc will provide a summary of the FY 15 deficit reduction plan with detailed analyses on certain agency reductions.

John D. Carpenter

FOCUS POINTS

TOPS Funding Projections Exclude LA Grad Act Impacts After Fiscal Year 2015-16

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TOPS (Taylor Opportunity Program for Students) is a program of state scholarships for Louisiana residents who attend one of the following: a Louisiana Public College or University, a school that is part of the Louisiana Community and Technical College System, a Louisiana approved Proprietary and Cosmetology School or an institution that is a member of the Louisiana Association of Independent Colleges and Universities. TOPS award amounts (excluding stipends) are based on tuition charged at public institutions in Louisiana and can be used for any qualified educational expenses (cost of attendance) including: tuition, fees, books, supplies, certain required equipment, reasonable charges for room and board, and special needs services. For FY 15, TOPS is funded at $250.0 M; $169.9 M in SGF and $80.1 M from the TOPS Fund. The $80.1 M from the TOPS Fund includes $22 M in one-time funding from tobacco restructuring/refinancing that must be replaced in FY 16.

Funding for the TOPS program has increased significantly since passage of the LA Grad Act in 2010 (Act 741 of the 2010 Regular Legislative Session) because tuition increases authorized by the legislation have correspondingly raised TOPS award amounts. Louisiana public colleges and universities signed six-year performance agreements in August 2010 per the LA Grad Act. These six-year agreements expire at the end of FY 16. Total TOPS awards were $131 M in the last year prior to passage of the LA Grad Act in FY 10. The total dollar value of awards has risen by approximately 91% since 2010 to an estimated $250 M in FY 15 primarily due to tuition increases authorized by the LA Grad Act. By contrast, the number of awards (excluding Tech Early Start) has only risen by approximately 10% from FY 10 to FY 15.

In the August 2014 Focus on the Fisc article on TOPS, the Legislative Fiscal Office reported that the

Louisiana Office of Student Financial Assistance (LOSFA) forecasted that the total dollar value of TOPS awards would increase by approximately $137 M (55%) from FY 15 to FY 19 as reported in LOSFA's April 2014 forecast. This dramatic increase was primarily due to LOSFA's assumption that tuition would increase by 10% per year due to authority granted by the LA Grad Act. LOSFA's forecast included 10% increases in tuition after FY 16 even though the current LA Grad Act performance agreements expire in FY 16.

Table 1

LOSFA Projections Removing 10% LA Grad Act Tuition Increases After FY 16 (millions of dollars)

	FY16 *	FY17	FY18	FY19
LOSFA April 2014 Forecast - (10% LA Grad Act Increases All Years)	$280.2	$313.5	$348.3	$386.9
LOSFA November 2014 Forecast - (No 10% LA Grad Act Increases After FY 16)	$284.3	$287.4	$288.8	$291.7
Difference	$4.1	($26.1)	($59.5)	($95.2)
Cummulative Difference	$4.1	($22.0)	($81.5)	($176.7)

* Last year of current six-year Grad Act performance agreements.

However, LOSFA's TOPS forecast for the FY 16 budget released in early November 2014 removes tuition increases from the LA Grad Act after FY 16, significantly reducing the growth in TOPS expenditures after FY 16. Table 1 shows LOSFA's TOPS forecast from April 2014, the agency's forecast from November 2014 (removing LA Grad Act tuition increases after FY 16), the differences between forecasts per year, and the cumulative differences between forecasts per year.

Table 1 above shows the following reductions in the growth in TOPS expenditures per year attributable to LOSFA's revised forecast: FY 17 ($26.1 M), FY 18 ($59.5 M, and FY 19 ($95.2 M). The table also shows the following cumulative reductions in the growth in TOPS expenditures per year including a small increase of $4.1 M from FY 16: FY 17 ($22.0 M), FY 18 ($81.5 M), and FY 19 ($176.7 M). The increase of $4.1 M in FY 16 was due to a slight increase in the number of anticipated participating TOPS students.

There is no way to anticipate whether institutions will seek or be awarded subsequent LA Grad Act performance agreements after FY 16. The Legislative Fiscal Office contacted staff from higher education management boards regarding the likelihood of their institutions seeking LA Grad Act performance agreements after FY 16. None of the management boards were able to provide any information relative to the likelihood of their institutions seeking agreements after FY 16.

As stated in the August 2014 Focus on the Fisc article on TOPS, public colleges and universities have several limitations relative to their on-going ability to raise tuition per authority granted by the LA Grad Act. Some institutions are close to the Southern Regional Education Board (SREB) tuition cap included in the LA Grad Act and may not be able to raise the full 10% amount authorized each year. Other institutions have seen enrollment declines as tuition goes up, decreasing overall revenues from students. Other institutions may choose not to impose the full 10% increase in order to maintain access for low-income students. Actual collections of tuition and mandatory fees may also be reduced by hardship waivers, fee exemptions or other forms of student aid. Other institutions occasionally fail to meet LA Grad Act performance objectives required to raise tuition. For instance, Southern University A&M, Southern University at Shreveport, and the Southern University Law Center did not pass their Grad Act Student Success objectives in year 4 (FY 14) and lost authority to increase tuition in FY 15. For the reasons above, many institutions may not seek subsequent LA Grad Act performance agreements because their ability to raise tuition is limited by other factors.

Furthermore, the LA Grad Act has higher student success performance objectives that may be unobtainable for many institutions for subsequent six-year performance agreements. Specifically, the Grad Act's second six-year performance agreements require the following graduation rates by Southern Regional Education Board (SREB) category: 1) 75% for SREB "Four-Year 1" institutions. 2) 60% for SREB "Four-Year 2" institutions. 3) 50% for SREB institutions classified as a "Four-Year 3", "Four-Year 4", or "Four-Year 5". 4) A graduation rate that is equal to the SREB average for any community college and technical college campus.

In summary, there are many reasons why higher education institutions would not seek subsequent LA

Grad Act performance agreements after FY 16. However, nothing precludes institutions from seeking subsequent agreements. LOSFA's forecast may underestimate TOPS costs after FY 16 to the extent that institutions sign subsequent LA Grad Act agreements and meet student success objectives necessary to authorize tuition increases.

GENERAL GOVERNMENT

Insurance Verification Fund Revenue and Expenditures
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Act 641 of 2014 increased the fees for motorists that operate a vehicle without automotive liability insurance. As a result of increasing the fees, collections by the Office of Motor Vehicles (OMV) are expected to increase significantly and the increased collections will be used by the Office of State Police (OSP), district attorneys, Department of Corrections, and for other law enforcement purposes in future fiscal years.

The Office of State Police (OSP) plans to use $19.1 M of funds deposited in the Insurance Verification Fund to pay for trooper pay grid increases ($14.6 M) and to purchase a computer-aided dispatch system and records management system ($4.5 M). The pay grid increase is a result of increasing salaries by $8.5 M and related benefits by $6.1 M. The addition of the dispatch and records management systems are part of the Government Efficiencies Management Savings (GEMS) project that Alveraz & Marsal completed in FY 14 to streamline government. For FY 15, the Insurance Verification Fund will need to collect $20.3 M in order to pay for the pay raises ($14.6 M), real-time database ($1.2 M) and streamline suggestions ($4.5 M). A BA-7 was approved at the August meeting of the Joint Legislative Committee on the Budget (JLCB) for $1.2 M to develop the real-time insurance database.

Currently, the fund has a balance of approximately $13.8 M (1/8/15). On average the fund is collecting $2.2 M per month. At this rate the fund would collect $26.5 M for FY 15. This amount would cover the $20.1 M needed for FY 15. Based on the historical average of fees paid, the months of February and March account for 17.2% and 12.7% of total collections, and the other 10 months account for 70% of collections. To the extent collections follow the historical trend, the fund would collect $35.7 M in FY 15 according to the department.

The FY 15 mid-year deficit elimination plan introduced by the Division of Administration (DOA) at the November JLCB meeting includes $15 M in funds available from the Insurance Verification Fund. The DOA notes that the $15 M is additional revenue in excess of the amount needed for the state trooper pay grid increase. To the extent the $15 M for the mid-year deficit reduction is taken from the fund, the fund would expend $35.3 M ($20.3 M OSP expenses + $15 M mid-year deficit plan) for FY 15. Based on the current revenue collections and potential expenditures, the collections would cover the $15 M to be used in the FY 15 mid-year deficit reduction plan. To the extent collections continue as projected, there would be $0.4 M remaining in the fund at the end of the year as noted in Table 2 above.

Table 2

Insurance Verification Fund	Amount
Collections (expected)	$35,674,363
Real-time Database	($1,181,921)
Pay Grid Increase	($14,631,738)
GEMS Expenses	($4,500,000)
Fund Balance Remaining	**$15,360,704**
Mid-year Reduction Plan	($15,000,000)
Fund Balance	**$360,704**

Employer Contribution Rate for State Employees
Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

The aggregate employer contribution rate for the Louisiana State Employees' Retirement System (LASERS) for FY 16 is projected at 37.0%, which is 0.4 percentage points lower than the FY 15 projected rate of 37.4% (Table 3). The employer contribution rate is determined using the FY 16 projected payroll amount and the projected employer contribution (ER) amount (ER/Projected Payroll = Employer Contribution Rate). The projected payroll for FY 16 is $1,884,404,842 and the employer contribution amount is $697,562,314. It should be noted that the state's employer contribution for FY 16 is lower than the projected FY 15 amount by $62.9 M. ($697.6 M FY 16 – 760.5 M FY 15. The decrease in the employer contribution rate is due to the

FY 16 projected payroll being lower than the FY 15 projected payroll amount. The projected payroll amount in FY 16 is $1,884,404,842, which is approximately 7.8% less than the projected FY 15 payroll amount of $2,030,784,463.

The projected employer contribution amount is lower as a result of a decreased normal cost. The normal cost (NC) is the amount needed to cover the cost of accruing next year's benefit. The FY 15 projected NC is $132.8 M, while the FY 16 projected NC is substantially lower at $67.2 M, a difference of $65.6 M. This drastic reduction is mainly a result of Act 571 of 2014 which changed the actuarial cost method from Projected Unit Credit (PUC) to Entry Age Normal (EAN). PUC is a method that funds the present value of the benefit as it accrues and does not spread the cost. For employees that are early in their career the cost is lower, but at the end of an employee's career, the cost is higher. EAN creates level contributions throughout the career. While it may cost more at the beginning of a career to pay an employee's accruing benefit, there is not a spike in later years and it remains the same.

Table 3

	FY 16	FY 15	Difference
Normal Cost	$67,158,874	$132,773,370	($65,614,496)
Total ER	**$697,562,314**	**$760,458,132**	**($62,895,818)**
Payroll	$1,884,404,842	$2,030,784,463	($146,379,621)
Cont. Rate	37.0%	37.4%	-0.4%

Unfunded Accrued Liability Update

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

The total unfunded accrued liability (UAL) for the four state systems increased to $20.3 B in FY 14, an increase of $1.3 B ($20.3 B FY 14 - $19.0 B FY 13). LASERS and Teachers' Retirement System of LA (TRSL) both decreased their respective discount rates from 8% to 7.75%. This decrease in the discount rates and the change from Projected Unit Credit to Entry Age Normal were the main factors for the increase in the total UAL.

As of 6/30/2014, the UAL for each system is as follows and compared to the 2013 UAL:

System	2014 UAL	2013 UAL
Teachers	$11,973,763,757	$11,348,552,354
State Employees	$7,271,270,270	$6,441,316,964
School Employees	$806,632,711	$911,099,504
State Police	$288,865,398	$323,604,196
TOTAL	$20,340,532,136	$19,024,573,018

Note: Funded percentages of the 4 state retirement systems as of 6/30/2014 are as follows: State Police – 65.5%; School Employees – 61.6%; LASERS – 59.39%; and TRSL – 57.4%. The funding percentages represent the percentage of assets on hand to pay all current/future liabilities.

HEALTH & HOSPITALS

Significant Changes to Public/Private Hospital Partnership Cooperative Endeavor Agreements

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Over the past 2 fiscal years, LSU and the state of LA have entered into a number of Cooperative Endeavor Agreements (CEAs) to privatize the operation of nine public hospital facilities, while retaining direct management of the Lallie Kemp Medical Center in Independence as a state-operated facility.

The Department of Health & Hospitals (DHH) historically provided Medicaid funding to LSU as authorized under the State Medicaid Plan to compensate for high levels of uncompensated care costs. LA submitted State Plan Amendments (SPAs) to the Centers for Medicare & Medicaid Services (CMS) in order to authorize the additional Medicaid funds be made available to the private operators of the hospitals under the new CEAs.

CMS initially approved the SPA allowing Medicaid funding to Our Lady of the Lake, which took over the provision of services to patients formerly served by the Earl K. Long Medical Center. However, CMS subsequently refused to authorize SPAs approving the transfer of funds to specific other private entities.

The primary conflict within the CEAs was a provision to provide required funding levels to the private partners.

Subsequent to the CMS refusal to approve the proposed SPAs facilitating the privatization of the planned hospital operations, DHH, LSU and the participating private entities amended the original CEAs to facilitate CMS approval. Some changes were universal across all outstanding CEA relationships while others were specific to individual providers. The 5 amended CEAs intend to provide Disproportionate Share Hospital (DSH) payments to University Medical Center Management Corporation - New Orleans (UMCMC), University Hospital & Clinics, Inc. – Lafayette (UHC), Lake Charles Memorial Hospital - Lake Charles, Our Lady of the Angels Hospital, Inc. – Bogalusa, and the Biomedical Research Foundation of Northwest LA - combined operation of the LSU Medical Center – Shreveport and the E.A. Conway Medical Center - Monroe.

Significant changes universal to all CEAs

- DHH is removed as a named party with obligations under the CEAs
- Private partners will have the right to terminate the CEA for convenience with 60 days prior written notice.
- Most of the private providers created a subsidiary through which to operate the public-private partnership. LSU is given the option to force the partner's withdrawal from its operating subsidiary, allowing for a continuity of operations under the existing CEA. This option does not apply to Lake Charles because there is no ongoing hospital operation and no operating subsidiary under the CEA.
- The obligation of partners to continue providing defined "core" and "key" services is more limited than under the original CEAs. Given the dissolution of guaranteed funding levels (see below), the CEAs were amended to include language allowing the discontinuance of one or more designated "core" or "key" services as contained in the original CEAs if the private partner reasonably determines that continued provision of such services would materially and adversely impact the partner or its subsidiaries or affiliates so long as the limitation or reduction will not materially and adversely impact the Public Purpose clause contained in each CEA.
- LSU reserves the right to terminate a CEA on 60 days advance notice if the partner fails to operate the hospital in a manner consistent with LSU's public mission. This option does not apply to Lake Charles because there is no ongoing hospital operation and no operating subsidiary under the CEA.

Significant Financial changes universal to all CEAs

- All references to funding levels and state funding obligations were removed from the amended CEA's. State Plan Amendment 14-25 states, "each qualifying hospital shall be paid DSH adjustment payments equal to 100% of allowable hospital specific uncompensated care costs." The level of state appropriation and DSH provision in SPA 14-25 will govern payment to the partners. The SPA does not address supplemental Medicaid payments to partners.
- Partnership funding is subject to qualifying under the SPA, not simply as a result of being a provider designated within the CEA. Hospitals must meet the definition of a LA Low Income Academic Hospital, and have an uninsured patient utilization rate (based on inpatient and outpatient charges) of at least 20%, and maintain an established level of intern and resident positions.

Significant changes specific to University Medical Center Management Corporation (UMCMC) - New Orleans

- LA Children's Medical Center's (LCMC) obligation to guarantee UMCMC's lease payments will terminate upon LCMC's notice of its withdrawal as the sole member of UMCMC.
- The master lease agreement is revised to provide for a lease period of five years with automatic renewal for an additional 5 years unless UMCMC opts for nonrenewal within 270 days of each lease expiration period. In the original CEA, the lease provided for a 15-year lease period with an option to extend for 2 additional 15-year periods.

Significant changes specific to University Hospital & Clinics (UHC) - Lafayette

- Lafayette General Health System's (LGHS) obligation to guarantee UHC's lease payments will terminate upon LGHS's notice of its withdrawal as the sole member of UHC.

REVENUE

State Employment Growth Since Economic Recovery Began

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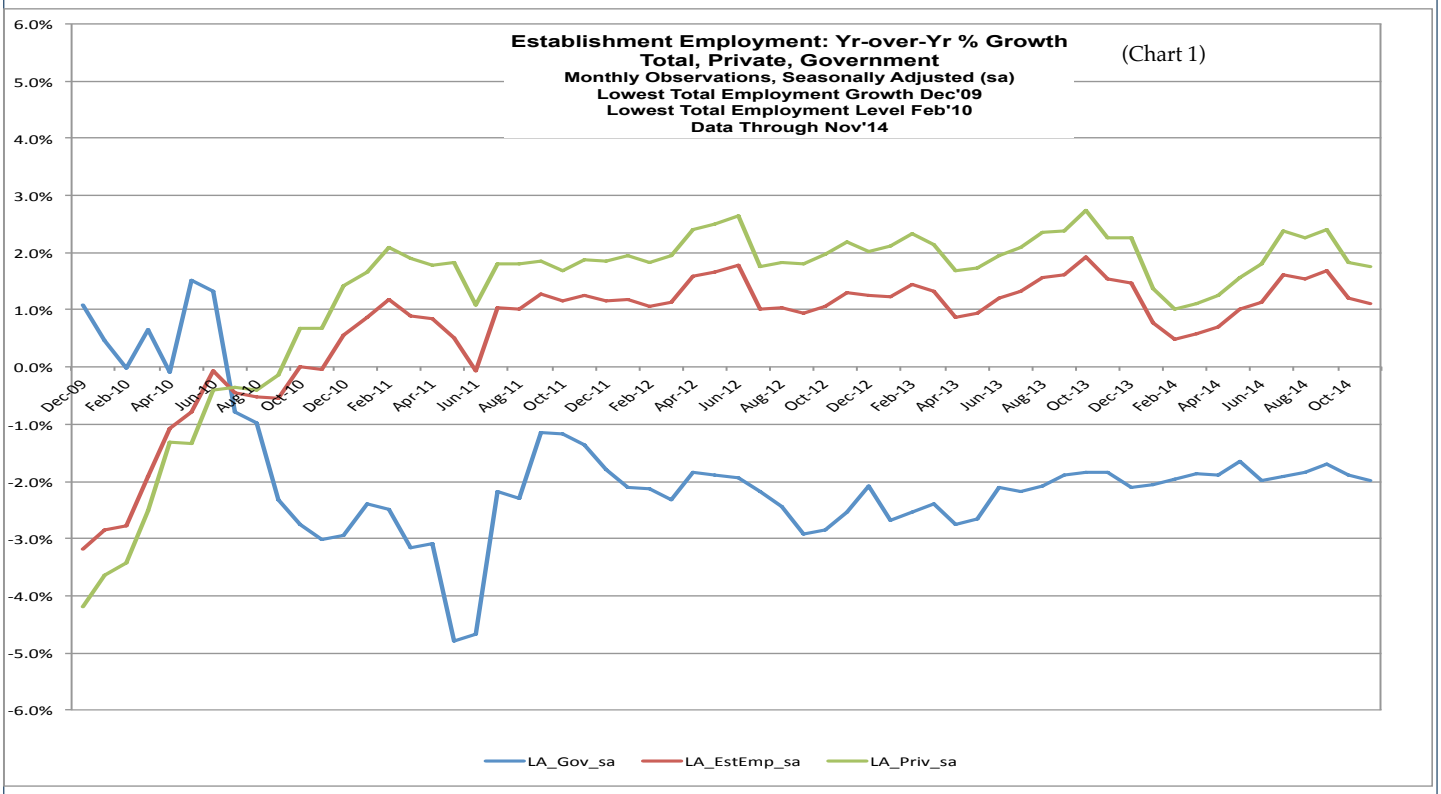
Probably the most important metric tracking a state's economic performance is payroll employment. Depicted in the Chart 1 is the year-over-year growth of each month's total payroll employment in the state, and the subsets of private and public sector employment. These are annual growth rates of seasonally adjusted employment levels. The low point for total employment in the state was February 2010. The level of total employment in the state has increased almost every month since then reflecting the state's economic recovery from the national recession of 2008/2009. Consequently, year-over-year total employment growth has been positive since the end of 2010, and by the second half of 2011 has settled into an average growth rate of 1.2% since July 2011. While the southern portion of the state is experiencing a substantial industrial expansion and monthly growth volatility has increased, there is no apparent acceleration or step-up in the growth rate of total employment. In fact, the most notable aspect of the job data is the relatively stable growth around the 1% rate that has been exhibited for the last four years.



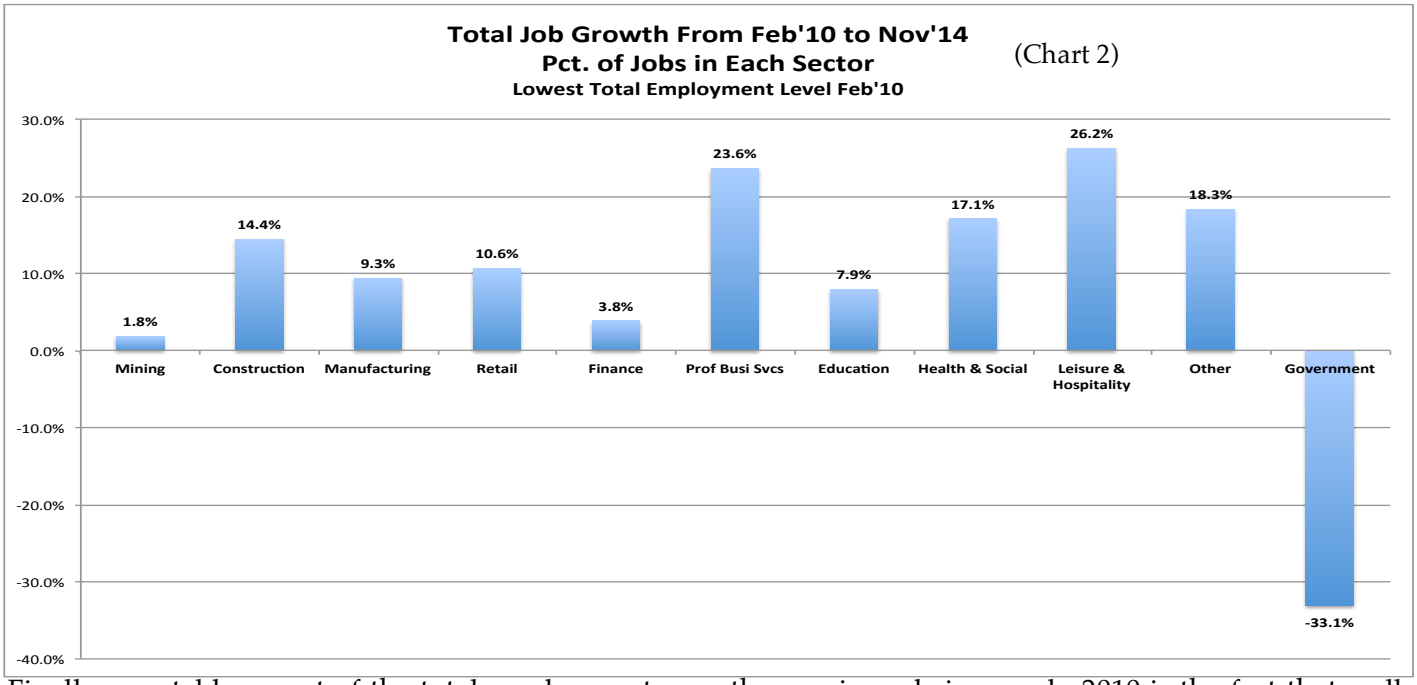
This same pattern of stability is exhibited in private sector employment growth, as well. Since March 2012 this growth rate has settled into an average rate right at 2%, and has been just under that rate since early 2011. While also increasing in volatility, it too has shown no acceleration or step-up, and the length of time of relative stability is notable, as well.

A final notable aspect of the state's employment performance has been the reduction in public sector employment. This includes state, local, and federal government employment. As a whole, this sector peaked in May 2010 with federal census hiring, but each sub-sector peaked and began declining at different times. Starting around mid-2009 state government employment began an absolute decline, as state resources declined and the policy decision to reduce state government employment began to be implemented. Local government employment began declining around mid-2010. Aside from winding down census employment in late 2010, federal government employment stepped down in the second half of 2011 and again in 2013. All three components of the public sector seem to have slowed their respective declines in 2014, and the combined drop has settled to an average rate just under 2% for the last year, with a slight trend to smaller decline rates. In terms of drop from peak levels, state government employment has fallen the most in both absolute jobs and as a percentage of peak employment; 25 thousand jobs and a

21.3% decline from February 2009. Local government employment has fallen by 15.2 thousand jobs or 6.8% from its peak of June 2010, and federal government employment has fallen the least, 1.4 thousand jobs or 4.4% from its peak in August 2011.

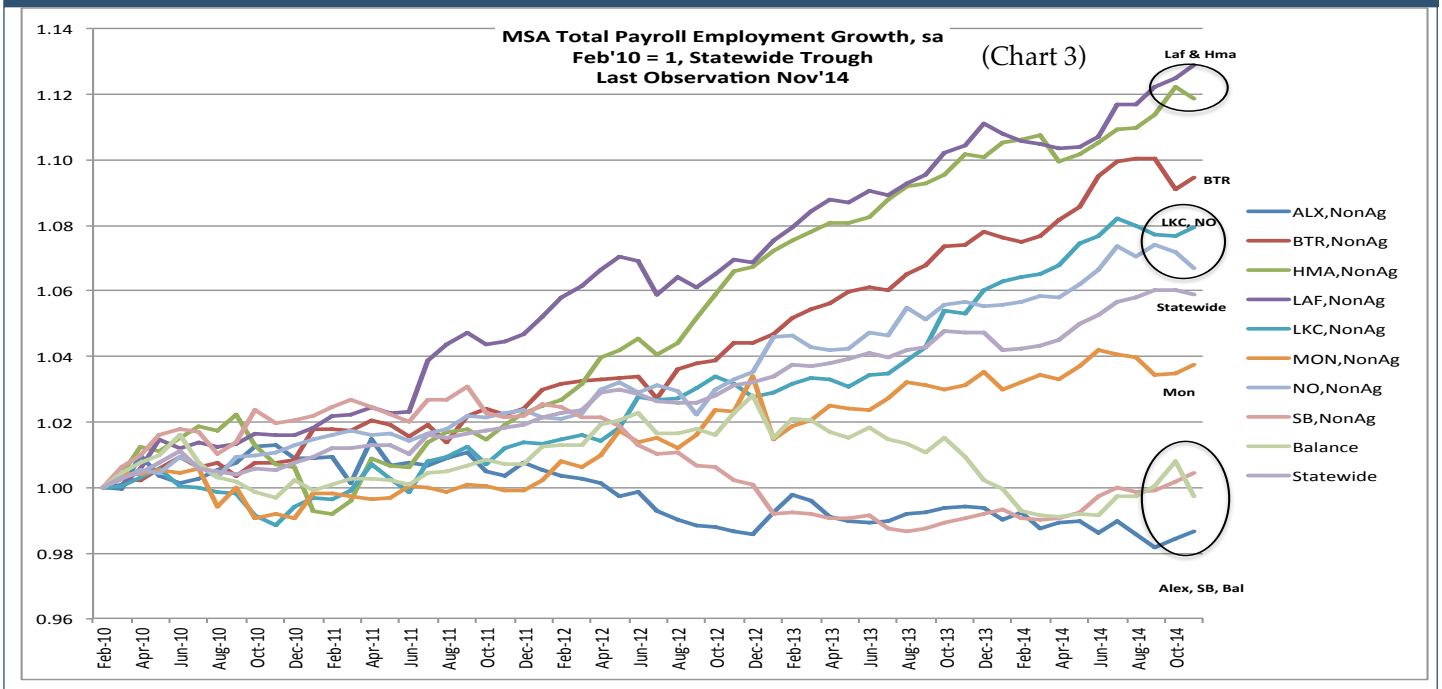
Chart 2 depicts the composition of total employment growth across various industry sectors from February 2010 through November 2014. The large decline in public sector employment is obvious (36,500 jobs and a negative 33.1% share of total employment change), and is largely explained as a policy decision to reduce the number of state government employees; also, accompanied by smaller declines in local and federal government employment.

Positive growth in the private sector has occurred across all sectors depicted below. The industrial expansion occurring across the southern tier of the state is evidenced in the construction sector, which has added nearly 16,000 more jobs since early 2010; 14.4% of all net new job growth. Growth in manufacturing jobs and in the broad sector of professional and business services is, in part, likely associated with these industrial projects, as well as being associated with international trends to relocate production in the United States and the national economic recovery in general. These 2 sectors have added 10,300 jobs and 26,000 jobs, respectively; 9.3% and 23.6% of all net new job growth. These three sectors tend to pay relatively well, and their growth is a strong positive for the state, although construction also tends to be episodic and will not surge indefinitely. Material positive growth has also been exhibited in education, health & social assistance, and the catchall category in the chart of "Other" (mostly wholesale trade, transportation, and utilities). Job additions in these three sectors have been 8,700 in education (7.9% of total growth), 18,800 in health & social (17.1%), and 20,200 in the Other subsectors combined (18.3%). These sectors also pay relatively well, with the realization that health sector employment does not mean all physicians and surgeons. The weakest areas of private sector growth have been in the mining (oil & gas extraction), 1.8% of total growth and only 2,000 jobs, and in finance with only 3.8% of total growth and 4,200 jobs. Both sectors pay well but are relatively small and are not getting much bigger very quickly.



Finally, a notable aspect of the total employment growth experienced since early 2010 is the fact that well over a third of total net employment growth (36.8%) has been in retail trade and the leisure & hospitality sectors. These jobs tend to be relatively low paid, and may have a large degree of part-time hours associated with them.

Chart 3 depicts the growth in total payroll employment since the recovery began by metropolitan statistical area. The employment total for each area has been deseasonalized and all areas have been indexed to the same starting point, the trough of statewide employment in February 2010. Each line then depicts the total percentage change in employment in each area from that starting month. For example, the statewide line lying roughly in the middle of the graph indicates that as of October 2014 total employment in the state is just under 6% higher than it was in February 2010.



The fastest growing metro areas have been the two centered in Lafayette and Houma, having grown by 12.9% and 11.9%, respectively, over this period. The Baton Rouge area is fast catching up at 9.4% growth, followed by the Lake Charles and New Orleans areas with 8% and 6.7% growth, respectively. The Monroe area has performed below the statewide average with only 3.7% growth. Most notably, three areas have absolutely declined or, at best, essentially treaded water over this period. The Alexandria area is actually 1.3% smaller in terms of total employment since February 2010, while the Shreveport/Bossier area and the balance of the state have essentially shown no growth with 0.5% and -0.3% growth, respectively. The balance of the state "area" constitutes thirty-five parishes that are not included in metro area designations but surround those designated areas. These three lagging areas contain approximately 30% of the state's total employment.

Budgetary Obligations of the Department of Revenue

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The Department of Revenue (LDR) represents 2 areas of significant exposure for the state budget – one in identifying ad hoc revenue to fund the state budget and one in the generation of fees to fund its own operating budget. Both areas could require a significant use of SGF resources.

Ad Hoc Revenue Sources Exposure

LDR is responsible for identifying SGF revenue under the labels of fraud initiatives, debt recovery, amnesty and Alvarez and Marsal (A&M) identified collections which are currently included or under consideration for the FY 15 budget.* By LFO estimates, LDR must identify at least $243 M in FY 15, with all but amnesty receipts (or almost $100 M) as essentially a dedication of SGF revenue. The dedication of fraud initiative funds during FY 14 was a material contributor to actual SGF revenue receipts falling short of forecast. Since all recognized SGF resources are appropriated in the budget, placing those dollars into a special fund and re-appropriating them results in the double spending of funds. A similar scenario may be occurring in FY 15.

For instance, the current DOA interpretation of the Debt Recovery Fund is that any Office of Debt Recovery collections over 60 days old could be classified into the Fund, including tax debt. According to the most recent Accounts Receivable report from OSRAP (March 2015), over $635 M was collected as LDR tax debt over 90 days old, which would likely be higher with a 60-day threshold and more aggressive enforcement tools made available through the centralized debt collection authorization. It is not clear whether these tax debt collections, which have historically been accomplished by LDR, will now be collected through its Office of Debt Recovery and deposited into the Fund. Act 399 of 2013 created the Office of Debt Recovery and was interpreted at that time to exclude tax debt from the Debt Recovery Fund. Even if the current DOA interpretation is accepted, tax debt as classified into the Debt Recovery Fund will

not constitute new SGF revenue but a dedication of existing SGF revenue since any recovered funds are included along with regular collections as baseline revenue collections.

Table 4 details the SGF collections LDR is expected to identify for use in the budget and the SGR associated with those collections, which will be necessary to fund the operating budget of the agency.

Table 4

	General Fund Collections	Self Generated Revenue
2015 Amnesty	$142,000,000	$27,000,000
Debt Recovery (Est.)	$15,000,000	$2,000,000
Fraud Initiatives	$32,000,000	$5,000,000
A&M (auditors)	$54,000,000	$8,000,000
TOTAL	**$243,000,000**	**$42,000,000**

*The A&M study (GEMS) identified collections of $54 M that are not yet specified as a revenue source in the FY 15 budget, but may be considered for the FY 16 budget. The collections are the result of the hiring of auditors. Such normal efforts by LDR are already part of anticipated baseline revenue collections. The T.O. of LDR has already been increased by 50 auditors since FY 13 with an additional 24 auditor positions currently requested, though not all positions have been filled, and not all audit processes have been completed.

LDR Operating Budget Exposure

LDR has operated primarily on self-generated revenue since FY 10. This is in part due to the provision in HB1 that allows LDR to retain all excess SGR for use in its operating budget. Prior to that time, LDR was funded with about half SGR and half SGF revenue, with the fees that fund the Tax Collection program mostly the result of penalties imposed on delinquent taxpayers. After the 2010 Amnesty Program, LDR was allowed to retain and roll forward all excess SGR, which was a combination of amnesty retention and regularly generated SGR. In this way, the agency operated in a self-sufficient manner, not requiring any SGF revenue. However, in recent years, increasing amounts of the excess SGR at LDR has been utilized in the general budget outside of LDR. This was particularly evident last year (FY 14) when $44.4 M of the amnesty SGR was transferred from the department for use in the DHH budget.**

Even under favorable circumstances, the LFO estimates that FY 16 will be the first year that LDR will require an additional funding source to fund its operating budget.

Making the best-case assumptions that:

1) LDR regular SGR collections increase by 20% in FY 15
2) LDR only spends 90% of the existing operating SGR budget of $104 M or about $93 M
3) LDR retains $25 M of the $27 M in amnesty SGR that has been identified ($2 M was effectively utilized in the November mid-year reductions)

The agency will begin FY 16 with about $13M in excess SGR. In FY14 and FY 15, the agency began those years with about $25 M in excess SGR.

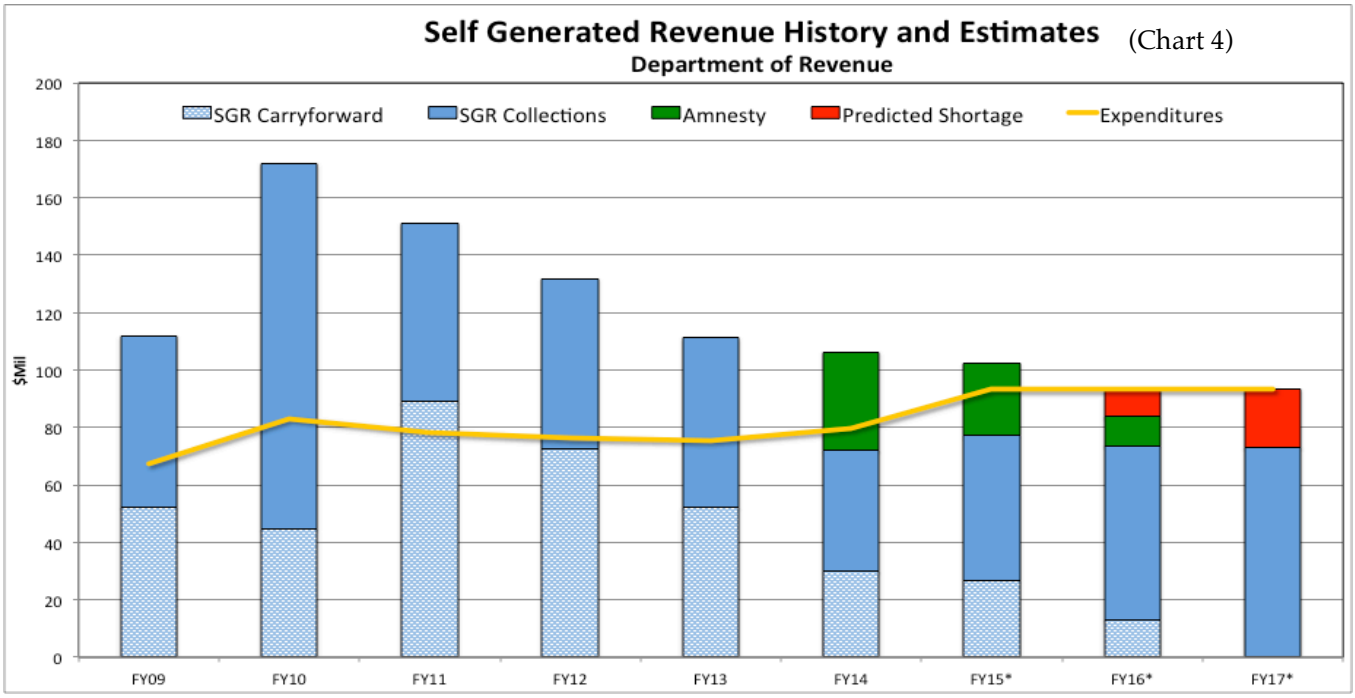
Then, if the following assumptions are made for FY 17:

1) LDR increases regular SGR collections by another 20% (40% in 2 years)
2) LDR holds SGR spending to the FY15 level – no growth
3) LDR retains an additional $10 M as SGR in the third year of the current amnesty program

The agency will require $14 M from an alternative funding source to complete FY 16, whether SGF or statutory dedication and, with an additional 20% growth in SGR collections and a standstill budget, will still require $20 M in FY 17.

Assumptions such as a flat budget, large SGR collections growth, and the retention of all amnesty SGR make these scenarios optimistic. It is expected that actual requirements of alternative funding will be greater than these estimates.

These assumptions are depicted graphically below:



**Amnesty proceeds as recognized by the REC are normally considered tax collections which are associated with the amnesty program. With the addition of SGR revenues in the REC forecast, any amnesty SGR retained by LDR also appears imbedded on the SGR page of the forecast. Now that amnesty SGR is also used in the budget and not completely retained by LDR, there are in essence 2 sources of amnesty revenue from a budgeting perspective – one from tax collections and one from SGR that otherwise would have been retained by LDR. These funds may or may not appear in the budget through the Amnesty Fund statutory dedication. The SGR could be placed in any fund or directly into SGF revenue through an instrument, such as the funds bill.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

November 2014

Volume 3, Issue 6

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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 contains information on the REC forecast revisions from the November 14th meeting. In addition, this issue also discusses OGB plan modifications unveiled during a joint House Appropriations/ Senate Finance Meeting, the Office of Behavioral Health's RFP for the delivery of mental health services for children and adults, and technical education programs offered in high schools regarding various career paths.

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

FOCUS POINTS

REC Revenue Forecast Revisions

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The Revenue Estimating Conference (REC) met on Friday, November 14, 2014 and revised state general fund revenue forecasts down by some $171 million for FY 15 and $201 million for FY 16 (Table 1). These reductions were largely in mineral revenue resulting from lower oil prices, as well as in personal income taxes and sales taxes incorporating the lower base of actual FY 14 collections that are now known. Additional planned dedications of tax receipts designated as associated with fraud and debt collections exacerbated the tax receipts downgrade. Table 1 below displays the major forecast revisions.

Significantly lower oil prices since the last forecast in May result in materially lower mineral revenue expected in both FY 15 and FY 16. Oil price forecasts have dropped by over $14/bbl for FY 15 to $81.33/bbl, and by over $12/bbl to $83.54/bbl for FY 16. Changes to combined severance tax and royalty receipts were comparable in size to combined personal income tax and general sales tax in FY 15. However, the growth nature of income and sales taxes, and their large bases, results in them dominating the downgrade of the FY 16 forecast. Even though annual aggregate income measures and employment growth have been fairly steady over the last four years (2.5% - 3.5% depending on income concept and 1% total employment), these taxes have yet to exhibit sustained growth

MAJOR REC REVENUE FORECAST REVISIONS, FY15 and FY16
November 14, 2014 (Table 1)

Revenue Source	FY15 Adopted Forecast 11/14/14	FY15 Prior Forecast 5/19/14	FY15 Forecast Change	FY16 Adopted Forecast 11/14/14	FY16 Prior Forecast 5/19/14	FY16 Forecast Change
Personal Income	$2,869.4	$2,932.4	-$63.0	$2,987.8	$3,107.7	-$119.9
Sales, General	$2,666.4	$2,695.7	-$29.3	$2,716.5	$2,766.3	-$49.8
Corporate	$350.0	$350.8	-$0.8	$350.0	$363.0	-$13.0
Severance	$761.8	$808.5	-$46.7	$730.9	$802.7	-$71.8
Royalty	$436.0	$482.6	-$46.6	$442.8	$467.1	-$24.3
Gaming	$861.7	$846.5	$15.2	$854.9	$848.7	$6.2
Sales, Vehicle	$383.5	$380.1	$3.4	$395.3	$386.9	$8.4
Premium Tax	$474.8	$449.8	$25.0	$544.4	$457.9	$86.5
Earnings	$30.0	$42.1	-$12.1	$32.0	$39.3	-$7.3
All Other	$1,689.8	$1,651.9	$37.9	$1,704.7	$1,661.0	$43.7
Total Tax	$10,523.4	$10,640.4	-$117.0	$10,759.3	$10,900.6	-$141.3
Dedications	-$2,011.8	-$1,957.9	-$53.9	-$2,038.6	-$1,978.8	-$59.8
General Fund	$8,511.6	$8,682.5	-$170.9	$8,720.7	$8,921.8	-$201.1

since the state's economic recovery began in early 2010. General Fund earnings are another notable downgrade as interest rates stay at historical lows and sales of securities with associated premiums have nearly been exhausted.

There were some positive revisions, most notably the insurance premium tax. Net receipts from this tax continue to grow at a respectable pace reflecting income and premium growth in the economy, but also a dedicated base expansion in FY 16 as the state Medicaid Program moves more participants into an insurance-based model of financing. Gaming revenue was adjusted upward, as well, but much of that was a dedicated one-time transfer of reserves from the Lottery Corporation required by the funds bill of last session. All other revenue sources as a group (about twenty-five items) contributed positively to the revision, and corporate tax receipts were left largely unchanged in FY 15. These revisions were not sufficient to offset the weakness in the major revenues being downgraded. In addition, baseline tax collections were dedicated as fraud initiative and debt recovery results.

Overall net state tax receipts are now expected to grow by some 2.2% in both FY 15 and FY 16 before accelerating somewhat toward 3% growth by FY 19. General fund receipts look better initially from a growth perspective, rising by some 3.9% in FY 15. However, a sizable portion of that growth is simply the reclassification of existing hospital lease payment receipts as general funds rather than dedicated funds, and does not reflect actually greater revenue receipts. In FY 18, the currently scheduled replenishment of the Budget Stabilization Fund concludes with a large back loaded payment in excess of $300 M in that year. Consequently, general fund growth goes negative in that year and then bounces back in FY 19.

GENERAL GOVERNMENT

Office of Group Benefits (OGB) Modifications

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On 11/7/2014, the House Appropriations and Senate Finance Committees held a joint hearing to discuss the health plan offerings for 2015. Due to OGB member concerns, the Division of Administration (DOA) offered modifications to the deductibles and out-of-pocket maximums for the anticipated plans. The modifications include:

- All retirees will maintain the same deductible and out-of-pocket maximums as 2014 health plans;
- Addition of a new level of coverage (individual + 1) for retirees and actives;
- Active employees will see a 10% to 20% reduction in the original proposed 2015 deductibles and out-of-pocket maximums on the Magnolia Local, Magnolia Local Plus and Magnolia Open Access. For example, the net increase in the out-of-pocket maximum for an active individual HMO member will be $1,500 as opposed to $2,000 and for an active individual PPO member will be $1,000 as opposed to $1,500. Table 2 below compares 2014 levels to the original 2015 proposal and the new 2015 proposal.

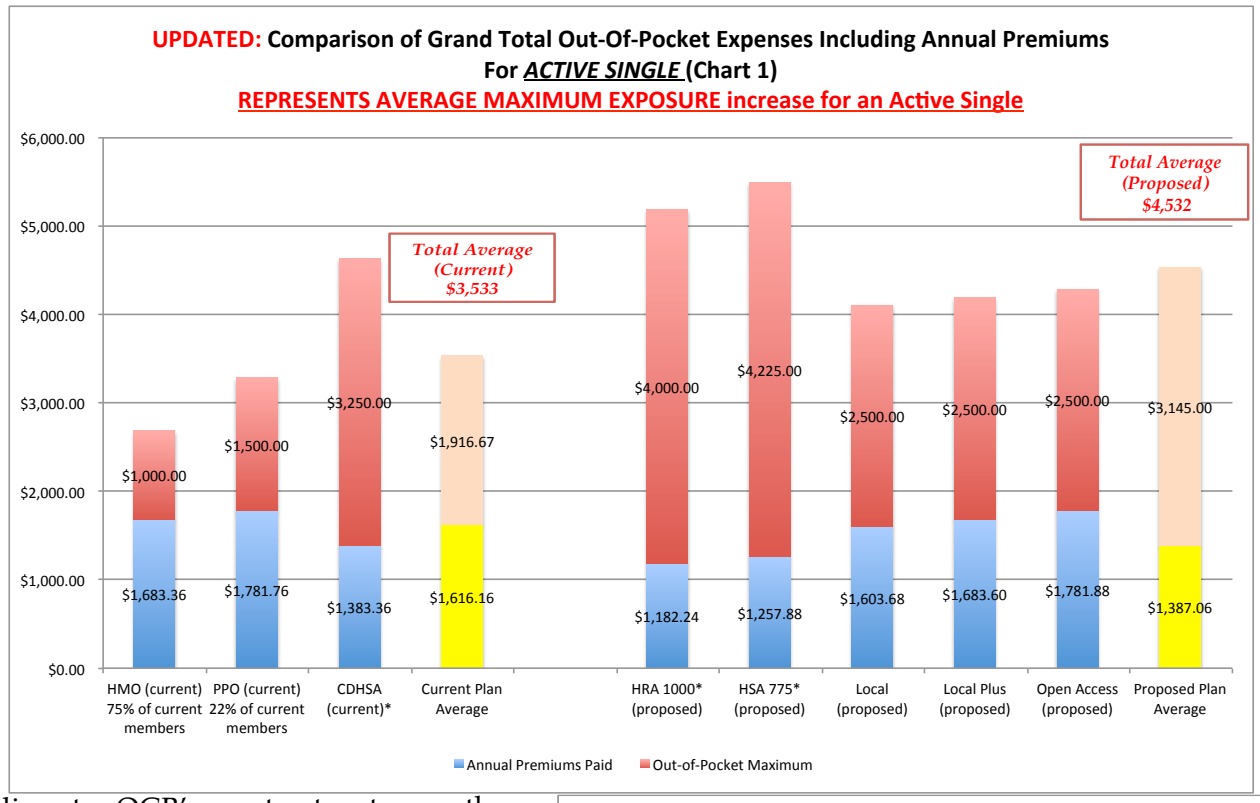
In its August 2014 memo to the Joint Legislative Committee on the Budget (JLCB) regarding the Office of Group Benefits (OGB), the LFO indicated to the committee that the average out-of-pocket cost increase potential for the new health plans is 47% higher than the average out-of-pocket costs of

ACTIVES (Table 2)

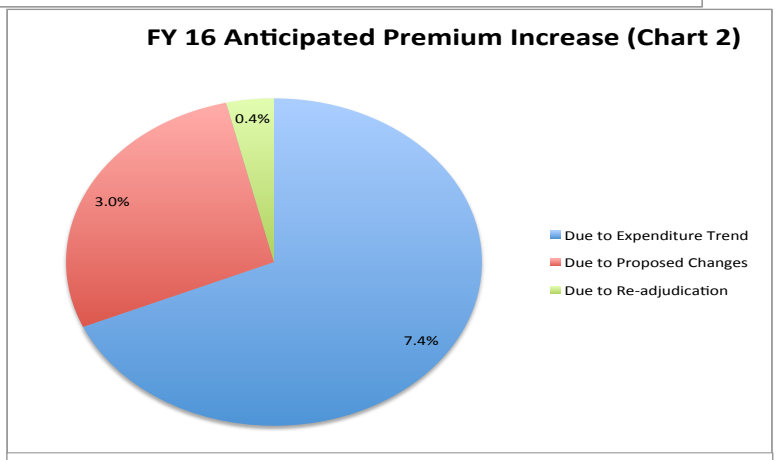
PPO/Magnolia Open Access	2014	2015 Original Proposal	New 2015 Proposal
Deductible	$500 per person, up to $1,500 per family	$1,000 - individual $3,000 - employee + spouse or children or family	$900 - individual $1,800 - employee plus 1 $2,700 - employee + children or family
Out-of-Pocket Max	$1,500 per person up to 3 people + $1,000 for each additional up to $12,700	$3,000 - individual $9,000 - employee + spouse or children or family	$2,500 - individual $5,000 - employee plus 1 $7,500 - employee + children or family

HMO/Magnolia Local Plus	2014	2015 Original Proposal	New 2015 Proposal
Deductible	$0	$500 - individual $1,500 - employee + spouse or children or family	$400 - individual $800 - employee + 1 $1,200 - employee + children or family
Out-of-Pocket Max	$1,000 individual $2,000 employee plus 1 $3,000 employee plus children or family	$3,000 - individual $9,000 - employee + spouse or children or family	$2,500 - individual $5,000 - employee + 1 $7,500 - employee + children + family

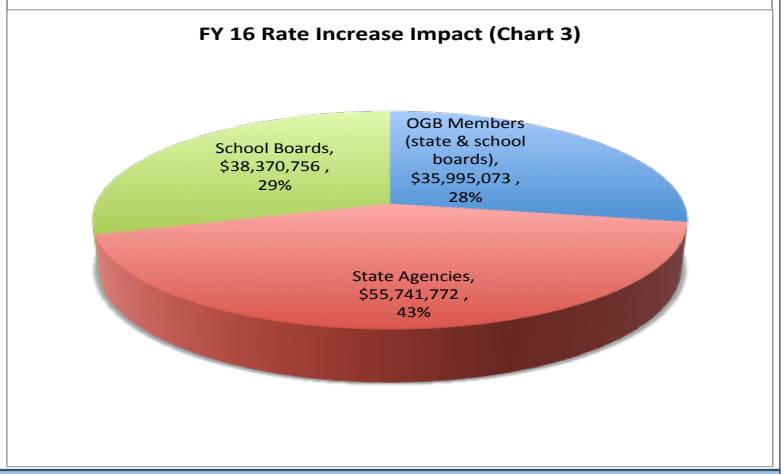
the current health plans. As has been previously discussed, this represents an active individual's out-of-pocket exposure (annual premium + out-of-pocket maximum), or worst-case scenario. With the proposed modifications to the out-of-pocket maximums discussed above and utilizing the same methodology, the 47% average maximum exposure increase has been reduced to an average increase of 32% (a 15 percentage point decrease), which results in reducing the average maximum exposure by a third (32% decrease). Chart 1 below is an updated illustration of the original chart depicted in the August 2014 memo to JLCB.



According to OGB's contract actuary, these proposed changes are anticipated to result in a total program savings loss of $36 M ($9 M – FY 15, $27 M – FY 16). In order to offset the loss of savings, the DOA anticipates building into the FY 16 Executive Budget a 10.8% rate increase to be effective July 2015 (FY 16). The 10.8% anticipated premium increase not only includes the revenues to offset the proposed changes, but also the normal anticipated expenditure trend as well as reimbursing OGB members savings realized by the program prior to the emergency rule being promulgated. For a complete breakdown of the 10.8% rate increase, see Chart 2.



According to DOA, a 10.8% premium increase would generate approximately $130.1 M. Chart 3 is an illustration of the specific groups impacted by the rate increase.



Interim Emergency Board Funding

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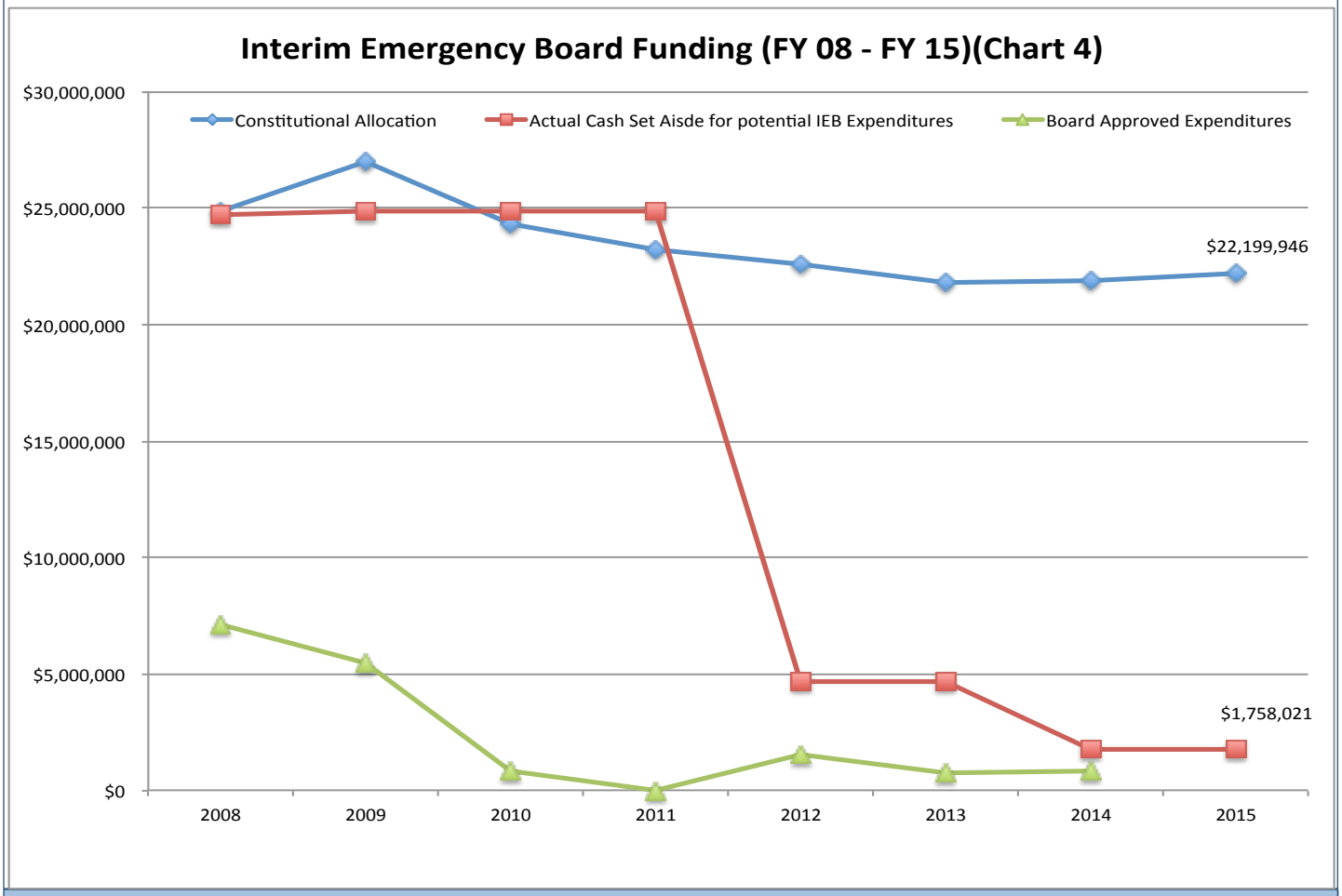
For the past 4 fiscal years (FY 12, FY 13, FY 14, and FY 15), a material funding source supporting the budget has been the SGF portion that would otherwise be allocated to the Interim Emergency Board (IEB) in Schedule 22-920 Non-Appropriated Requirements (Interim Emergency Fund). Pursuant to Article 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 15 calculated IEB allocation, as recently reported by State Treasury in October 2014, is $22,199,946, while the amount currently set aside in the FY 15 budget is only $1,758,021. Thus, there is approximately $20.4 M of constitutionally allocated SGF IEB resources supporting FY 15 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.

Chart 4 depicts the significant difference between what is actually set aside and what is expended.



Department of Corrections, Healthcare for Offenders

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In FY 14, the Department of Corrections (DOC) was appropriated $50 M for off-site health care services for offenders, in addition to the approximately $45.3 M appropriated for on-site offender primary care. Prior to FY 14, all offenders in custody were brought to the charity hospital system for health care needs that could not be provided at a DOC facility. According to DOC, the $50 M was based on historical utilization data from LSU-HCSD and several cost projections from insurance providers.

Of the $50 M allocated for off-site medical expenditures in FY 14, only approximately $19.5 M was expended on all obligations that DOC became responsible for with the transition of the LSU hospitals, including off-site medical costs, medical supplies, acquisitions, and miscellaneous other medical costs. A total of $18.6 M of the remaining fund balance was used to fund personnel costs in FY 14. These costs were not annualized in the FY 15 budget.

During the FY 15 appropriation process funding for off-site medical expenditures was reduced from $50 M to $42.3 M, which is the current amount budgeted. Currently DOC has approximately $9.9 M in outstanding claims provided in FY 14. Although more claims for FY 14 may be received, the amount of such claims cannot be determined at this time. Depending on the amount of such claims from FY 14 and the projected off-site medical expenditures by DOC for FY 15, it is possible healthcare costs will exceed the amount budgeted.

Table 3

	Budget	Actual/Projected Expenditures	Other Expenditures	Balance
FY 14	$50 M	$19.5 M	$30.5 M	$0
FY 15	$42.3 M	$42.3 M	-$9.9 M	-$9.9 M*

NOTE: *DOC has not provided a projection of the potential shortfall associated with the personnel costs in FY 15 which will increase any overall budget shortfall in FY 15. To the extent that the DOC cannot address these personnel costs through any other means the potential shortfall could reach a minimum of $18.6 M.

FY 14 Actual Expenditures

A breakdown of expenditures for FY 14 are as follows: $365,308 for salaries, $464,781 for other compensation, $326,940 for related benefits, and $18,372,976 for other charges. Specifically other charges expenditures include supplies ($5,581,805), professional services ($3,023,122), medical ($9,175,558), acquisitions ($581,854) and miscellaneous ($10,637). Off-site medical expenditures were lower than projected due to the transition of off-site medical care from the LSU-HCSD to the partner hospitals. Of the remaining $30.5 M, $18.6 M was used in the supplemental appropriation for personnel expenses underfunded in other agencies within DOC and the remaining $12 M reverted to the State General Fund at the end of FY 14.

DOC started negotiating with partner hospitals after the

Funding for LA Public Defender Board Capital Defense Standards

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The LA Public Defender Board (LPDB) recently published an intent to promulgate statewide rules regarding the defense of indigents in capital cases in the October 2014 State Register. However, funding the implementation of the new rules for the defense of indigent clients may affect LPDB's ability to take on cases involving indigent defendants in capital trials. The new rules outline standards for defense of an indigent client in capital cases by alerting counsel to courses of action that are necessary, advisable, and appropriate from pre-trial to post-conviction. It is LPDB's hope that the standards will aid counsel of indigent clients in providing the highest quality of defense.

Included in the capital defense standards for indigent clients is the recommendation for a proper capital defense team, which includes mitigation specialists and fact investigators. LPDB derives the estimated costs for the implementation of the defense standards from the creation and phasing in of positions for mitigation specialists and fact investigators. It is estimated that the implementation of these proposed rules will result in state general fund expenditures of $620,350 for FY 16, $1,240,701 for FY 17, $2,481,402 for FY 18, and $3,101,752 for FY 19.

LPDB has secured funding for FY 16 due to the cancellation of a $1.29 M professional services contract with the Capital Appeals Project of Louisiana (CAP). CAP is a capital defense contractor that provided services in the 1st Judicial District Court (Caddo). This one-time funding is not likely to be available in subsequent years.

Using funds intended for a professional services contract with CAP is not without its programmatic

cooperative endeavor agreements were signed. Some hospitals had lease arrangements with private partners, while services at others were moved to the private hospital and there was some reluctance to provide services to the offender population. Each partner hospital had different concerns. In addition, the transition presented challenges to the timely receipt of invoices and payments by DOC. One obstacle was that the hospitals did not know where to send the invoices for services in some cases. Another challenge for DOC was verifying whether or not a state offender housed in a local jail was actually incarcerated on the date of service. (DOC is required to reimburse the cost of extraordinary medical expenses incurred in emergency circumstances.) Additionally, some partners wanted safeguards in place to make sure that sheriffs would pay their bills. Due to these challenges from the transition, healthcare claims increased towards the end of the year, which resulted in a majority of the expenditures being paid at the end of FY 14.

The State can potentially maximize SGF by leveraging available federal dollars, so for eligible in-patient admissions (approximately 50% of admissions) DOC holds the invoices, files Medicaid applications and waits for the determination. If Medicaid is denied, the DOC either pays the bill or appeals the Medicaid decision with additional documentation. DOC's success rate for Medicaid approval is approximately 75%. The entire process from the initial filing of applications to the eventual determination of Medicaid eligibility has been taking up to 6 months. However, DOC and DHH are working together to expedite pending Medicaid applications.

FY 15 Projected Expenditures

During the FY 15 appropriation process, funding for off-site medical expenditures was reduced from $50 M to $42.3 M, which is the current amount budgeted. Approximately $6 M of the original $50 M was used to fund supplies for agencies within DOC in FY 15. Current FY 15 expenditure projections are based solely on the average monthly expenditures at the end of FY 14. DOC projects to spend approximately $3.3 M a month on off-site medical expenditures or approximately $39.6 M in FY 15. In addition, DOC plans to install an electronic health records system that is expected to cost $2.2 M. DOC is currently in the process of finalizing the RFP for the electronic health records system and anticipates the system will be implemented by the end of FY 15. The goal of this system is to track utilization and ensure a more cost conscious and efficiency driven health care delivery system for offenders.

Currently DOC has approximately $9.9 M in outstanding claims provided in FY 14. The $9.9 M represents the billable amount and does not take into account re-priced or discounted amounts that would be much lower. Of this amount, $6.8 M of claims are pending Medicaid eligibility. According to DOC, based on the success rate of the department for Medicaid eligibility, Medicaid is expected to pay a majority of these claims. Approximately $2.3 M in claims are not yet adjudicated. This amount includes duplicated claims that the Third Party Administrator (TPA) receives daily for claims that have been re-priced and sent to the local facilities, but never paid. If the sheriff does not pay, then the providers send duplicates to the TPA. If DOC determines the medical services were not medically necessary or if DOC

consequences. It is important to note that changes in capital defense allocations will only affect LPDB's capital defense program and not its non-capital case programs. First, LPDB will have to take on capital defense cases in the 1st JDC on a case-by-case basis, which may be more costly than using a contractor such as CAP. Second, by using a portion of the funds allocated for a contractor to pay for implementation of its capital defense standards statewide, LPDB is left with less funding for indigent capital defense in the 1st JDC. As a result, LPDB's ability to take on capital defense cases may be hindered due to higher per-case costs and less funding for indigent capital defense.

If LPDB does not secure state funds to create positions for mitigation specialists and fact investigators, one option is to embed the new positions within the district public defender offices needing them most, reducing costs to the state. District offices would have to come up with the remainder of the funding for the new positions. However, the current funding situation for district public defender offices is tenuous. Twenty-six district public defender offices are currently operating at a deficit, and LPDB projects a handful of these offices to become completely insolvent by the end of FY 15, with others becoming insolvent during FY 16.

Funding the standards in subsequent years is subject to legislative appropriation. If the legislature does not appropriate funds for the implementation of the capital defense standards beyond FY 16, LPDB will fund them to the extent that monies become available. Any positions added with one-time funds in FY 16 will likely be temporary in nature without recurring appropriation by the legislature.

cannot verify if the offender was in custody at the time of service, DOC is not responsible for payment. Approximately $500,000 of the claims are pending ER/Inpatient authorization which means that DOC is awaiting offender status verification to determine if services were provided when an offender was in a local facility. The remaining $300,000 in claims are in the process of being paid and/or pending review. Although more claims for FY 14 may be received, the amount of such claims cannot be determined at this time. Depending on the amount of such claims from FY 14 and the projected off-site medical expenditures by DOC for FY 15, it is possible healthcare costs will exceed the amount budgeted.

DOC is budgeted $49.2 M for on-site offender primary care in FY 15. Including the $42.3 M budgeted for off-site medical expenditures, total projected expenditures for FY 15 are approximately $91.5 M.

British Petroleum (BP) Economic Damages Lawsuit

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Act 646 of 2014 created the Deepwater Horizon Economic Damages Collection Fund to receive the proceeds of the settlement, judgment, or final disposition of the state's economic damages claims asserted in the Deepwater Horizon litigation. Act 646 allocates 45% of receipts to the Budget Stabilization Fund up to its maximum, 45% to the Medicaid Trust Fund for the Elderly up to $700 M, and 10% to the Health Trust Fund up to $30 M. The fund expires at the later of the conclusion of the litigation or July 1, 2024.

The amount Louisiana would receive from the settlement, judgment, or final disposition of case is unknown. In addition, it is unknown how much would be needed to fulfill the maximum amounts mentioned in Act 646. However, for illustrative purposes, if the state received a settlement today, $1.02 B would be needed (Table 4) to fulfill the maximum amounts stated in Act 646.

Table 4

Fund	Percent of Settlement	Settlement Amounts
Medicaid Trust Fund for the Elderly	45%	$459,158,716
Budget Stabilization Fund	45%	$459,158,716
Health Trust Fund	10%	$102,035,270
Total	**100%**	**$1,020,352,702**

Based upon current fund balances, the $1.02 B amount would be allocated as follows (Table 5): $459.2 M to Medicaid Trust Fund for the Elderly, $366.8 M to the Budget Stabilization Fund and $29.2 M to the Health Trust Fund. Since the Budget Stabilization Fund has a statutory cap based on total receipts of the state, approximately $92.4 M ($459.2 M settlement - $366.8 M needed) would not be deposited into the fund. The Health Trust Fund would be over the maximum amount by $72.8 M ($102 M settlement - $29.2 needed. This would result in a total of $165.2 M in funding that would be available for appropriation. The amounts for each fund in the table below are based on the fund balances as for 11/6/14.

Table 5

Fund	Balance as of 11/6/14	Act 646 Max Amount	Funding Needed	Remaining Funding
Medicaid Trust Fund for the Elderly	$240,841,284	$700,000,000	$459,158,716	$0
Budget Stabilization Fund	$444,616,265	$811,416,762	$366,800,497	$92,358,219
Health Trust Fund	$840,238	$30,000,000	$29,159,762	$72,875,508
Total			**$855,118,975**	**$165,233,727**

There is no trial date set for the economic damages portion of the lawsuit; however, it is expected to take place in 2016 at the earliest. It is also unknown how long the trial is expected to take. Alabama has filed a lawsuit again BP for economic damages as well and the case is expected to go to trial in late 2015. Louisiana's trial will follow the end of Alabama's trial.

It should be noted that the settlement amounts listed above are purely for illustrative purposes based on Act 646 and the current fund balances. In the event the fund balances increase or decrease by the time the trial is finished and a settlement is made, the funding needed will change accordingly. In addition, the Medicaid Trust Fund for the Elderly is anticipated to be diminished almost entirely by the end of FY 15. In the event the fund is diminished, then approximately $700 M would be needed to fulfill the maximum amount in Act 646.

HEALTH & HOSPITALS

OBH Seeks to Refine Behavioral Health Services Through New RFP

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The Office of Behavioral Health (OBH) issued an RFP in August of 2014 to identify and contract with a Statewide Management Organization (SMO) to administer the LA Behavioral Health Partnership (LBHP) at the conclusion of the current contract that ends on February 28, 2015. OBH included changes in the new RFP to address certain difficulties faced by state and local agencies under the current contract.

Under the new-RFP, the delivery of mental health services for the Medicaid eligible populations will change from a blended fee-for-service (children) and fully-capitated (adults) system to one that is solely fully-capitated with an actuarially sound, Per Member Per Month (PMPM) rate. OBH reports this change will allow for greater flexibility within the children's program to offer additional services, as well as to provide the SMO with flexibility to incentivize and recruit new providers in areas of scarcity. This action will require CMS approval, for which OBH will submit an application in late November of 2014 with an anticipated approval prior to the go-live date of 3/1/2015.

Under the existing agreement, pharmacy benefits are managed through the separate Bayou Health contract. The RFP seeks to include pharmacy benefits for medications prescribed by qualified LBHP providers. This move will allow the SMO to better monitor and manage behavioral health pharmacy benefits for its members and potentially increase the appeal of the RFP to larger, more experienced companies. This change will also require CMS approval, to be requested in late November 2014.

The new RFP will simplify the claims process by focusing on billing by provider type rather than diagnosis. Under the current contract, providers experienced difficulty determining whether a given service or prescription should be covered under the Bayou Health contract or the LBHP. Under the current system, claims were frequently delayed when general practitioners may have made a mental health diagnosis and prescribed treatment. The system in place sometimes resulted in the inability to determine the proper billing mechanism and payer. By shifting the focus to provider type rather than diagnosis, OBH anticipates the process will be greatly simplified, leading to faster provider payments.

The RFP adds language allowing for the transition of LBHP members into a Managed Long-Term Supports & Services (MLTSS) Program planned by DHH. This new managed care system will provide a full array of behavioral health services for members requiring long-term support.

The RFP additionally added capability for OBH to access certain database systems, which OBH anticipates will increase its ability to monitor and assess the integration of the Electronic Health Records System. OBH anticipates this access will enhance its ability to troubleshoot and resolve ongoing difficulties experienced by the state's Human Services Districts/Authorities with regard to claims billing and processing, coding of services, explanation of payments and other technical items.

Similar to the planned contract for Bayou Health, within the financing mechanism proposed for the new SMO, during the first contract month the state will shift its payment to the SMO from an anticipatory basis (paying a PMPM based on the estimated population for the upcoming month) to making the payment at the start of the subsequent month in which services were delivered. This shift will create a one-time savings in the last third of FY 15 of approximately $2.4 M. The state will make its PMPM payment in April for March services, resulting in no at-risk population payments during the month of March.

Expenditures for the LBHP are anticipated to increase in FY 16 based largely on non-recurring the one-time savings associated with the shifted PMPM payment, an increase associated with the 2.25% state premium tax applicable to capitation rates paid to the SMO, and the carve-in of pharmacy benefits for medications prescribed under the LBHP. The increase in programmatic expenditures associated with the state premium tax is at no net cost to the state because premium tax revenues collected from the SMO by the Louisiana Department of Insurance are in turn transferred to the Medical Assistance Trust Fund for support of the Medicaid Program.

EDUCATION

Jump Start, Career & Technical Education and TOPS Tech Early Start Awards

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Jump Start Graduation Pathways

Originally proposed as a competitive pilot in July 2013 with a small number of participating districts, the state Department of Education (LDOE)

launched the Jump Start Program as a statewide initiative in February 2014. The program aims to prepare students to earn statewide industry based certifications aligned with high growth, high wage jobs as approved by the Louisiana Workforce Investment Council (WIC). The initiative was approved by the Board of Elementary and Secondary Education (BESE) in March 2014 and codified in law through revisions to the career diploma law with the enactment of Act 643 of the 2014 Regular Session.

Jumpstart allows participating students in high school more time in the school day (and school year) to achieve industry-based certification in addition to their high school diploma. The first two years of high school are focused on core academic courses and the final two years on career and technical education "hands-on" study in areas relevant to regional job opportunities.

School districts are required to develop and offer one or more career major programs aligned to workforce demands in partnership with local business and industry leaders, local economic development agencies and postsecondary education leaders. There are currently eleven active Jump Start Regional Teams across the state. These regional teams are tasked with designing plans for providing courses and workplace based experiences as well as identifying career opportunities for participating students. Their recommendations are submitted to the Jump Start Graduation Pathway Review Panel consisting of members from Louisiana's Economic Development, Workforce Commission and Department of Education for approval, and subsequently to the BESE.

During its 10/14/2014 meeting, BESE approved 33 Graduation Pathways across three possible credential categories for Jump Start Graduates (Table 6).

Table 6

Statewide Graduation Pathways	
Automobile Service	Industrial Maintenance Mechanic
Carpenter	Internet Web Foundations
Certified Mechanical Drafter	Manufacturing Specialist
Certified Nursing Assistant	Mobile Crane Operator
Collision Repair	Oil & Gas T2 Safety Systems
Electrician	Pipefitter
Emergency Medical Tech	Plumber
Fashion Design	Prostart / Restaurant
Four Stroke Engine Tech	Web Design Professional
HVAC Tech	Welder
Integrated Graduation Pathways	
Agriculture Tech	Information Technology
Digital Media and Entertainment Technology	Manufacturing, Construction Crafts and Logistics
Health Sciences – Patient Care and Management	STEM
Hospitality, Tourism, Culinary, and Retail	Technology Specialist
Regional Graduation Pathways	
Business Management	Sheet Metal
Commercial Driver	Welder's Helper
Mason	

8(g) grants to Regional Teams

In a corresponding action and utilizing 8(g) funds, BESE approved $645,000 in a second round of competitive grant awards to regional teams across the state, as reflected in Table 7 on the next page. $225,000 of the grant awards will be used to expand career counseling with a focus on engaging students in career and college planning in middle and high school. $420,000 of the grant awards will be used to fund regional network workplace exchanges focused on expanding teacher experience and capacity, job shadowing, student internships and outreach. Applications for an additional $200,000 in grants awards are currently under consideration by the DOE with recommendations to be submitted for BESE's approval at its December meeting.

TOPS Tech Early Start Awards

Finally, BESE approved Jump Start Program policy changes to implement the provisions of Act 737 of 2014 which expands the use of TOPS Tech Early Start (TTES) awards; TTES may now be used for any technical or applied course leading to an Industry Based Certification, or Certificate of Applied or Technical Science which has been approved by WIC. The legislation further expanded providers to include non-public educational institutions and private training providers. For the 2014-2015 academic year, the number of approved training providers is limited to five; there is no limitation on the number of

Table 7		
Regional Team	**Participating Districts**	**Grant Award**
Bayou	Assumption, Lafourche, St Mary, Terrebonne	$75,000
Central Louisiana	Avoyelles, Catahoula, Grant, LaSalle, Rapides, Vernon, Winn	$150,000
Central Capital Region	Ascension, Central, East Baton Rouge, Iberville, West Baton Rouge, Louisiana School for the Deaf and Visually Impaired	$75,000
Gulf River Parishes	Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. James, St. John	$75,000
North Capital Region	East Feliciana, Pointe Coupee, West Feliciana, Zachary	$75,000
Northeast Delta	East Carroll, Franklin, Madison, Richland, West Carroll	$45,000
Northwest Louisiana	Bienville, Bossier, Caddo, Claiborne, DeSoto, Natchitoches, Red River, Sabine, Webster	$75,000
Southwest Louisiana	Allen, Beauregard, Cameron, Calcasieu, Jefferson Davis, Vernon	$75,000

providers for subsequent years. On October 16th, the LDOE released a Request for Applications for Providers with selected training providers expected to be submitted for BESE approval at its December meeting.

A student in 11th and 12th grade may be granted a TTES award if he has a minimum G.P.A. of 2.0 and scores a 15 or higher on the ACT. Providers may receive up to $150 per three credit hour course not to exceed 2 such courses per semester for participating students. Using LDOE public school counts from 2/14/14 there are 81,935 11th and 12th grade students in public schools. Information from the 2012 ACT Profile Report indicates that of the 36,736 Louisiana students taking the ACT, 19,934 or 54.3% scored 20 or higher and 13,159 or 35.8% scored between 15 and 19. Applying those percentages to the total number of 11th and 12th graders means that 90.1% or some 73,742 students could participate in TTES. However, assuming that students who score between a 15 and a 19 are more likely to enroll in career and technical training courses the potential pool would be reduced to approximately 29,349 11th and 12th graders. Further, if all those students enrolled in the maximum allowable number of course hours at the full course amount the potential annual increase to the TOPS program could be as much as $17.6M. Assuming a smaller portion of those students utilized the TTES award, such as 10%, would result in annual increases of approximately $4.9 M. However, given the timing in the Pathways approval process as well as the limitation on the number of providers for the current school year, it is likely the proposed changes will not significantly impact the TOPS program until FY 16.

Funding for Higher Education Institutions Experiencing Rapid Enrollment Growth

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Act 15 (General Appropriation Bill) of 2014 included $6.1 M in SGF for "Competitive Core Funding" to be distributed in accordance with a plan developed and approved by the Board of Regents and implemented by the Division of Administration (DOA). The Board of Regents targeted this funding to institutions with the lowest higher education formula implementation rates. The following institutions received the $6.1 M in SGF funding per the plan approved by the Board of Regents and implemented by the DOA:

1. Bossier Parish Community College $3,401,015
2. Delgado Community College $533,461
3. L. E. Fletcher Technical Community College $337,410
4. Nunez Community College $308,323
5. River Parishes Community College $359,083
6. Sowela Technical Community College $1,090,312
7. Northshore Technical Community College $70,396

All the institutions above are part of the LA Community & Technical Community College System (LCTCS). These institutions have the lowest formula implementation rates among public institutions in the state because they have experienced significant increases in enrollment growth in recent years while SGF

support decreased for all public higher education institutions at the same time. Like all LCTCS institutions, these 7 institutions have generally experienced enrollment growth that is significantly greater than other public higher education institutions in the state for the following reasons:

1. Increased costs of 4-year institutions compared to community/technical colleges.
2. Increased admission requirements of 4-year institutions.
3. Recession/competitive job market.
4. Recruitment of non-traditional students.
5. Master course articulation matrix (acceptance of general education courses from community/technical college by 4-year institutions).
6. Lower faculty to student ratios and more personalized attention to students from instructors.
7. Shorter technical programs leading to actual job openings with high wages.

Table 8 below shows the changes in student enrollment based on full-time equivalent (FTE) students from FY 09 to FY 14, formula funding by institution, and the implementation rate by institution. The table also shows the allocation of the $6.1 M to institutions receiving these funds and the impact of this funding on these institutions' implementation rates.

Louisiana Community and Technical College System (LCTCS) Enrollment Growth and Allocation of $6.1 M in SGF for Institutions with Low Implementation Rates (Table 8)

Institution Name	FY 09 Student Enrollment (FTE)	FY 14 Student Enrollment (FTE)	% Change FY 09 to FY 14	FY 15 SGF Formula Funding	FY 15 Funding Formula Implem. %	$6.1 M SGF for Rapid Growth	FY 15 SGF Formula Funding with $6.1 M	FY 15 Funding Formula Implem. % with $6.1 M
Louisiana Community and Technical College System (LCTCS)								
Bossier Parish CC	3,523	6,107	73.3%	$7,203,339	35.4%	$3,401,015	$10,604,354	52.1%
Sowela Technical CC	1,584	2,382	50.4%	$5,315,212	43.3%	$1,090,312	$6,405,524	52.1%
Delgado CC	10,179	12,139	19.3%	$25,154,937	51.0%	$533,461	$25,688,398	52.1%
River Parishes CC	786	1,530	94.7%	$2,926,212	46.4%	$359,083	$3,285,295	52.1%
L.E. Fletcher Tech. CC	1,006	1,554	54.5%	$2,614,574	46.2%	$337,410	$2,951,984	52.1%
Nunez CC	1,049	1,466	39.8%	$3,043,350	47.3%	$308,323	$3,351,673	52.1%
Northshore Technical CC	N/A	1,647	N/A	$4,906,737	51.4%	$70,396	$4,977,133	52.1%
Central LA Technical CC	N/A	1,572	N/A	$5,682,888	53.5%	$0	$5,682,888	53.5%
South Louisiana CC	2,185	4,716	115.8%	$12,523,867	55.0%	$0	$12,523,867	55.0%
Louisiana Delta CC	1,106	2,654	140.0%	$7,901,568	57.2%	$0	$7,901,568	57.2%
Baton Rouge CC	5,253	6,953	32.4%	$14,724,512	58.0%	$0	$14,724,512	58.0%
Louisiana Tech. College	14,863	5,273	-64.5%	$10,910,029	68.6%	$0	$10,910,029	68.6%

Information Source: Louisiana Board of Regents

This additional $6.1 M raised these 7 LCTCS institutions to a minimum implementation percentage of 52.1% as shown in the far right column. With 2 exceptions, these institutions had the largest percentage increase in student enrollment from FY 09 to FY 14. The only exceptions were South LA Community College (SLCC) and LA Delta Community College (LDCC). SLCC and LDCC had the highest percentage growth in student enrollment from FY 09 to FY 14 because they absorbed many students from vocational technical programs formerly operating under the LA Technical College (LTC). Specifically, SLCC absorbed the following vocational technical campuses formerly operating under the LTC: Acadiana (Crowley), C.B. Coreil (Ville Platte), Evangeline (St. Martinville), Gulf Area (Abbeville), Lafayette, Teche Area (New Iberia), and T. H. Harris (Opelousas). LDCC absorbed the following vocational technical campuses formerly operating under the LTC: Bastrop, Delta Ouachita (West Monroe), North Central (Farmerville), Northeast (Winnsboro), and Ruston. Furthermore, the decline in student enrollment for the LA Technical College (LTC) from FY 09 to FY 14 was due to the absorption of these campuses into regional community colleges per the examples for SLCC and LDCC. The LTC has the following 2 campuses still operating:

South Central LA Technical College (Houma-Thibodaux) and Northwest LA Technical College (Bossier-Shreveport).

As a comparison to the LCTCS implementation rates, Table 9 to the right shows the FY 15 formula funding and implementation rates for other institutions in the state. Table 9 demonstrates that implementation rates for these institutions are mostly higher than for LCTCS institutions.

The LCTCS reports that institutions receiving the $6.1 M in funding in FY 15 are not tracking how these funds are being expended. The LCTCS reports that approximately 75% of institutions' expenditures are for salaries and benefits of faculty and staff and it would be a reasonable assumption that 75% of the $6.1 M (approximately $4.6 M) is being expended as such. It is unclear how LCTCS institutions will fund these faculty and staff in FY 16 and thereafter if this funding is not recurring in nature. The Board of Regents is requesting $20 M in the FY 16 budget to further address other institutions statewide with low formula implementation rates. This $20 M may address LCTCS institutions' on-going faculty/staff costs in FY 16 if appropriated by the Legislature and allocated accordingly to these seven LCTCS institutions.

Formula Funding (Excluding LCTCS) (Table 9)

Institution Name	FY 15 SGF Formula Funding	FY 15 Funding Formula Implem. %
LSU System		
LSU Alexandria	$5,241,531	79.5%
LSU A&M (Baton Rouge)	$107,149,958	59.4%
LSU Eunice	$4,666,525	60.4%
LSU Shreveport	$7,189,227	63.0%
Southern System		
Southern Baton Rouge *	$21,315,202	75.4%
Southern New Orleans	$5,938,241	81.1%
Southern Shreveport *	$5,569,696	52.5%
University of Louisiana System		
Grambling State	$12,808,347	62.0%
Louisiana Tech	$27,621,895	58.0%
McNeese State	$17,477,556	62.2%
Nicholls State	$14,911,317	69.2%
Northwestern State	$20,344,577	63.6%
Southeastern La	$29,435,295	69.3%
Univ. of La - Lafayette	$44,831,995	59.5%
Univ. of La - Monroe	$24,405,667	57.6%
Univ. of New Orleans	$30,059,616	68.9%

Information Source: Louisiana Board of Regents

* Includes funding transferred to the Southern University Board of Supervisors from Southern Baton Rouge ($3,197,280) and Southern Shreveport ($835,455) although these universities failed to meet LA GRAD act requirements in FY 14. These universities are pursuing remediation plans with the aim of retaining these funds this fiscal year.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

October 2014

Volume 3, Issue 5

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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 provides information on FY 14 actual revenue collections, an update on the current financial experience of the Office of Group Benefits (OGB) and discussion on funding the LSU Health Sciences Center in Shreveport. In addition, we have provided a summary of certain Constitutional Amendments that are on the November ballot.

John D. Carpenter

FOCUS POINTS

FY 14 Actual Revenue Collections Relative to Forecast, and the Budget Balance

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

State general fund tax collections in FY 14 were some $121 M less than expected. The official forecast in place at the end of the fiscal year, adopted on 01/15/2014, anticipated $8.316 B of revenues available to support state general fund-direct appropriations. Actual general fund revenue collections were $8.195 B or $121 M less than anticipated. Total state tax revenue collections were only $14 M less than expected; $10.314 B anticipated versus $10.300 B collected. The general fund over-forecast is largely the result of dedications of those total tax receipts being $107 M higher than anticipated. Chart 1 and Table 1 below combines nearly forty major state tax receipts forecast by the Revenue Estimating Conference (REC) into ten categories, and displays their dollar amounts and percentage shares of total receipts, along with forecast amounts and forecast discrepancies. Although actual collections were lower than anticipated, this was a very good forecast. Total collections were

Chart 1 Components Of The Forecasted State Tax Revenue Base FY 2013-14 Actual Collections

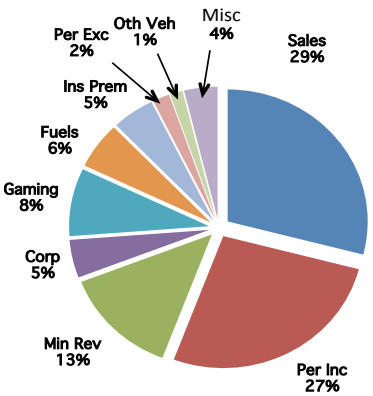


Table 1 (in billions)

	FY14 Actual	1/15/14 REC Forecast	% Over / -Under	$ Over / -Under
Sales (w/ MV)	$2.991	$2.976	0.5%	$0.015
Per Income	$2.751	$2.813	-2.2%	-$0.062
Mineral Rev	$1.380	$1.466	-5.9%	-$0.086
Corp/Oth. Busi	$0.479	$0.428	12.0%	$0.051
Gaming	$0.856	$0.863	-0.8%	-$0.007
Motor Fuels	$0.589	$0.590	-0.2%	-$0.001
Ins Premiums	$0.506	$0.493	2.7%	$0.013
Per Excise	$0.200	$0.194	3.5%	$0.007
Other Vehicle	$0.152	$0.131	16.2%	$0.021
Misc	$0.397	$0.363	9.4%	$0.034
Total	$10.300	$10.314	-0.14%	-$0.014
{$Bils} Dedications	-$2.105	-$1.998	5.4%	-$0.107
General Fund	$8.195	$8.316	-1.5%	-$0.121

only $14 M less than forecast; a very small 0.14% forecast error. General fund collections were $121 M less than forecast, also a small error of only 1.5%. However, these small errors are significant for a few reasons. First, they reflect over-forecasts and make negative contributions to the ending balance of the state general fund, on both a budget basis and financial accounting basis. These revenue receipts will be combined with expenditures to establish a general fund operational result for the year (discussed below).

The different results for total tax collections and general fund collections can largely be explained by just a few issues. The largest component ($68 M) is comprised of 2 unrecognized dedications. Revenue designated by the Department of Revenue associated with tax fraud totaled some $39 M and was dedicated to the Overcollections Fund by Act 420 of 2013 (the Funds bill for FY 14). This dedication was not recognized by the REC as a reduction to the state general fund but was recognized as a gain to the Overcollections Fund. A similar dedication of excess agency self-generated revenue receipts was also made by Act 420. A portion of those monies ($29 M) is routinely included in REC forecasts of the state general fund, and the loss of those monies to the general fund was not recognized by the REC while the gain to the Overcollections Fund was recognized. In addition, the dedication of certain premium tax collections to the Medical Assistance Trust Fund was $13 M greater than the REC forecast. This was the result of the retention of the forecast as of January 2014. By May of 2014, the anticipated amount for this dedication had been revised up to nearly what was actually allocated, but the overall forecast revisions in May were not adopted.

In terms of total tax collections, on a $10.3 B base, actual collections were only $14 M less (-0.14%). This is a very good forecast, with half the fiscal year plus accrual periods still to go when it was made. This bottom line result is the combination of offsetting over and under forecasts across various revenues, with variances caused by outright forecast error, by forecasts that had been revised but not adopted later in the fiscal year, and by large 14th period accrual adjustments.

FY 14 Collections Relative To FY 13 Collections: While the overall forecast was good, the year-over-year growth performance is worrisome. Total tax collections grew by only 0.7% in FY 14 from FY 13. Ten categories of receipts are shown below over the last two years. Of particular concern has been both the general sales tax and the personal income tax.

Table 2	FY13 Actual	FY14 Actual	% Growth
Sales (w/ MV)	$2,937.5	$2,991.3	1.8%
Personal Income	$2,753.8	$2,750.8	-0.1%
Mineral Revenue	$1,432.2	$1,379.6	-3.7%
Corp/Oth Busi	$470.7	$478.8	1.7%
Gaming	$854.1	$855.9	0.2%
Motor Fuels	$583.0	$588.9	1.0%
Ins Premiums	$478.9	$505.8	5.6%
Personal Excise	$193.7	$200.2	3.4%
Other Vehicle	$149.2	$152.2	2.0%
Misc.	$380.1	$396.6	4.3%
Total (millions $)	$10,233.1	$10,300.1	0.7%

The personal income tax and the sales tax slices of the revenue pie make up 56% of total taxes, and have exhibited anemic growth. The bulk of the sales tax slice is composed of the general sales tax, which grew by only 1.5% in FY 14. This is actually the best performance in three years, yet barely amounts to the inflation rate. Vehicle sales tax grew at 4.4% in FY 14, and is what boosted the combined growth to 1.8% in Table 2. However, the growth in vehicle sales tax was less than half the growth of the prior 2 years, reflecting a marked slowdown in vehicle purchases starting in the second half of FY 14. For much of FY 14 the personal income tax looked like it might actually grow on the strong FY 13 performance (a one-time 10%+ growth year due to income shifting driven by federal tax changes), but weakened at the end of the fiscal year and experienced an absolute drop, albeit a very small drop. Sustained growth in the overall revenue base requires sustained growth in these two taxes, and sustained growth has yet to be exhibited by either of them.

While mineral revenue has achieved substantial absolute levels in the revenue base, its growth is largely determined by price trends. The state has not participated in the dramatic increases in oil production occurring elsewhere in the United States, and much of the horizontal gas production that has occurred in the state has been exempt from severance taxation. Weak gas prices and, until recently, stable oil prices have combined with, at best, flat taxable and royalty share production to produce 2 years in a row of modest mineral revenue declines.

Corporate revenue, after beginning to rebound in FY 11 and FY 12 from the 08/09 recession and the 2009

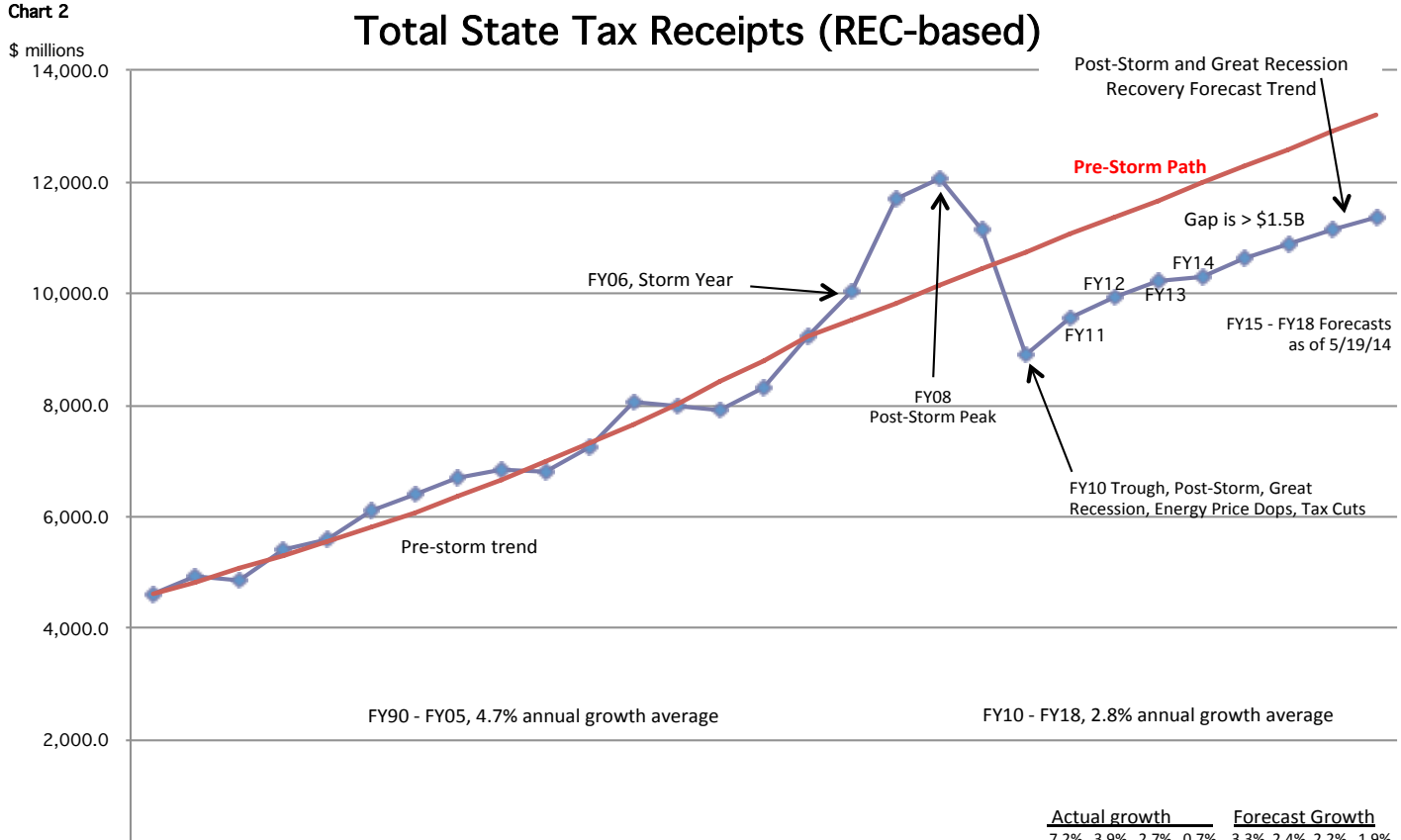
amnesty program, has backtracked for the last two years. The 2013 amnesty likely played a role in diverting some base corporate collections in FY 14 into dedicated amnesty collections, and amnesty programs are scheduled for 2014 and 2015.

Gaming revenue, reflecting discretionary entertainment spending, has exhibited very low growth for the last four years out of the 08/09 recession. Only riverboat gaming improved enough in FY14 to support the modest growth exhibited by the sector overall. Households have not yet shown enough confidence to accelerate their spending in all venues of this area.

Other than motor fuels, the remaining major categories of tax revenue (insurance premiums, personal excise, other vehicle, and miscellaneous) experienced more robust growth in FY 14. However, each of these categories is relatively small, and when combined amount to only 12% of total revenue. Thus, even relatively strong growth rates in these areas can't push the overall revenue base up very much. It takes sustained household and business income generation and spending to provide meaningful sustained growth in overall state tax receipts.

FY 14 Collections In Long-Run Context: Chart 2 below places the FY 14 actual collections in the context of historical collections and the current forecast outlook. The red line is the growth path of tax revenue over the fifteen-year period from FY 90 through FY 05, the fiscal year ending just prior to Hurricanes Katrina and Rita making landfall in late August and September of 2005. Compound annual average tax revenue growth was 4.7% per year. The post-storm revenue boom of FY 06 – FY 08 is obvious. The sharp drop off in revenue as the national recession set in, energy prices peaked and fell, and large state tax cuts took effect is also obvious. Tax collections hit a trough in FY 10, bounced back nicely in FY 11, slowed to a hoped for normal in FY 12, then decelerated in FY 13 and even more in FY 14. FY 15 – FY 18 are forecasts that improve on FY 14 but gradually slow through FY 18. Over the entire period from FY 10 – FY 18, the compound annual average growth rate projection is only 2.8%, substantially less than in the pre-storm era. These forecasts will be revised, and could improve. However, the slower growth projection over the eight-year period includes four years of actual growth, and the forecasts for FY 15 and beyond do not yet incorporate the poor actual performance of FY 14.

Chart 2



	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Total TLF	4,615.	4,923.	4,842.	5,413.	5,606.	6,101.	6,390.	6,701	6,839	6,793	7,242	8,064	7,968	7,904	8,315	9,219	10,028	11,688	12,055	11,155	8,919.	9,563.	9,939.	10,233	10,300	10,640	10,900	11,138	11,352
Pre-Storm Path	4,616	4,833	5,062	5,301	5,551	5,813	6,087	6,375	6,675	6,991	7,321	7,666	8,028	8,407	8,804	9,219	9,526	9,833	10,140	10,447	10,754	11,061	11,368	11,675	11,982	12,289	12,596	12,903	13,209

The outlook for the immediate year of FY 15 projects $340 M of total tax revenue growth and $487 M of state general fund revenue growth. However, this materially higher revenue growth, 3.3% for total taxes and 5.9% for general fund revenue, is illusory; reflecting the inclusion of $143.7 M of hospital lease payments and LA1 toll revenue in the FY 15 forecast for the first time. The lease payment and toll revenue resources were used to support budgeted spending in FY 14, but not through the traditional revenue forecast. Thus, these are not new revenues to the budget, and including them in the forecast for FY 15 provides an artificial step-up in growth for the single year of FY 15 (the unanticipated dedications in FY 14 discussed above also contribute to this one-time growth step-up). After FY 15, growth settles into the 2% range. Even if these growth forecasts are ultimately bumped up, it should be noted that budget projections already incorporate this current growth path. Aside from one-time aberrations, normal revisions to forecasts are likely to add only a percent or so on the upside, and downside revisions are always possible.

FY 14 SGF Operational Balance

Based on the FY 14 Fiscal Status Summary presented by the Division of Administration to the Joint Legislative Committee on the Budget on 10/17/2014, FY 14 general fund expenditures were $140.6 M greater than general fund receipts, budgeted transfers and carry-forwards. This operational budget deficit was financed by the general fund's cash liquidity, accumulated over a number years from unexpended fee and inter-agency transfer collections that revert to the general fund at the end of each fiscal year. These funds make up the cash position of the general fund, and are comparable to the checking account balance that many households have at the end of each month's bank statement reconciliation. After covering FY14 obligations the remaining cash position at the end of the fiscal year was approximately $178.5 M. These monies are currently in use supporting cash flow requirements of FY 15 expenditures.

The Legislative Auditor is in the process of auditing the Comprehensive Annual Financial Report of the State. The general fund balance that results from that assets versus liabilities balance sheet approach can be fairly close to the balance that results from the operational receipts versus expenditures approach, without including the general fund's cash liquidity; an approach employed for budgeting purposes since 2002. However, the audited financial report will not be completed until December or January of this fiscal year. A final determination of the State's FY 14 fiscal results, on a generally accepted accounting principles basis (GAAP), will not be available until that time.

If it is determined that a deficit was incurred in FY 14, Article VII §10(G) and R.S. 39:76 require that the deficit be eliminated no later than the end of the next fiscal year; by the end of FY 15 in this case. That can be done within certain limitations by executive order budget reductions and transfers of monies from other dedicated funds, or through enactment of budget adjustments in a supplemental appropriations bill in a subsequent special or regular legislative session.

If it is determined that a surplus resulted in FY 14, the Revenue Estimating Conference typically recognizes the amount of the surplus and designates it as nonrecurring. If designated as nonrecurring by the REC, certain amounts of those monies are subject to specific constitutional allocations and the balance is directly available for various kinds of capital outlay or debt retirement, also prescribed by the constitution. Supplanting of nonrecurring funds with recurring funds supporting capital projects can result in a surplus funding the operating budget.

The implications of expending the general fund's cash liquidity are material. During the fiscal year the state general fund engages in substantial borrowing from other dedicated funds. To the extent the general fund's cash liquidity is eliminated by expenditure, this inter-fund borrowing will have to be that much greater. These borrowings are repaid with interest and will reduce total earnings available to the general fund. Probably more significant is the use of this cash liquidity to transition the state's finances from one fiscal year to the next. During the 45-day accrual period from July 1 – August 14 each year, the state is accumulating general fund receipts to repay inter-fund borrowing associated with the prior fiscal year. By law (R.S. 49:308.4), these repayments must be made by August 14 each year. At the same time, funds are being expended in support of the budgeted current fiscal year. This cash liquidity allows the current year's obligations to be funded while the prior year's obligations are being closed out. Without this cash liquidity, the payment of some obligations may have to be delayed during the transition period across fiscal years.

EDUCATION

Funding LSU Health Sciences Center in Shreveport

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

Prior to 10/1/2013, LSU Health Sciences Center in Shreveport (LSU HSC-S) functioned as an academic medical center, comprised of two linked public university teaching hospitals [LSU Shreveport Hospital and E.A. Conway Medical Center in Monroe] and School of Medicine, School of Allied Health Professions, and School of Graduate Studies. Similar to other medical schools nation-wide, the Shreveport medical school is not capable of generating sufficient revenue through student tuition and fees to cover expenses due to the small class sizes necessary for clinical training. As such, the former LSU HSC-S teaching hospital historically transferred patient-generated revenue of approximately $26 M to $30 M per year to the medical school to meet expenses, with this budget authority captured under the medical school.

On 10/1/2013, the Biomedical Research Foundation of Northwest Louisiana Hospital Holdings, LLC (BRFHH) began private management of the hospitals in Shreveport and Monroe. The hospitals were renamed University Health Shreveport and University Health Conway. Under the new model of a private hospital separate from the medical school, the Shreveport hospital would no longer transfer revenues to the medical school for service and operational costs. In FY 14 and after, the medical school established contracts with the partner hospitals for services rendered. This contracted revenue source will be used to support operational costs of the schools. The new funding approach is similar to the funding model historically used by LSU HSC-NO and other public academic medical centers in the country. Public academic medical centers generally depend on the following revenue sources: state appropriations, student tuition/fees, research grants, contracted clinical/support services, and endowments.

Two primary examples of contractual services that LSU HSC-S is providing for University Health Shreveport and University Health Conway include:

1. Physician Services Agreement (PSA) – Payment for the following services provided in University Health Shreveport and University Health Conway hospitals: medical care to indigent patients, teaching/supervision activities, on-call activities, and administrative services. LSU HSC-S anticipates that payments for medical care to indigent patients and for teaching/supervision activities will generate the largest revenue source.
2. Shared Services Agreement (SSA) – Payments to include services with and for information technology, telecommunications, legal affairs, compliance with accreditation and legal/regulatory issues, physical plant/maintenance, University Police Department (UPD), space, and utilities.

Table 3 below compares funding for LSU HSC-S from FY 14 to 15.

TABLE 3

Funding Source	*Fiscal Year 2013-14*	*Fiscal Year 2014-15*	*Change*
SGF	$35,704,325	$37,346,058	$1,641,733
IAT	$0	$8,000,000	$8,000,000
SGR	$56,434,165	$81,433,774	$24,999,609
ST DED	$9,078,294	$9,049,579	($28,715)
TOTAL	**$101,216,784**	**$135,829,411**	**$34,612,627**

Significant Budget Changes from Fiscal Year 2013-14 to 2014-15	
IAT	
Pass-through payments to Private Providers	$8,000,000
SGR Budget Authority Change	
Certified Registered Nurse Anesthetists (CRNAs) - Shreveport	$6,000,000
Certified Registered Nurse Anesthetists (CRNAs) - E.A. Conway	$1,000,000
Teaching and Supervision - Shreveport and E.A. Conway	$18,000,000
Total Change - Expenditures Paid Directly by Hospitals prior to 10/1/13	***$25,000,000***

LSU HSC-S reports that pertinent legal agreements defining contracted revenue sources have been completed. The service agreement contracts between LSU HSC-S and BRFHH do not stipulate specific dollar amounts to be paid from BRFHH to LSU HSC-S. The amounts to be paid will be based on monthly invoices sent from LSU HSC-S to BRFHH. The Legislative Fiscal Office requested a forecast of contracted revenue sources anticipated in FY 15 by service agreement from LSU HSC-S to ascertain the anticipated revenues by contracted source. However, LSU HSC-S had not completed a forecast at the time this document was published.

LSU HSC-S owes approximately $7.6 M to BRFHH for cash collections (i.e. Medicare) received by LSU HSC-S for BRFHH since 07-01-14. On September 24, 2014, LSU HSC-S sent an invoice to BRFHH for $13.9 M for FY 15 services provided to BRFHH in July and August 2014. LSU HSC-S is revising the invoices from July and August 2014 to reflect the recently signed Assignment and Assumption Agreement (capital and operating leases), information technology services agreement, and Shared Services Agreement. LSU HSC-S is unable to estimate when the revised invoices for July and August 2014 will be submitted. However, the payments for July and August from BRFHH to LSU HSC-S will be due 20 days after the final invoices are completed and sent to BRFHH. **LSU HSC-S has not received any payments from BRFHH to date for contracted services provided in FY 15 that began on 7/1/2014.**

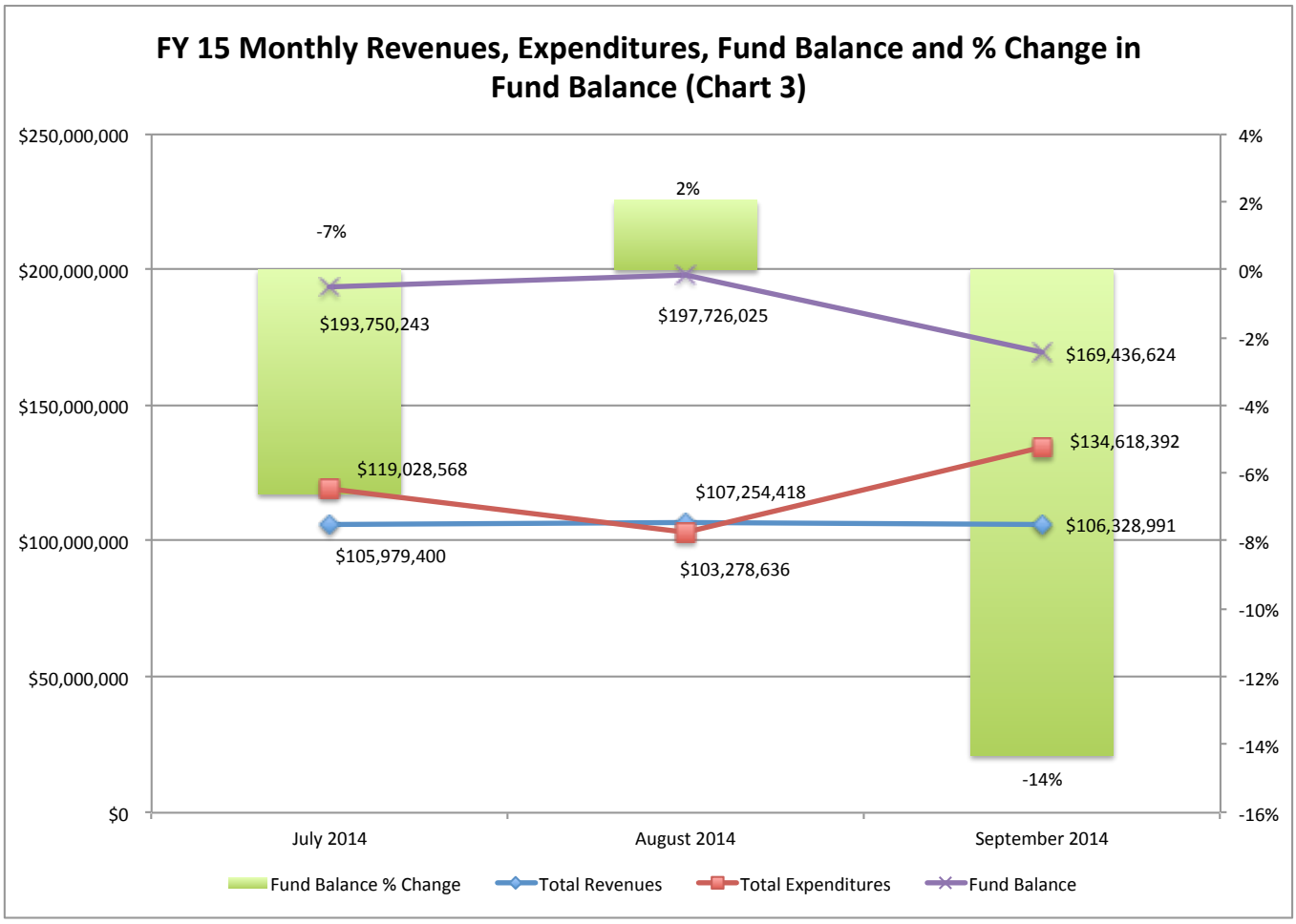
It is unclear based on information received by the Legislative Fiscal Office at the time of this publication if LSU HSC-S and BRFHH have established a viable financial working relationship whereby BRFHH will pay the full monthly amounts invoiced by LSU HSC-S for contracted services in a timely manner on a long-term basis. The Legislative Fiscal Office will continue to monitor the financial situation at LSU HSC-S and will provide subsequent reports in future *Focus on the Fisc* publications.

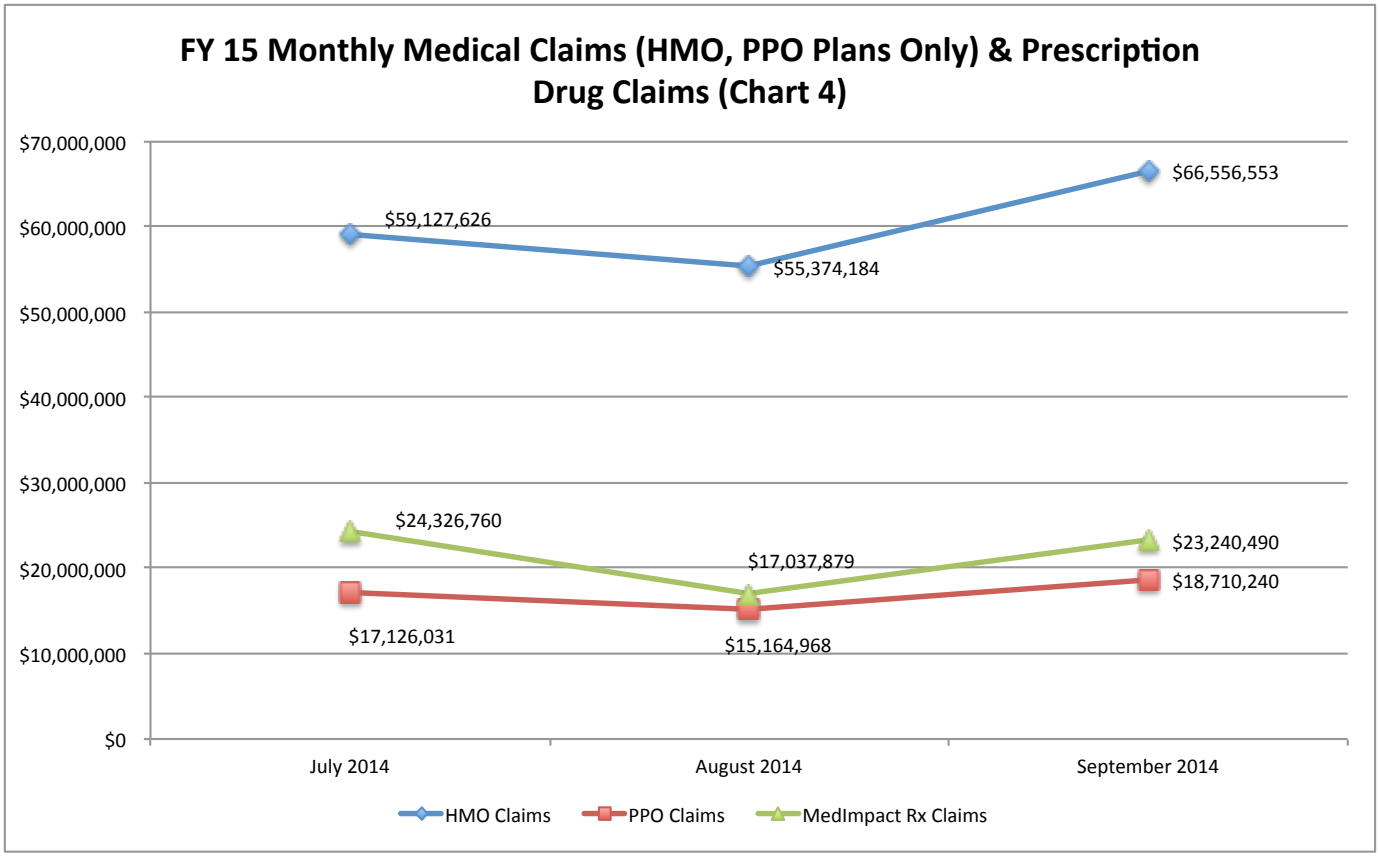
GENERAL GOVERNMENT

FY 15 OGB Financial Experience to Date

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

Through the first 3 months of FY 15, OGB's current monthly negative burn rate is approximately $12.7 M per month which is likely due to increased medical claims expenditures in the month of September. Chart 3 below depicts FY 15 monthly OGB revenues, expenditures, fund balance and percentage change in fund balance through September 2014. Based upon the graph below, September expenditure activity (likely driven by medical claims) utilized approximately $28 M of OGB's current fund balance to pay expenditures. Chart 4 on the next page is a depiction of monthly medical claims expenditures (PPO, HMO and MedRx claims only) for FY 15.





PROPOSED CONSTITUTIONAL AMENDMENTS

FY 15 Proposed Healthcare Funding Constitutional Amendments (No. 1 & 2)

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

The following proposed constitutional amendments will be submitted at the statewide election on 11/4/2014.

Act 438 (HB 532) of 2013

The proposed constitutional amendment No. 2 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 13 funding rates.

Any additional Medicaid payments to hospitals annually over an established base (current rate structure) is indeterminable, and will depend on the actual revenues generated through the annual assessment and the 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.

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).

Act 439 (HB 533) of 2013
The proposed constitutional amendment No. 1 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 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 which 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 Treasury to create separate accounts within the Medical Assistance Trust Fund (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.

Proposed Constitutional Amendment No. 11
Creating a 21st Executive Department
Patrice Thomas, Fiscal Analyst, thomasp@legis.la.gov

Act 874 of 2014
The proposed constitutional amendment No. 11 increases the number of authorized executive branch departments from the current 20 departments to 21. The intent of the amendment is to change the status of the Governor's Office of Elderly Affairs (GOEA) from an agency within the Executive Department to a stand-alone department beginning 7/1/2015.

Approval of the amendment is anticipated to have an immediate fiscal impact on FY 16. All departments are required to have a department head (secretary). Also, LA R.S. 36:152 authorizes departments to have an undersecretary position as well as a deputy secretary position. Therefore, the creation of the Department of Elderly Affairs may increase salary expenses for the new executive positions in FY 16.

Besides the salary increase for the executive positions, it is assumed that the current level of expenditures will remain the same in FY 16 if GOEA becomes a department. Act 874 states that the 21st department may not administer any programs or services that are historically administered by any other agency, office, or department. Therefore, the creation of a Department of Elderly Affairs will not impact services of existing programs provided by other departments. However, in subsequent fiscal years, the creation of a Department of Elderly Affairs may increase operating expenses and equipment purchases by an indeterminable amount as a result of normal operational growth.

Proposed Amendment No. 4, Act 873 of 2014
Alan Boxberger, Fiscal Analyst, boxbergera@legis.la.gov

Proposed Constitutional Amendment No. 4 proposes to authorize the investment of public funds to capitalize a state infrastructure bank and allow the loan, pledge, guarantee or donation of public funds to local governmental entities for eligible transportation projects. The intent of this constitutional amendment is to set up the mechanism for the creation of a revolving loan program to local governmental entities for road and infrastructure projects. The proposed constitutional amendment authorizes the State Treasury to invest future public dollars allocated to the infrastructure bank and to provide loans to local governmental entities from any principal or interest subsequently created.

There is no immediate fiscal impact to the state in the event this proposed constitutional amendment should pass. The proposal creates a financing mechanism but does not fund an infrastructure

bank. Should the constitutional amendment pass and should future legislative action fund an infrastructure bank, that entity would require an appropriation to cover operating expenses of an indeterminable amount, presumably paid for by revenues generated through the loan program if sufficient.

Proposed Amendment No. 8, Act 434 of 2013
Drew Danna, Fiscal Analyst dannad@legis.la.gov

Proposed Constitutional Amendment No. 8 establishes constitutional protection for the Artificial Reef Development Fund (ARDF). Since the fund is statutorily dedicated and not constitutionally protected, funds can be "swept" to cover budget shortfalls in other state agencies. This has happened in the past as approximately $46 M has been swept to cover state budget shortfalls over the past few fiscal years, leaving a $12.5 M balance in the fund. The ARDF relies on donations and grants from oil & gas companies. The current arrangement between the state and oil & gas companies provides that once an oil platform is no longer productive, it can be donated to the state and converted to an artificial reef instead of being disassembled and removed. The company would then donate half of the realized savings from not disassembling the platform to the state in order to maintain the fund. In addition to the artificial reef creation, up to 10% of donations can be used to support the wild-caught fish certification program and another 10% can be applied toward enhancement projects for inshore fishery habitats.

The proposal creates constitutional protection ensuring funding can only be used for ARDF purposes, making the fund inaccessible to use for addressing budget shortfalls for other agencies and programs.

Proposed Constitutional Amendment No. 14, Act 435 of 2013 Session
Greg Albrecht, Chief Economist,
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The current state constitution prohibits the introduction or enactment of measures legislating with regard to tax exemptions, exclusions, deductions, or credits during regular sessions held in even-numbered years. This language has been applied literally such that in regular sessions held in even-numbered years measures legislating with regard to tax rebates have been introduced. Act 435 (HB 131) of 2013 adds rebates, incentives, and abatements to the list of measures prohibited during regular sessions held in even-numbered years. This amendment may attempt to prohibit consideration of measures that are essentially the functional equivalent of tax exemptions, exclusions, deductions, or credits in even-numbered years and focus their consideration into alternating odd-numbered years. However, given the literal application of the current language, this amendment may accomplish that goal only until other synonyms for these words can be devised. This may be particularly true for the new words "rebates" and "abatements", which are fairly specific in their meaning. This may be more difficult for the word "incentives", which is more general. Again, though, the literal application of the current language suggests that by simply not including the word "incentive" in a legislative measure, while utilizing some synonym other than the other words in current law and those being added to it by this amendment, a functionally equivalent measure may still be allowed in a regular session held in an even-numbered year.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

September 2014

Volume 3, Issue 4

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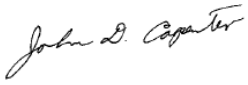
FROM THE DESK OF THE FISCAL OFFICER

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 provides an update on OMV's wait times that were discussed at the last JLCB meeting (September 19, 2014). It also discusses OJJ facilities, Public Defender Board funding, WISE Plan Updates, State Plan Amendments, and LA's Relative Employment.

The October edition of Focus on the Fisc will provide a summary of certain Constitutional Amendments that are on the November ballot.



FOCUS POINTS

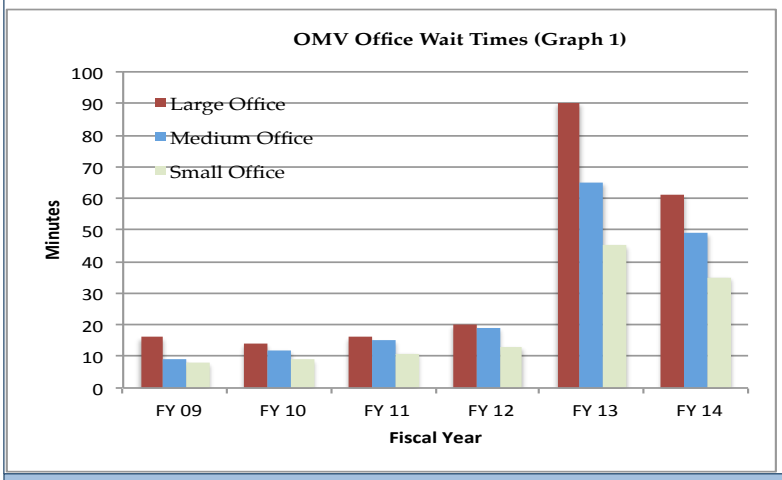
Office of Motor Vehicles Wait Times

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

At the August and September meeting of the Joint Legislative Committee on the Budget (JLCB), questions were asked about wait times at Office of Motor Vehicle (OMV) district offices. Below are updates to information presented earlier in the year regarding OMV wait times and Public Tag Agents (PTAs) renewing driver's licenses.

Staff Reductions Effect

Over the past six fiscal years (FY 09 – FY 14), OMV has seen a decrease in employees by 29% and personnel expenditures decrease by 12%. In FY 09, OMV personnel expenses totaled $36.9 M for 739 employees. In FY 14, OMV employed 525 at a total cost of $32.4 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, then decreased in FY 14 as shown in Graph 1 below. The wait times in FY 09 at the large, medium, and small offices were 16 minutes, 9 minutes, and 8 minutes, respectively. By FY 14, the times had increased to 61 minutes in large offices, 49 minutes in medium offices, and 35 minutes in small offices.



Wait Times by Office and Transaction Type

Following the August JLCB, OMV tracked wait times at eight of the large OMV offices across the state from August 21, 2014 to September 5, 2014. Table 1 on the next page shows the average wait time at the large offices along with the number of customers served and the maximum wait times. For the large offices, the average wait time in the two-week span was well under the FY 14 actual wait time of 53 minutes. For the transactions that resulted in the longest wait times at each office, the majority (5) was for driver reinstatement.

Driver reinstatements took the longest at the following offices: Baton Rouge, Shreveport, Veterans (N.O.), Harvey, and Lake Charles. The longest wait time at the Livingston and Lafayette offices was for vehicle registration, and at the Bossier office the longest wait was for testing.

In addition to average wait times at the offices, OMV tracked wait times depending on the type of transaction that was handled in the office. Such types include: Commercial Driver's License, Driver's License, Express Driver's License, Official Driving Record (ODR), Reinstatement, Express Reinstatement, Testing, Registration, Express Registration, Direct Walk-ins and others. Table 2 shows the number of customers served for each transaction at the eight large offices along with the average wait time for the type of transaction and average maximum wait time.

Driver's License Renewals by Public Tag Agents
Starting in FY 14, Public Tag Agents (PTAs) were allowed to process driver's license (DL) renewals. Customers that use PTAs for renewals pay the DL 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 are 39 PTAs across the state that handle DL renewals.

The first pilot program for DL renewals by a PTA began in July 2013 in Metairie. In

Large Office Wait Times (Table 1)

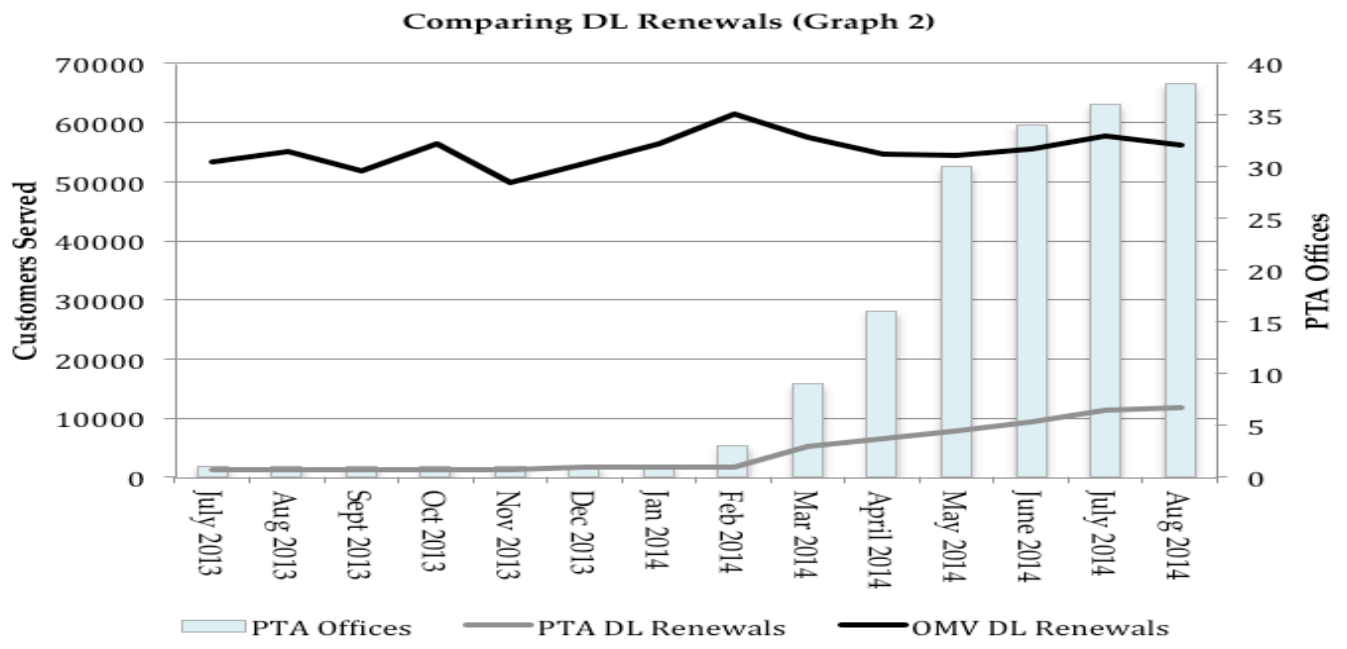
Office	Customers Served	Average Wait Time*	Maximum Wait Time*
Baton Rouge	7,548	0:18:39	3:04:16
Livingston	1,879	0:26:24	2:13:32
Bossier	5,038	0:21:31	1:47:24
Shreveport	4,531	0:27:47	3:00:52
Veterans (NO)	5,068	1:04:00	4:22:46
Harvey	5,275	0:23:01	2:07:16
Lake Charles	3,732	0:29:06	2:51:14
Lafayette	5,388	0:25:17	1:59:12
Total	38,459	0:29:00	

**Time is displayed in Hours, Minutes, and Seconds*

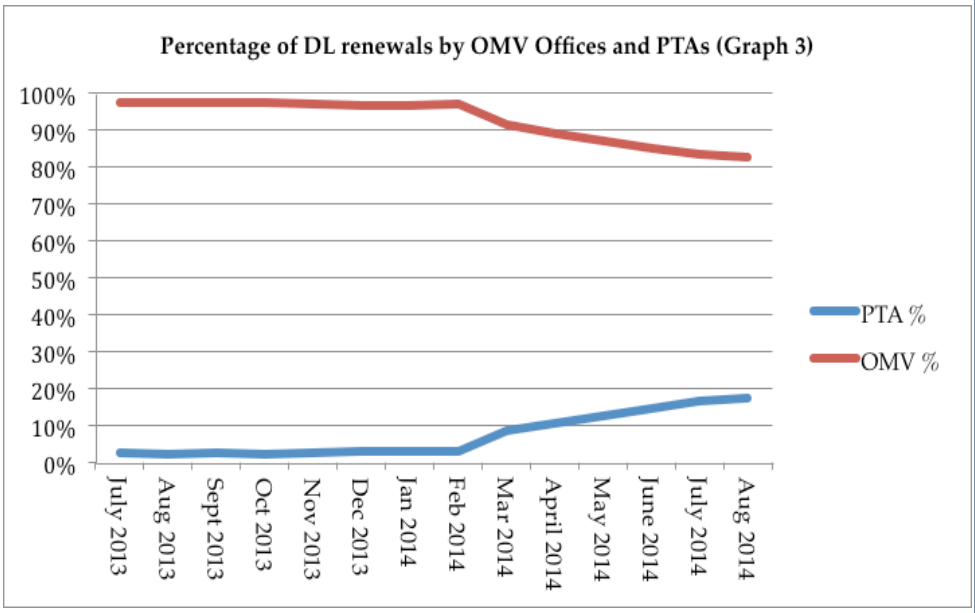
Transaction Type Wait Times (Table 2)

Transaction Type	Customers Served	Average Wait Time	Average Maximum Wait Time
CDL	1,901	0:25:46	1:54:06
Driver's License	4,149	0:33:44	2:01:14
Driver's License Exp	10,632	0:22:58	1:31:56
ODR	505	0:12:35	0:51:44
Other	868	0:13:37	1:04:35
Reinstatement	7,688	0:41:22	2:34:22
Reinstatement Exp*	439	1:32:46	0:42:16
Testing	2,592	0:13:08	1:07:06
Vehicle Reg Express	3,661	0:20:49	1:27:14
Vehicle Registration	5,592	0:34:51	2:20:10
Total	38,027	0:29:00	1:24:58

**Of the 439 Reinstatement Express customers, 423 were served at the Veterans (N.O.) office that had an average wait time of 1 hour and 36 minutes. The wait time for the other 16 customers was approximately 15 minutes. The Maximum Wait Time at the Veterans office was 3 hours and 46 minutes, while average maximum wait in the other 7 offices was 14 minutes.*



February 2014 additional PTAs offering DL renewals came online and the numbers of DL renewals handled by PTAs increased. In February 2014 there were three PTAs handling DL renewals and as of August 2014, 38 PTAs were handling DL renewals.



Graph 2 on the previous page shows the number of DL renewals handled by PTAs and by OMV offices. *Note: The OMV offices used are those with PTAs offices nearby.* Those 20 OMV offices accounted for a total of 773,198 DL, renewals from July 2013 to August 2014. In the same time period PTAs handled 64,397 DL renewals. In February 2014 as more PTAs began to handle DL renewals the number of DL renewals handled by OMV offices began to decrease. From May 2014 to July 2014, OMV renewals slowly increased but were never higher than February 2014 when more PTAs began to handle renewals. Graph 3 above shows the increase of DL renewals handled by PTAs increasing monthly from March 2014 to August 2014.

Other Improvements

In addition to PTAs handling DL renewals, OMV also plans to implement other measures in an attempt to decrease wait times and improve customer service. Credit cards are now accepted at offices, whereas cash was required before. The office has implemented "rover" positions that travel to different offices during the week to handle increased workloads or staff smaller offices. The rovers are used to continue serving customers while another employee administers driving tests. They are also used in the event an office is understaffed.

OMV will allow individuals to schedule an appointment at the eight major offices. OMV has discussed implementing senior and handicap days once a month on weekends to better serve that population of customers. OMV is also exploring the possibility of adding kiosks to larger offices that would handle some transactions like DL renewals and vehicle registrations.

Incentive Pay Plan

Finally, OMV is in the process of developing an incentive pay plan for employees. The exact details of the plan are unknown at this time. However, incentive pay will be based on the number of transactions employees complete during the day. The incentive pay for office managers and regional managers will depend on the performance of employees at OMV offices. According to OMV, wait times will decrease in offices and more customers will be served as employees complete more transactions in order to receive pay incentives. Approval of the incentive pay plan will need Civil Servive Commission approval before it can be implemented.

GENERAL GOVERNMENT

Office of Juvenile Justice Facilities

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

Background

The following information is an update to the November 2013 newsletter article entitled Office of Juvenile Justice (OJJ)/Louisiana Model (LAMOD). LAMOD is similar to the Missouri Model in that it focuses on a therapeutic, child-centered environment versus the correctional, custodial model. As part of this reform of Louisiana's juvenile justice system, OJJ's goal is to open small regional facilities instead of the large institutionalized correctional facilities.

In November 2013 OJJ operated four secure care facilities for males: the newly opened Swanson Center for Youth in Monroe (SCY-M), Swanson Center for Youth in Columbia (SCY-C), Jetson Center for Youth in Baton Rouge (JCY), and Bridge City Center for Youth in Jefferson Parish (BCCY). SCY-M, JCY, and BCY have been utilized for many years as secure care facilities. The total capacity of these facilities was 326 youth.

SCY-C 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. The facility has a capacity of 48 youth and has an annual operating cost of $5.5 M.

Current Facilities

As of November 2013, OJJ had completed implementation of LAMOD at BCCY and JCY, while SCY-M had not yet completed full implementation. As a result of the opening of the satellite facility SYC-C, 48 youth were moved from SYC-M. Although this allowed SCY-M to achieve the staff-to-youth ratio (2:12) necessary for implementation of LAMOD, the dorm configurations were not conducive to allowing full implementation. Acadiana Center for Youth in Bunkie, which was originally scheduled to be completed by the end of FY 15, would have allowed for dorm closures at SCY-M and full implementation would have been achieved. The original opening was delayed due to problems determining a location for the facility and getting local approval. Acadiana is currently projected to open in May 2016 and the facility will have a capacity of 72 youth that will be transferred from SCY-M and BCY. Construction costs of the facility is $20 M and is included in Act 25 of 2014 (Capital Outlay Bill). Projected annual operating costs are $11.9 M.

Although JCY and BCCY have implemented LAMOD, the most significant challenge for OJJ is that the design of the current facilities is not ideal for LAMOD, as they were designed under a correctional model. The facilities at SCY-M and JCY are dilapidated and obsolete, having been constructed in 1907 and 1948 respectively. Many buildings at the facilities are unoccupied because they are deteriorating and unusable and so only a small portion of land at each facility is being utilized. In January 2014, OJJ determined that the facility at JCY was no longer safe to house the youth and the facility was closed. Of the 76 offenders housed at the facility, 14 offenders were transferred to BCCY and 62 were transferred to SCY-M. As noted above, the closure of JCY and the delayed opening of Acadiana has impacted the LAMOD conversion at SCY-M.

Future Regionalization Efforts

The next phase of the regionalization is in the preliminary stages of planning and development. Since JCY has already closed and due to the age of the facility at SCY-M, OJJ anticipates rebuilding these two facilities. Although there is no timetable for these facilities being rebuilt, Act 25 of 2014 (Capital Outlay Bill) includes funding in the amount of $2.6 M for the design of the new JCY and SCY-M. The estimated cost to build each facility is approximately $24 M. The financing mechanism for these 2 facilities has not been determined at this time. Options would be to either include the construction funding in the Capital Outlay Bill, where it would have to compete with other state and local projects for limited bonding capacity or to finance them through the LA Correctional Facilities Corporation, which would require additional SGF appropriation in HB 1 to pay for the debt service. The two facilities will be built on the properties where the facilities currently exist and will occupy approximately 10-15 acres each. With these two new facilities OJJ will operate a total of five secure care facilities with a total capacity of 354 youth. Although the capacity increases by only 28 beds, the new facilities would be more efficient to run and are expected to reduce operational costs.

Local Public Defender Board (LPDB) Districts Approaching Insolvency

Zach Rau, Fiscal Analyst, rauz@legis.la.gov

Note: Some data are listed in calendar years (CY) rather than fiscal years due to LPDB's data collection and reporting practices.

Due to stagnant state assistance and unrealized growth in locally generated funds, district (local) public defender boards are facing an increasingly uncertain financial situation. In FY 14, 26 district public defender boards operated at a deficit, using one-time monies to bridge the gap between revenues and spending. Since Calendar Year (CY) 10, LPDB's total expenditures at the district level have been in excess

of their total revenues, with several districts operating at a deficit in subsequent fiscal years. Table 3 depicts the total expenditures and revenues district defender boards over the last four calendar years.

District Revenues and Expenditures (Table 3)				
Calendar Year	Revenues	Expenditures	Difference	Districts Reporting Deficits
2010	$47,084,317	$54,354,212	($7,269,895)	34
2011	$50,240,526	$55,953,999	($5,713,473)	33
2012	$49,915,307	$52,228,530	($2,313,223)	30
2013	$51,192,746	$51,551,239	($358,493)	23

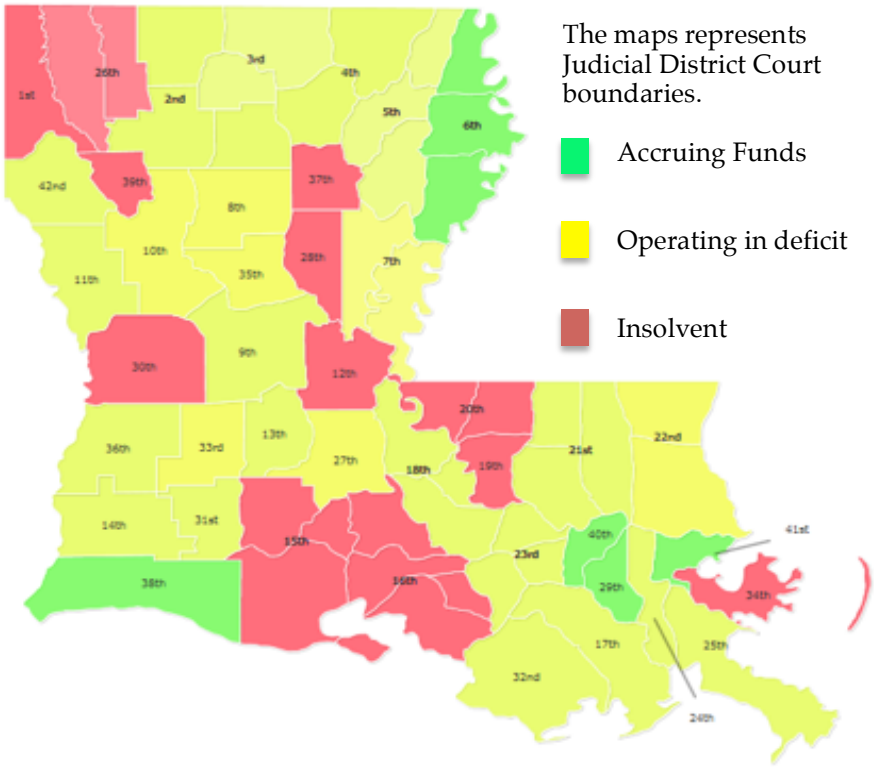
The Statewide Fund Balance

District public defender offices throughout the state had a collective fund balance of $17.7 M in CY 10 to bridge the deficit between spending and revenues. In addition, districts have been enacting cost-cutting measures, reducing overall district spending by 7.9% from CY 10 to CY 13 while increasing overall district revenues by 1.9% in that same period. It is estimated that from CY 10 to CY 14, district spending will have decreased by 4.6% overall with an overall district revenue growth of 5%. Despite the inverse trends of expenditures and revenues, and a closing of the gap in CY 13, LPDB expects the overall spending of district public defender boards to still be in excess of its revenues by $3.5 M to close CY 14. District expenditures have reduced the statewide fund balance to $5.6 M at the end of FY 14. LPDB projects the CY 14 year-end total for the overall fund balance to be $6.5 million, a reduction of 63% in four years.

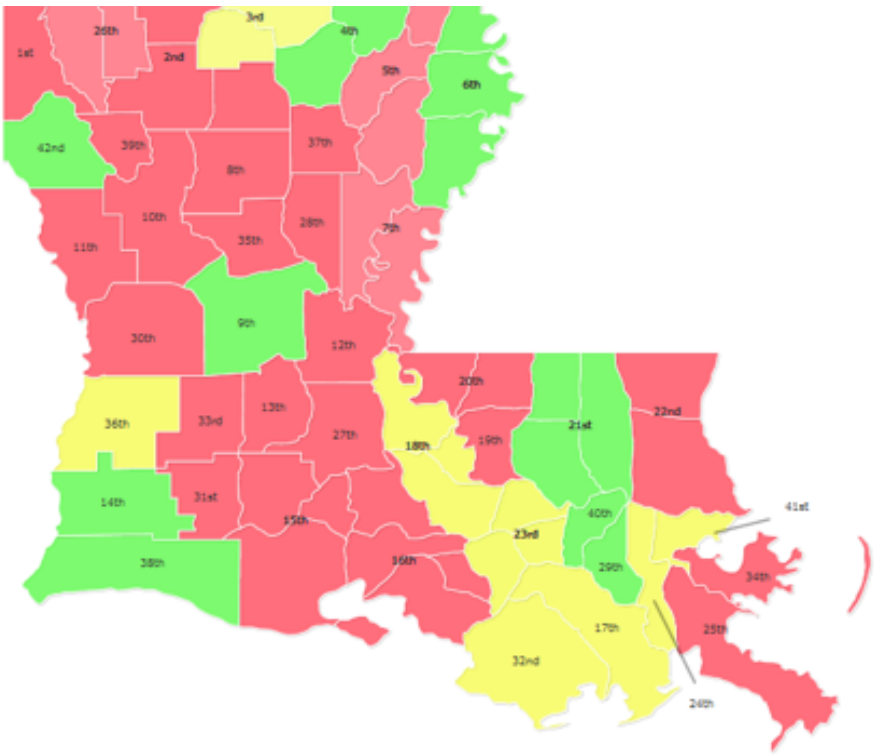
LPDB Guidelines for Defense

While expenditures have been reduced in recent years, they are still in excess of revenues. LPDB projects its revenues based upon several sources. In 2009, LPDB adopted guidelines for defense of indigent clients known as their Trial Performance Standards. The standards outline actions that may be necessary, advisable, and appropriate for the defense attorney to take during the course of representation. LPDB built their standards using

FY 15



FY 16



several sources, including the American Bar Association's (ABA) Criminal Justice Standards for the Defense Function, the ABA's Ten Principles of a Public Defense Delivery System, and the National Legal Aid and Defense Association Performance Guidelines for Criminal Representation. In addition to the standards, LPDB uses a recommendation by the National Advisory Council on Criminal Justice Standards and Goals to determine appropriate caseloads.

LPDB projects its expenditures by making a projection of caseloads for each district based upon prior years, the board then uses the recommended caseload to determine the number of attorneys district offices would employ. The market rate for attorneys in each district would be used to determine compensation. The number of attorneys also determines the number of support staff recommended by the standards. According to LPDB's records, attorneys employed by district offices are carrying nearly double the recommended caseload.

Districts Approaching Insolvency

With the fund balance becoming increasingly unreliable and self-generated revenue growth being far below expected levels, several districts are approaching insolvency by LPDB's own calculations. The maps are solvency projections for individual districts in FY 15 and FY 16 (Page 5). Green districts are accruing revenues at such a rate that they can remit year-end surpluses to their fund balances. Yellow districts are operating at a deficit and spending from their fund balances. Red districts are or will become insolvent.

Due to revenues not being generated in a manner that can keep pace with expenditures, some districts may be forced to restrict services, such as putting cases on waiting lists. In addition, local public defender board staff and contractors may not receive pay owed to them until local boards have the funds available to honor checks.

If the district boards fail completely, judges would have to assign cases of indigent defenders to members of local Bar Associations with no means of compensating them. Lawyers compelled to defend indigent clients may not specialize in the area a particular case involves, therefore clients may not receive the quality of representation they are constitutionally entitled to.

Revenues

District public defender offices derive their funds primarily from state and self-generated (local) monies. State and locally generated funds have unique characteristics, and both are vital to the districts' survival. LPDB's budget has stagnated, maintaining the same level of state funding since FY 11. State funding made up 34.6% ($17.7 M) of total revenues for district public defender boards in FY 14, while local funding made up 65.2% ($33.2 M). Investment earnings and "other revenues," such as grants, make up the remainder of district defender office funding. Funds from investments and other revenues make up less than 1% of total revenues.

LPDB receives its state appropriation through State General Fund deposited in the statutorily dedicated Louisiana Public Defender Fund. It then disburses state funds through its District Assistance Fund (DAF) to the district offices each fiscal year based on a formula built on select criteria, primarily a district's caseload, number of employed attorneys, annual expenditures, and its fund balance. State monies are generally the most stable and predictable funding source for district offices. However, as previously stated, LPDB's overall budget has stagnated. As a result, the proportions of state funding each district receives annually through the DAF have stagnated as well. The median amount of state funding for district public defender offices was $157,515 in FY 14.

Total Appropriation (Table 4)			
FY	DAF	Total State Appropriation	Percentage of State Appropriation
2011	$17,784,337	$33,057,274	53.8%
2012	$17,234,410	$32,799,336	52.5%
2013	$16,496,605	$33,311,135	49.5%
2014	$16,435,314	$33,612,948	48.9%

Local revenues are more volatile. For example, Districts 29 (St. Charles) and 42 (DeSoto) have the ability to completely self-fund using their locally generated revenue streams. District 29 (St. Charles) generated over $1.3 M in FY 14, and was able to add to its fund balance. It is important to note that these funds are not mobile and, barring an agreement between districts to engage in a revenue-sharing program, stay within the respective

district public defender office that generate them. Some districts cannot rely on local revenue streams, and must look to state funding for support. For example, District 11 (Sabine) received 75% of their funding via state revenues in FY 14. District 41 (Orleans) received the highest total of state funding, a sum of $2.4 M.

Act 578 of 2012
LPDB has made efforts to aid district public defender offices in raising locally generated revenues. Act 578 of 2012 required judges to assess an additional $10 in court fees to go towards local indigent defense funds for every criminal defendant who is convicted after trial, pleads guilty or nolo contendere, or who forfeits their bond for violation of a state statute or a parish or municipal ordinance other than a parking ticket. The Act raised revenue by increasing certain court fees from $35 to $45. LPDB estimated that implementation of this rule would lead to overall growth of revenues from court fees by approximately 25% for district offices. In fact, revenues only increased by between 8% and 10% on average. In general, LPDB estimates that court fees make up between 66% and 75% of local revenues. It should be noted that this Act expires in 8/1/2016 and there are no known plans to make up for the lost revenue.

The expected revenue growth would have allowed some district offices to slow or stop the spending of fund balances, and not be reliant on this limited revenue source to maintain the levels of service currently provided. Since the expected revenue growth did not materialized, districts have continued to rely on the use of fund balances.

Note: The overall statewide fund balance will never reach zero, as districts with low caseloads and the ability to self-generate a great deal of funds – for example, District 29 (St. Charles) – will distort the actual health of the fund balance statewide.

EDUCATION

Workforce & Innovation for a Strong Economy (WISE) Fund Update
Charley Rome, Fiscal Analyst, romec@legis.la.gov

Act 803 of 2014 created the Workforce and Innovation for a Stronger Economy (WISE) Fund. The purposes of the WISE initiative are to increase degree and certificate production in high demand fields and encourage research and innovation to meet the state's future workforce and innovation needs. The Legislature appropriated $40 M in FY 15 for the initiative from the following sources: $16.85 M in SGF, $12.15 M in IAT from the Community Development Block Grant (CDBG) Program (both from general appropriations bill) and $11 M ST DED from the WISE Fund in the capital outlay bill for Library, Instructional and Scientific Equipment. Louisiana's four postsecondary education systems will receive monies from the WISE Fund based on the distribution method determined by the WISE Council, but will be required to apply for investment funding by submitting implementation plans, which must include a minimum 20% private match.

The WISE Council is charged with approving a method of distributing the WISE Fund monies in accordance with a Statewide Workforce Demand and Gap Analysis that includes a prioritization of high–demand degree and certificate production based on data provided by LA Workforce Commission (LWC) and the LA Department of Economic Development (LED) and evaluating and approving Implementation Plans submitted from state public higher education institutions. The WISE Council has met four times since its creation. Staff with the Board of Regents, higher education management boards, LWC, and LED have also met numerous times and spent many hours developing, defining, and researching the following:

1. *Occupational Projections* – The Occupational Forecasting Conference, under the direction of the Workforce Investment Council (WIC), conducts annual occupational projections by industry and occupation used by the WISE Council in allocating funds.
2. *"STAR-Ratings" System* – LWC ranks occupations from 1 to 5 stars based on the following: wages, job openings, short term (2015)/long term (2022) demand, and projected percentage growth in the number of jobs between 2015 and 2022. The WISE initiative targets 4 and 5 STAR jobs that will have the most openings and higher pay.

3. *"Gap Analysis"* - The anticipated gap between targeted job openings and the number of projected completers to fill these job openings.

Current Funds Distribution

WISE allocations (excluding earmarked funds discussed on the following page) in FY 15 are based on a workforce component of 78% and a research component of 22%. WISE's research allocation is based on a 3-year average of federally funded research and development expenditures (R&D) for each LA public postsecondary institution. The Board of Regents calculates each institution's proportion of total R&D expenditures for the state and allocates WISE funding proportionally to each institution. In the workforce component, areas where there are gaps between the anticipated number of graduates/completers in an occupational field and the forecasted number of jobs openings for that field, the WISE Council allocates funding to those systems that are producing students in fields with a gap in order to increase the supply of graduates and reduce the completer shortage. The WISE funding formula allocates funding to systems in proportion to the number of completers in 4 or 5 STAR jobs where there are gaps. The funding allocations are adjusted based on the relative cost of various education/training programs.

On 9/8/2014, the WISE Council adopted a Statewide Workforce Demand and Gap Analysis that estimates student graduates and program completers in targeted 4 or 5 STAR jobs from all LA postsecondary institutions based on economic and employment forecasting data from the LWC and LED. The program completers are based on 2012 Classification of Instructional (CIP) codes from the Integrated Postsecondary Education Data System (IPEDS) maintained by the National Center for Education National Center for Education Statistics (NCES). A "crosswalk" is used between educational/training programs and anticipated job openings to tie academic programs to occupational fields. The following are examples of fields where the largest anticipated employment gaps are projected for 2015 and 2022: computer and information sciences, engineering and engineering technology, mathematics and statistics, science technologies, construction trades, mechanic and repair technologies, and health related fields.

Table 5 below illustrates the funding distribution adopted by the WISE Council on September 24, 2014:

WISE FY 2014-15 Distribution Plan Recommendation (Table 5)
(adopted by WISE Council on 9/24/2014)

System/Institution	Workforce	Research	WISE Total	Direct Approp. "Earmarks"	Total Funds
LSU System	$8,090,790	$4,793,109	$12,883,899	$1,500,000	$14,383,899
Southern System	$1,642,188	$357,812	$2,000,000	$0	$2,000,000
University of Louisiana System	$7,702,931	$1,795,940	$9,498,871	$2,000,000	$11,498,871
La. Community Technical College System	$11,973,578	$0	$11,973,578	$0	$11,973,578
LUMCON	$0	$143,652	$143,652	$0	$143,652
TOTAL	$29,409,487	$7,090,513	$36,500,000	$3,500,000	$40,000,000

Submission and Approval of Implementation Plans

Overall guidelines for the WISE initiative will be governed by an "operational policy" adopted by the WISE Council on 9/24/2014 including a process for documenting matching requirements prior to distribution of funds. The Board of Regents approved the WISE operational policy on 9/25/2014. Specifically, institutions and higher education management boards are working on implementation plans showing how the funding allocated above will be used to meet WISE goals. To receive WISE funding, each institution plans to submit an implementation plan to their respective management boards in September describing how WISE Fund monies will be used to meet WISE program goals. Management boards next submit approved institution implementation plans to the WISE Council for consideration. After obtaining approval from the WISE Council, implementation plans next seek final approval from the Board of Regents. The Board of Regents anticipates that the WISE Council and the Board of Regents will meet in separate meetings in October to review and approve proposed institution implementation plans submitted by management boards.

No Funding Source Identified for Funding Allocations
The Board of Regents is still developing methodologies for determining the distribution of WISE funding from the various means of finance. Failure to identify funding sources in the funding distributions creates problems in developing implementation plans to use CDBG and capital outlay funds as described below.

1. Limitations on Uses of CDBG Funding - There are limitations on how institutions can use CDBG and capital outlay funding. As mentioned earlier, the $12.15 M in funding for the WISE initiative from the federal CDBG program can only be used for "Economic Revitalization" projects in 53 parishes affected by hurricanes Gustav and Ike and must be targeted towards low and moderate-income individuals. It is difficult for institutions to develop WISE initiatives using CDBG funding because it is unclear if proposed uses for the CDBG funding will meet federal guidelines. Louisiana's Disaster Recovery Unit (DRU) within the Division of Administration's (DOA) Office of Community Development and the Federal Housing Administration (HUD) will ultimately determine if proposed uses for the federal funds meet CDBG requirements. The Board of Regents is working with the DOA to identify and develop targeted uses for these CDBG funds.

2. Availability of Capital Outlay Funding - The $11 M ST DED from the WISE Fund in the capital outlay bill for Library, Instructional and Scientific Equipment does not present a problem in terms of expending these funds. Institutions have ample uses for library, instructional, and equipment purchases that meet the purposes of WISE. However, the $11 M in ST DED in the WISE Fund was supplied by a like amount from non-recurring Overcollections Fund sources. Furthermore, the $11 M will not be deposited into the WISE Fund until after $31 M in funding obligations for the Budget Stabilization Fund ($25 M) and unfunded accrued liability payments to retirement systems ($6 M) are met, meaning the funds will come late in the fiscal year, at a reduced amount late in the year, or may not be available in FY 15.

Earmarked Funds
A language amendment in the General Appropriations bill directs Regents to distribute the following amounts by institution from the $29 M in the General Appropriations Bill: Pennington ($1.5 M), College of Engineering at LA Tech ($1 M), and School of Pharmacy at ULM ($1 M). The Funds bill also has language stating "any specific legislative allocations to postsecondary education institutions from the WISE Fund shall not preclude any postsecondary education institutions from receiving additional monies from the WISE Fund." The Board of Regents has already distributed the $3.5 M in SGF to these three institutions mentioned above without requiring implementation plans or private matching funds. As such, the remaining $36.5 M in WISE funds were distributed as shown in the table on the previous page. Per the Funds bill language amendment mentioned above, Pennington, LA Tech and ULM are also eligible to receive additional WISE funds from the $36.5 M distributed to all higher education systems and LUMCON.

HEALTH & HOSPITALS

CMS deferral and disapproval letters, State Plan Amendment 14-025
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On May 23, 2014 DHH submitted a new State Plan Amendment (SPA TN 14-025) to the Centers for Medicare and Medicaid Services (CMS) intended to replace disapproved SPA's that governed DSH payments to hospitals participating in the public private partnerships. The new SPA changes the qualifying criteria for certain hospitals receiving such DSH payments. Hospitals that would be eligible (or Louisiana Low Income Academic Hospitals) are required to provide a certain level of uninsured care and maintain a certain level of medical resident positions in the hospital to qualify for certain payments. Enhanced payments would not simply be a condition of a provider/partner simply signing a Cooperative Endeavor Agreement.

Submittal of the new SPA is a response to prior deferral and disapproval letters from CMS on SPAs that provided Disproportionate Share Hospital (DSH) payments to hospitals participating in public private partnerships. On 4/7/2014, the Department of Health and Hospitals (DHH) received a deferral letter from the Centers for Medicare and Medicaid Services (CMS) relative to a review of DSH expenditures for the quarter ending 12/31/2013. The letter stated CMS will defer certain DSH expenditures based on DSH spending under pending State Plan Amendments

that had yet to receive CMS approval. On 5/2/2014, DHH received a follow up letter that then disapproved the 3 separate state plan amendments (SPA 13-23 for supplemental Medicaid payments, and 13-25 and 13-28 for DSH payments to private hospitals) which proposed to provide supplemental Medicaid inpatient hospital payments to 2 hospitals (Children's Hospital in New Orleans and Lafayette General) and Disproportionate Share Hospital payments to private hospitals participating in the public private partnerships) that were referenced in the April 7th letter.

To the extent the new State Plan Amendment is not approved by the Centers for Medicare and Medicaid Services, potential state liability is assumed to be any federal matching funds paid against the disapproved SPA's (disapproved SPAs and new SPA 14-025). Based on FY 14 actual DSH payments and FY 15 allocated/projected DSH payments to six partner hospitals, federal funds associated with DSH partnership payments total $704 M.

DSH Partnership Payments (Table 6)		
Partnership DSH	Projected pending SPA DSH payments	Federal match (potential state exposure)
FY 14	$537,918,777	$328,022,870
FY 15	$607,373,582	$376,875,307
Total		$704,898,177

Approximately $537.9 M is estimated to have been paid under the disapproved SPAs to date. The level of budgeted DSH payments in FY 15 that will be paid by DHH under the disapproved SPAs is unknown at this time, and will depend on DHH making a prospective DSH payment in October prior to SPA 14-025 approval. It is anticipated that a significant level of prospective DSH payments (roughly 80% of the FY 15 allocation, or $485 M) will be made in October based on the level of prospective DSH payments made in October 2013 (FY 14) to partner hospitals.

The federal matching fund disapprovals reflected above do not include funds that may be disallowed as a result of the state receiving advanced lease payments from certain private partners. CMS enumerated in its 5/2/2014 disapproval letter approximately $265.8 M in advanced lease payments received by the state under 2 CEA arrangements. The CMS disapproval letter dated 5/2/2014 indicates that the advanced lease payments received by the state constitute provider related donations from private providers, which were connected to higher Medicaid payments to the CEA partners. To the extent CMS disallows the advanced lease payments based on non compliance with federal regulations (advanced lease payments considered non-bona fide provider related donations), state exposure is anticipated to be based on some level of federal fund expenditures associated with these lease payments. It is unknown at this time how a level of disallowance would be calculated.

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Louisiana's Relative Employment Performance In the 2010 – 2014 Period

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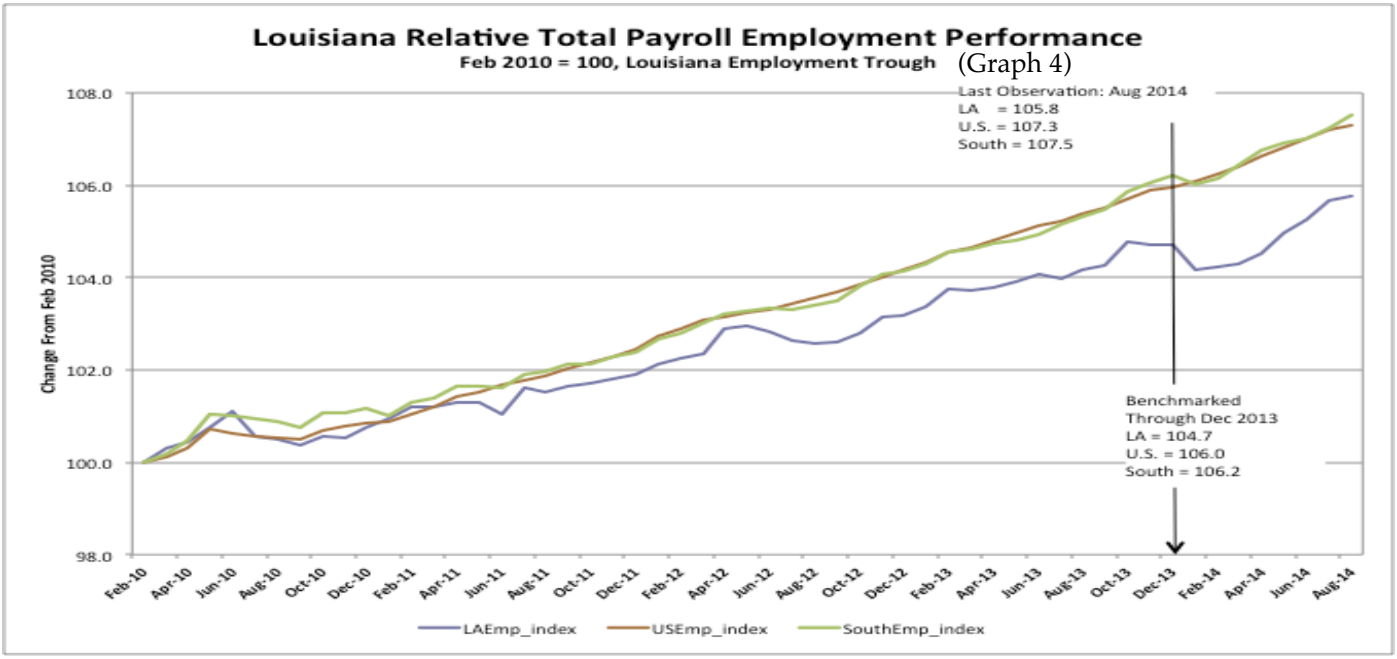


(Graph 4)

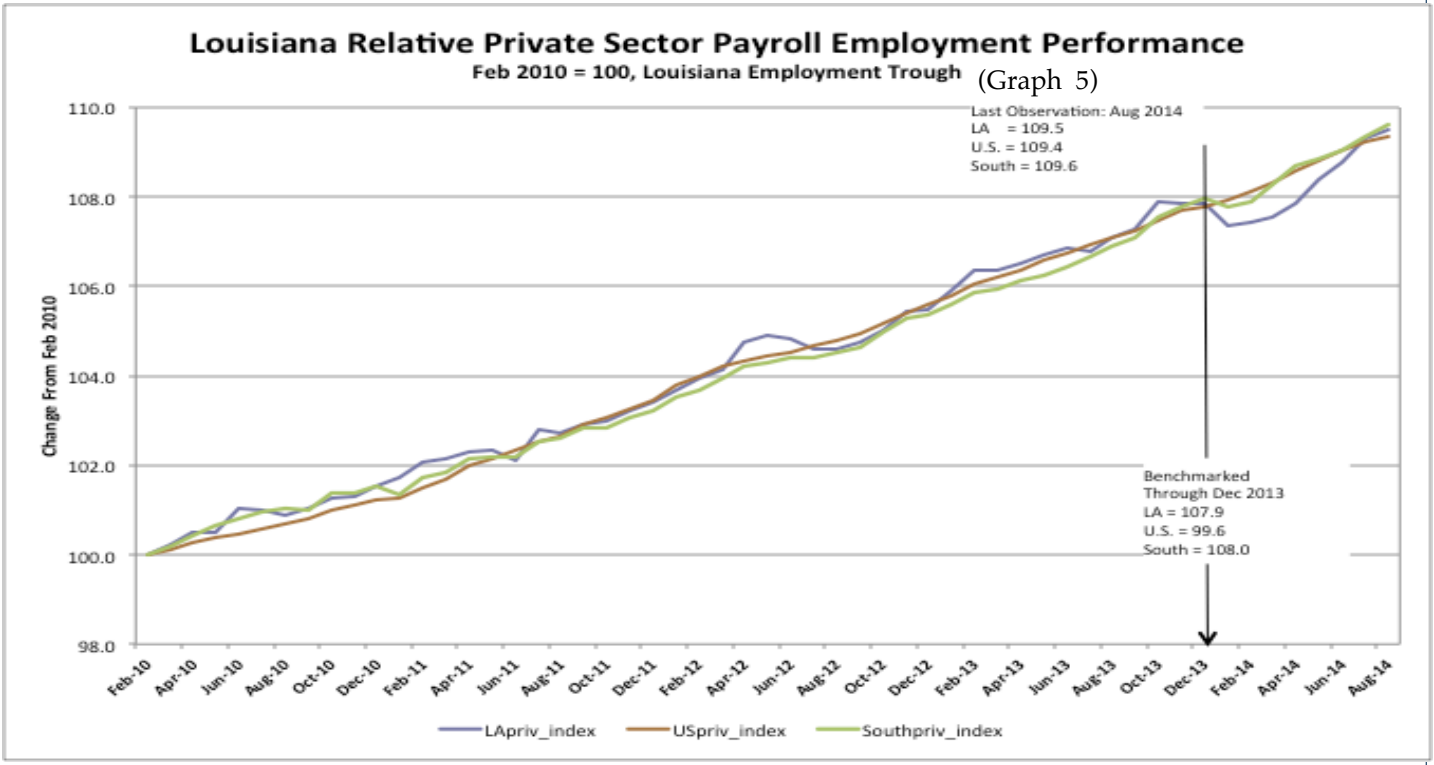
Announcements of industrial expansions in recent years may have given the impression that Louisiana has outperformed the nation as a whole and the South in economic growth. This has not been the case. One of the more important metrics used to compare economic performance across states is total payroll employment; the headline employment measure, seasonally adjusted and reported for the national economy and for all states on a monthly basis by the U.S. Department of Labor. Graph 4 above depicts total payroll employment for the state, the nation as a whole, and the South (defined here as the states in the U.S. Department of Labor, Bureau of Labor Statistics southeast region of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, plus the states of Arkansas and Louisiana).

This graph depicts monthly seasonally adjusted total payroll employment for all three regions is indexed to the month of February 2010, when the state's payroll employment total was at its low point of the 2008-09 national recession. The months subsequent to that trough month have reflected the economic recovery from that recession. The value of each line at any month represents the percent change of that region's total payroll employment from the month of February 2010. For example, by August 2014 the state's total payroll employment was 5.8% greater than in February 2010. By comparison, total payroll employment for the nation as a whole was 7.3% greater, and for the South 7.5% greater.

Of note in this graph is the State's relatively weak total payroll employment performance. Over the course of the economic recovery to date, total payroll employment growth in Louisiana has been approximately 21% less than that of the national economy, and 23% less than that of the South. Since the data for the months of 2014 are based on sample surveys of employers that have not yet been annually benchmarked to a near complete census of employers, and are less reliable than earlier data that has been benchmarked, growth through December 2013 is also noted in the graph. Through that point of the recovery, the state's total payroll employment was 4.7% greater than in February 2010. By comparison, total payroll employment for the nation as a whole was 6.0% greater, and for the South 6.2% greater. By that point, total payroll employment growth in Louisiana had been approximately 21% less than that of the national economy, and 24% less than that of the South.

This relatively lagging total performance is the result of reductions in government sector payrolls in Louisiana relative to the nation as a whole and the South. Net reductions in government payrolls in Louisiana since February 2010 have been 34,800 jobs or a 9.4% reduction. Of that total government reduction, 55.7% has occurred in state government payrolls; 19,400 jobs for a 17.2% reduction. Local

government payrolls have fallen by 13,400; a 6% drop and 38.5% of the total government reduction. Federal government payrolls in Louisiana have fallen, as well; by 2,000 or a 6.2% reduction, comprising 5.7% of the total government reduction.



The graph above (Graph 5) excludes the effects of government payroll reductions, and depicts only private sector payroll employment for the state, the nation as a whole, and the South. Monthly seasonally adjusted private sector payroll employment for all three regions is indexed to the month of February 2010, when the state's payroll employment total was at its low point of the 2008-09 national recession. The months subsequent to that trough month reflect the economic recovery from that recession. The value of each line at any month represents the percent change of that region's private sector payroll employment from the month of February 2010. For example, by August 2014 the state's private sector payroll employment was 9.5% greater than in February 2010. By comparison, private sector payroll employment for the nation as a whole was 9.4% greater, and for the South 9.6% greater.

Of note in this graph is the fact that the State's private sector payroll employment performance has been essentially the same as that of the nation as a whole and of the South. Growth performance through December 2013 is also noted in the graph. Through that point of the recovery, the state's private sector payroll employment performance had also been essentially the same as that of the nation as a whole and of the South, since February 2010. Although varying around the trends of the nation and the South, LA has not exhibited private sector employment growth in excess of that of the nation as a whole or of the South over the course of the recovery from the 2008-09 national recession. It should also be noted that the economic recovery/expansion currently being experienced by the nation is substantially slower than all other expansions/recoveries in the post-WWII era, as measured by a variety of economic indicators. With regard to private sector industries, the state's performance so far has been comparable to this national and southern performance.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

August 2014

Volume 3, Issue 3

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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 provides information comparing OGB's health plan "richness" to other state health insurance plans. It also discusses Double-Counted Financing in the FY 14 and FY 15 budgets as well as various articles including information on TOPS, Act 419 and the 21st Executive Department.

Due to the discussion at the last JLCB meeting (August 14, 2014), we are actively researching OMV wait times and will provide an update to the legislature in the September edition of Focus on the Fisc.

FOCUS POINTS

OGB's Health Plan "Richness"

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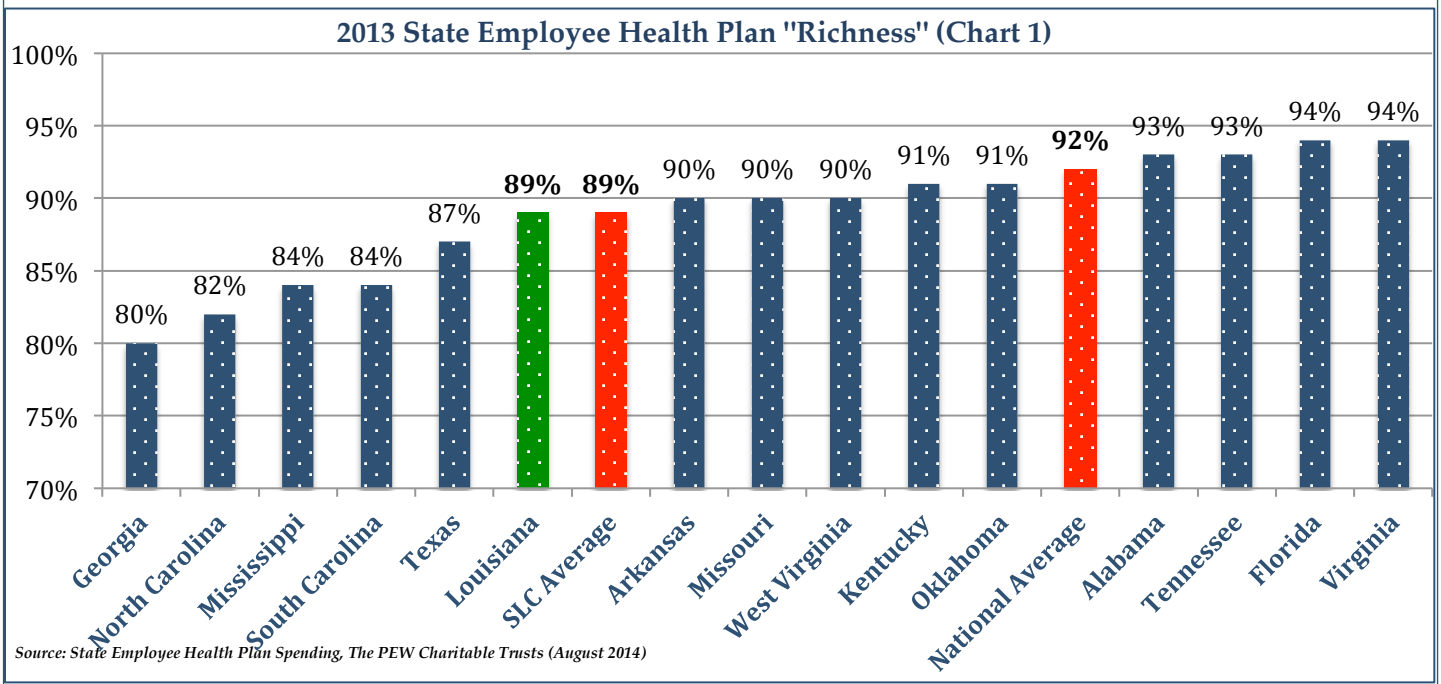
The LFO presented its second monthly OGB update to the Joint Legislative Committee on the Budget (JLCB) at the August 2014 meeting. Members of the committee suggested the LFO research comparisons of Louisiana's state employee health plan to other various state health plans across the country. The PEW Charitable Trusts and the MacArthur Foundation recently released a state comparison study titled *State Employee Health Plan Spending: An examination of premiums, cost drivers and policy approaches*. Included within the report is benchmark data on premiums, premium contribution arrangements and cost-sharing arrangements. Due to OGB's testimony that the OGB Health Plans are some of the richest health plans in the country, *this* article will solely focus on the results of this study relative to a state's health plan richness. ***Note:*** *Due to the number of state health insurance topics discussed in the PEW Charitable Trusts Report and in other reports found through the National Conference of State Legislatures (NCSL), future editions of Focus on the Fisc will include other state comparisons. These issues will include premium contribution arrangements as well as national trends associated with states' trending to lower premium and higher deductible plan option.*

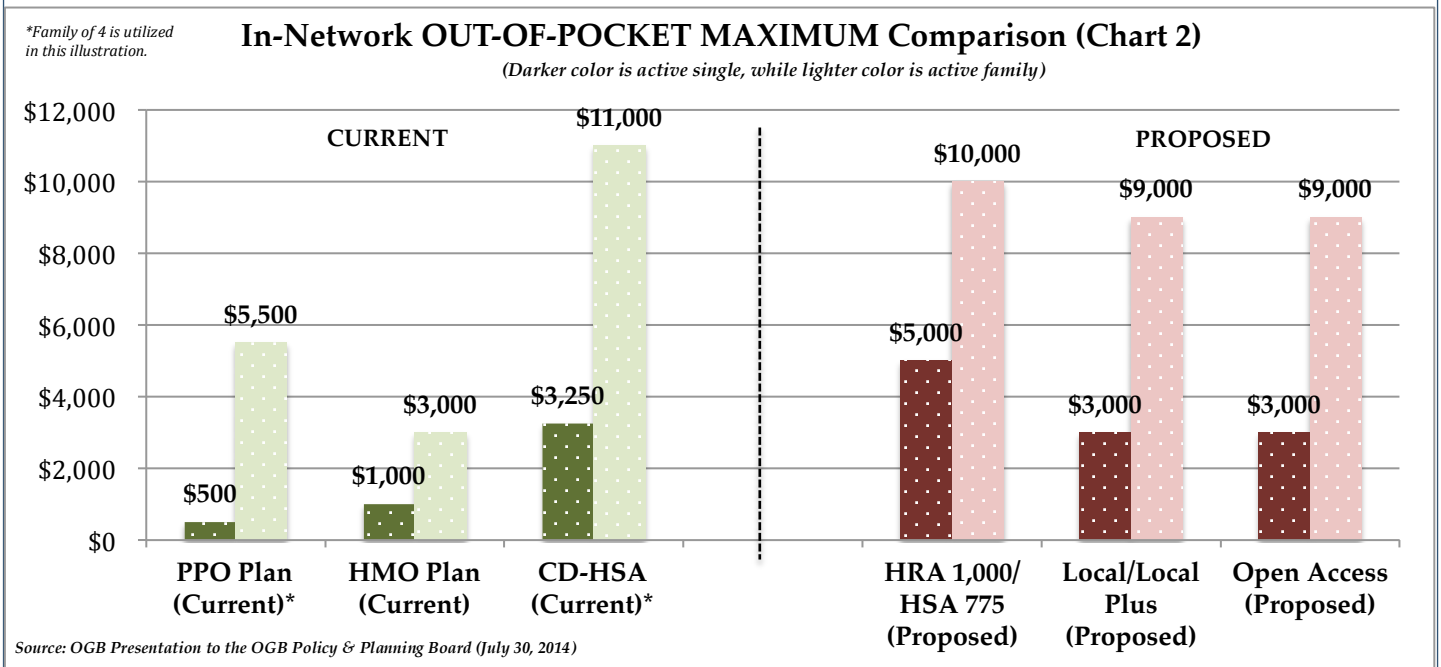
This report can be found at:
http://www.pewtrusts.org/~/media/Assets/2014/08/StateEmployeeHealthCareReportAugust2014pdf.pdf

According to the study, a state health plan's richness is the relative cost sharing between an employer (the plan) and employees based on the required deductibles, copayments and coinsurance. The lower the percentage of costs paid by enrollees, the greater the health plan richness. According to the report, in 2013 the national average of state health plan richness (actuarial value) is 92%, meaning the state health plan pays 92% of allowed costs of the covered services for an average enrollee while the enrollee pays 8% (through deductibles, coinsurance & out-of-pocket maximums) in addition to any premiums paid. See Chart 1 on the next page that compares Louisiana's health plan richness to the rest of the southern states contained within the Southern Legislative Conference (SLC). Of 15 states in the SLC, Louisiana ranks 10 out of 15 at 89%, which is 3 percentage points below the national average (92%) and is 9 percentage points below Virginia and Florida (94%) and above a handful of SLC states that range from 80% (Georgia) to 87%

(Texas). See Chart 1 below for a complete comparison. ***Note**: For this report, Milliman Inc., a global actuarial firm, calculated the actuarial values included in this report. Milliman, Inc. maintains a database built through a collection of publicly available health insurance data from state governments. According to the report, PEW partnered with Milliman to access the data for the actuarial analysis included in this report.*

Once the new proposed OGB health plans go into effect on January 1, 2015, Louisiana's 89% plan richness (also known as the actuarial value) will likely decrease due to a significant increase in the deductibles and out-of-pocket maximums that are associated with the proposed health plan options. See Chart 2 below that compares the out-of-pocket maximums for active and family for the current health plans to the proposed health plans. As is included in the LFO's August OGB update document, the out-of-pocket maximum is the maximum amount of money an OGB member pays out-of-pocket for medical services in a health plan year. The out-of-pocket maximum typically varies for in-network and out-of-network providers. ***Note:** The state will annually fund $1,000 (actives) and $2,000 (family) for participants who pick the HRA 1000 Plan. In addition, the state will also annually fund $200, plus up to a $575 dollar-for-dollar match of employee contributions for those members who pick the HSA 775 plan. These state contributions can be used to offset the out-of-pocket maximums shown in Chart 2 below.*





GENERAL GOVERNMENT

Double-Counted Financing in FY 14 and FY 15 Budgets

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Approximately $108 M in revenue associated with fraud collections and the Revenue Estimating Conference (REC) revenue concept SGR Overcollections* are included in the REC forecasts of SGF in FY 14 and FY 15 and have effectively also been dedicated to the Overcollections Fund through each year's Funds bills. This has resulted in these revenues being appropriated in both years' budgets as SGF direct financing and as statutory dedication financing simultaneously. This double-counting of revenues results in a negative contribution to each year's budget balance.

Fraud Collections ($39.2 M in FY 14 and $32 M in FY 15)

One of the funding sources for both the FY 14 and FY15 budgets has been revenue identified by the Department of Revenue (LDR) as fraud collections. According to LDR, fraud collections result from the denial of refunds that have been claimed but are determined to be unwarranted, whether by a third party vendor or units within the agency; comprised primarily of personal & corporate income tax, sales tax, and severance tax. Thus, existing tax receipts are retained and not refunded. These revenues are part of the baseline of anticipated receipts and, if not otherwise dedicated, flow to the SGF to support direct general fund appropriations. These receipts have been appropriated as part of the overall SGF direct means of financing as well as statutory dedication financing through the Overcollections Fund, and appear to have been double-counted in the FY 14 and FY 15 budgets.

Fraud collections appropriated in the FY 14 budget from the Overcollections Fund were originally contemplated at $20 M, but a total of $39.2 M had been utilized by fiscal year end. As indicated by LDR, in January and February the treasurer transferred a total of $20.1 M from the SGF into the Overcollections Fund. Then an additional $19.1 M was transferred in the 13th accounting period for the fiscal year. These funds were accounted for as part of total tax receipts, supporting FY 14 SGF appropriations, but had not been subtracted from total general fund receipts reflecting their transfer to the Overcollections Fund, simultaneously supporting FY 14 statutory dedication appropriations.

Similarly, at the outset of the current fiscal year, the FY 15 budget contains $32 M of Fraud collections that are included in the state general fund direct forecast, which is fully appropriated, as well as in the Overcollections Fund appropriation. As with FY 14, amounts transferred to the Overcollections Fund in FY 15 will be reductions to the general fund and could be higher than the $32 M currently contemplated.

Debt Recovery ($10 M in FY 15)

The 2014 Funds Bill (Act 646 of 2014) transfers collections from the Office of Debt Recovery (ODR) deemed non-recurring by REC into the Overcollections Fund. Currently, the budget anticipates $10 M in debt recovery funds though the Overcollections Fund. Under current practices, most state tax debt collections are more than 60 days delinquent. ODR will handle all final debt over 60 days delinquent. These anticipated dollars are similar to the fraud collections in that they are appropriated as both SGF and as Overcollections Fund statutory dedications simultaneously. In addition, while probably not intended, it may be possible to interpret the ODR language of the Funds Bill as requiring all funds collected through ODR to be deposited into the Overcollections Fund. Under this scenario, substantial amounts of baseline tax collections would be diverted from the SGF, possibly of a substantial magnitude. The first $5 M in SGF debt recovered by ODR is directed to the Department of Public Safety for state police training, but alternative financing has been provided for this training in FY 14 or FY 15.

SGR Overcollections ($27 M in FY 14)

The REC forecast includes self-generated revenues (SGR) collections in excess of the appropriated amounts in the Office of Financial Institutions (OFI) and the Department of Insurance (DOI). In the absence of an explicit dedication of these funds, they are included in the SGF forecast. In FY 14, these excess collections were $27 M and were appropriated as SGF direct means of financing.

Language in the FY 14 Funds bill (Act 420 of 2013) directs the treasury to transfer to the Overcollections Fund all "excess collections from Interagency Transfers and Fees and Self-Generated Revenues of at least

Ten Million Dollars" where they are to be used to support appropriations from the Overcollections Fund. This language encompasses this REC revenue concept of excess collections, resulting in their being double-counted as both direct general fund and statutory dedication financing.

** SGR Overcollections are not the same as the Overcollections Fund. SGR Overcollections is an REC revenue concept that includes collections in excess of appropriation for the Office of Financial Institutions and the Department of Insurance. The Overcollections Fund is the fund in which various receipts are deposited, typically a wide range of ad hoc resources.*

Bayou Corne Sinkhole

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As of 7/30/2014, the state has incurred approximately $13.8 M in expenditures associated with its response to the Bayou Corne sinkhole incident since August 2012. Approximately $9.2 M or 67% of the expenditures provided are associated with a contract the Department of Natural Resources has with the Chicago Bridge and Iron Company (CBI), formerly the Shaw Group, (including its subcontractors). CBI 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 $1.7 M or 15% of the total expenditures provides for salaries and related benefits for state employees (primarily scientists and enforcement personnel within various state departments). Other expenditure categories along with the cost incurred include the following: $125,504 for professional services contracts with other contractors responsible for drilling wells and performing testing activities; $213,791 for operating services, travel and supplies; and $452,736 for other charges including legal services, well drilling, command post rental, and accounting services. An additional $1.9 M was expended by the Department of Transportation and Development (DOTD) through capital outlay to monitor Highway 70 near the sinkhole and study a bypass route for the highway in the event the sinkhole encroaches upon Highway 70.

The approximate amount incurred by each state agency responding to the incident is as follows: Department of Natural Resources (DNR) $10.6 M; Department of Environmental Quality (DEQ) $0.35 M; DOTD $2.5 M; Public Safety Services (State Police and Management & Finance) $0.13 M; Wildlife & Fisheries $0.1 M; DHH Office of Public Health $0.01 M; Homeland Security (GOHSEP) $0.03 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) of $8.0 M in FY 13, $5.5 M in FY 14, and $13.5 M in FY 15 from the Treasury to provide for its sinkhole expenditures. DOTD utilized budget authority in the Capital 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, Public Safety, Wildlife & Fisheries and Public Health utilized revenue in their respective existing budgets.

The state, through the Attorney General's Office, has requested compensation from Texas Brine, the company responsible for the sinkhole incident, for all expenditures it has incurred in response to the incident. If reimbursement is received, the state will be able to

Proposed Constitutional Amendment Creating a 21st Executive Branch Department (Act 874 of 2014)

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The proposed constitutional amendment increases the number of authorized executive branch departments from the current 20 departments to 21 departments. If voters approve a 21st department, in accordance with existing law (R.S. 36:4), the Governor's Office of Elderly Affairs (GOEA) will become the Department of Elderly Affairs on July 1, 2015.

All departments are required to have a department head. Presently, the executive director position within the GOEA is vacant. The Legislative Fiscal Office anticipates the existing vacant executive director's position and associated funding may be utilized to fill the department head (secretary position) in the newly created Department of Elderly Affairs. Presently, the executive director of GOEA has an annual salary budgeted at $91,402. If the salary of the secretary of the new department remains the same as the existing executive director position, the creation of a Department of Elderly Affairs does not increase state expenditures. However, only the governor determines the salary of the secretary position. Currently, the average salary of a department secretary is $166,046. The salary of the lowest paid department secretary is $123,614.

In existing law (R.S. 36:152), departments are authorized to have an undersecretary position as well as a deputy secretary position. If a newly created Department of Elderly Affairs fills these positions, additional state expenditures *(see next page)*

replace the revenue previously utilized to provide for the sinkhole expenditures. No payments have been received. On 7/2/2013 the Attorney General's Office filed suit against Texas Brine to recover the state's cost associated with its response to the sinkhole incident. The case is at the trial court level in pretrial status.

Congress patches approaching Highway Trust Fund insolvency with short-term fix

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The state of LA builds and maintains transportation infrastructure through a partnership of state and federal funding. Both funding sources rely on user-based revenues derived from gasoline and motor-fuel taxes, primarily a 16-cents per gallon state gasoline tax, an 18.3-cents per gallon federal gasoline tax and a 24.4-cents per gallon federal tax on diesel fuel and related excise taxes. Several factors have contributed to instability in transportation infrastructure funding at the national and state levels, including: the purchasing power of the non-indexed, flat gasoline tax has fallen to construction and operating inflation since the last increase more than twenty years ago, the consumer and government-driven demand for more fuel efficient vehicles has led to a decrease in gallons consumed per vehicle, and the number of annual aggregate vehicle miles driven has fallen by 2.3% since its peak in November of 2007.

The federal Highway Trust Fund HTF has been on the verge of insolvency for most of the past decade. Revenues generated by federal tax sources have not kept up with appropriation and allocation demands. Congress has pieced together a series of patchwork extensions to federal authorizations as well as deposits from the federal general fund in the sum of more than $50 B over the past five years to keep the nation's transportation program afloat. The US DOT projected that the existing resources and ongoing deposits into the HTF would reach insolvency in August of 2014 without further congressional action. Late Congressional action at the end of July allocated an additional $11 B through certain accounting maneuvers to return the HTF to short-term solvency through May of 2015, but receipts deposited into the HTF will still be lower than project allocations so the fund will again return to insolvency without a permanent solution that would likely involve increasing revenues to support the existing program or reducing the program to the level of actual revenues. In the highway account, annual revenue shortfalls generally exceed the annual allocation by approximately 30%.

On July 1, 2014, US Department of Transportation (DOT) Secretary Anthony Foxx issued a letter to the state departments of transportation detailing the DOT's plans in the event that a Congressional instrument did not arrive making the HTF solvent and this letter illuminates the potential impact to the states should Congress fail to act prior to depletion of the fund again in mid-2015. Beginning on August 1, 2015, DOT would have initiated a cash-management program that ceased making on-demand, same-day payments to reimburse states for federal-authorized capital expenditures. Incoming funds would be distributed to each state in proportion to its federal formula apportionment in the current fiscal year. States would be notified twice each month regarding its proportional allocation. From this allocation, states could request reimbursement on a daily basis until reaching its allocation total for the period. Any unused balance during any two-week period would carry forward to the subsequent period and the state could request its allocation for that period plus any excess remaining from any prior one.

The LA Department of Transportation and Development (DOTD) reports that due to recent bond sales and

will be required in FY 16. Based on analysis of the FY 14 budget of GOEA, if a Department of Elderly Affairs is created and one of the above positions is filled, state expenditures will increase by an estimated cost of $141,112 ($105,834 SGF and $35,278 federal Title III Older Americans Act of 1965 for administrative costs) that includes a salary of $90,000 for the undersecretary or deputy secretary position along with associated related benefits of $51,112. Currently, the average salary of a department undersecretary is $119,343. The salary of the lowest paid department undersecretary is $93,600.

Act 871 states that the 21st department may not administer any programs or services that are historically administered by any other agency, office, or department. Therefore, the creation of a Department of Elderly Affairs will not impact services of programs provided by existing departments. Besides the salary increase for executive positions, the Legislative Fiscal Office anticipates revenue and expenditures to remain the same if GOEA becomes a department. In subsequent fiscal years, the creation of a Department of Elderly Affairs may increase operating expenses and equipment purchases by an indeterminable amount. Presently, GOEA has $51.2 M budgeted for FY 15.

existing cash reserves, LA has sufficient cash on hand to weather any short-term disruptions to federal transportation reimbursements. DOTD was informed by DOT that under a cash-management program it likely would be able to draw approximately $43 M per month from the HTF (a typical month's draw down is currently in the range of $63 M). DOTD could likely proceed as planned with all capital expenditures for approximately six to seven months by utilizing funds currently held in escrow to make up the projected shortfalls while awaiting federal reimbursement or an ultimate solution to the insolvency of the HTF. DOTD's current capital outlay escrow account holds approximately $220 M.

Should the federal HTF ever reach insolvency without a preemptive action by Congress, the state could realize more serious long-range impacts including the slow-down or postponement of certain projects in order to adjust the state's transportation plan to fit within its reduced federal allocation. DOTD has already shifted its focus over the past several years to preservation and safety projects in light of diminishing state resources, forgoing projects aimed at increasing capacity (capacity projects make up approximately 55% of the frequently discussed $12 B backlog of transportation needs in the state). Potential new strains placed on the state's portion of federal highway funding would likely further erode preservation and safety efforts and potentially cause those sizable backlogs to swell.

Wildlife & Fisheries Enforcement Agents

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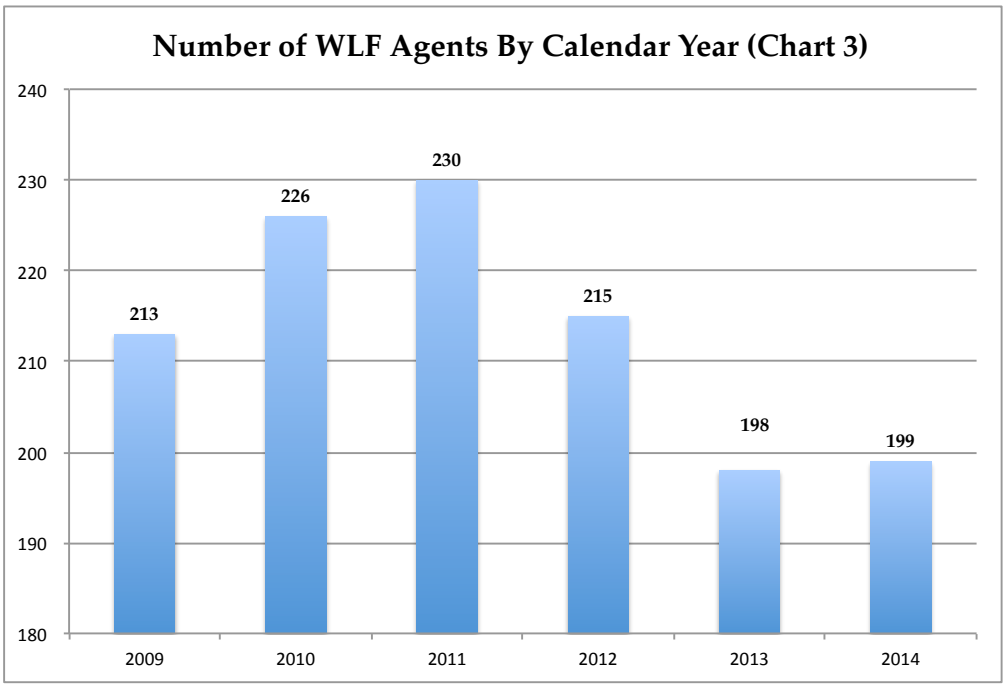
Over the past three years, the number of enforcement agents in the Department of Wildlife & Fisheries (LDWF) has declined by approximately 13%. Traditionally, LDWF has enforcement agent training courses twice a year to combat the loss of enforcement agents. However, due to budget constraints, these positions have not been refilled because of the lack of cadet academies. An academy lasts a minimum of 24 weeks with a maximum capacity of 24 individuals per academy. In order to conduct a 24-man cadet academy for the full 24 weeks of training, LDWF estimates costs to total $554,842, which is funded with the statutorily dedicated Conservation Fund. Cadet salaries represent the greatest expense at $394,445. Operating expenditures, which cover travel, training uniforms, office supplies, outside instructors, automotive supplies, and maintenance, total $112,156. The majority of training is conducted and housed in the Waddill Outdoor Education Center, which is already used by LDWF in day-to-day operations. The Waddill Wildlife Refuge and Outdoor Education Center is a 237-acre learning facility designed for all ages to learn more about nature and how to safely perform outdoor activities. Using this facility eliminates the need for dormitory costs, classroom costs, and most facility rentals as these are already provided by the facility. Other expenses for the course total $48,241 and include ammunition, tasers and other miscellaneous educational materials. Upon graduation, cadets are issued new uniforms, boots, life jackets, other necessary weather-resistant gear, and other supplies necessary for the job which totals $3,500 per cadet. These costs are not associated with training and are only realized for cadets who graduate from the academy. This does not include vehicles, boats, and firearms, which are issued to cadets out of inventory and are not new purchases for LDWF.



It is important to note that, on average LDWF loses approximately 20% of the cadets over the course of the academy. The current cadet class, Academy 28, began on August 4th, 2014 with 21 new recruits but has already dropped to 16 at the time of this writing. Only 13 cadets completed the full course for the most recent academy

(Academy 27), which ended on June 10, 2014. More concerning than the low graduation number, Academy 27 was the first completed cadet course since February 16, 2011. In those three years, 45 agents have left LDWF with only the 13 new agents from Academy 27 to fill those losses (See Chart 3 on the previous page). Even if LDWF retains all 16 recruits currently in training, the agency will still have 21 remaining vacancies to fill as there are 235 TO positions allocated for enforcement agents. Officials within the department have stated the need for more enforcement agents, but have had a difficult time recruiting new cadets and are concerned with their ability to retain seasoned agents against the Office of State Police. According to LDWF officials, both agencies draw from the same pool of candidates, but with the salary increases awarded to the Office of State Police, LDWF cannot offer equal financial incentives to prospective cadets and experienced agents. For comparison, the starting salary for a LDWF enforcement agent is $35,609, while the current starting salary of a state trooper is $36,408.

In addition, overtime (OT) opportunities are limited for Wildlife enforcement agents due to fewer programs enforcement agents can utilize compared to State Police. For context, LDWF agents are limited to 200 hours of overtime per year due with largest provider of OT hours being the litter abatement program. Last year, LDWF paid out $1.6 M in OT, averaging approximately $7,800 per agent, which excludes cadets who are not allowed to receive overtime in any capacity, while State Police paid out $15 M in OT, averaging approximately $15,800 per State Trooper. New cadets are limited to earning only $1,380 annually in overall OT.

EDUCATION

TOPS Funding Projections & LA Grad Act Impacts

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TOPS (Taylor Opportunity Program for Students) is a program of state scholarships for Louisiana residents who attend one of the following: a Louisiana Public College or University, a school that is part of the Louisiana Community and Technical College System, a Louisiana approved Proprietary and Cosmetology School or an institution that is a member of the Louisiana Association of Independent Colleges and Universities. TOPS award amounts (excluding stipends) are based on tuition charged at public institutions in Louisiana and can be used for any qualified educational expenses (cost of attendance) including the following: tuition, fees, books, supplies, certain required equipment, reasonable charges for room and

TOPS Award Projections Based on Fall 2013 Term Expenditures (Table 1)

Includes Grad Act Tuition increases of 10% per Year 2016-17 thereafter

TOPS	2014-15 Estimated *		2015-16 Projected		2016-17 Projected		2017-18 Projected		2018-19 Projected	
Component	#	$	#	$	#	$	#	$	#	$
Honors	9,988	$62,504,904	10,281	69,951,924	10,595	78,445,380	10,730	86,526,720	10,877	95,608,830
Performance	11,979	$66,459,492	12,245	74,241,435	12,417	82,312,293	12,574	91,186,648	12,751	101,204,687
Opportunity	23,762	$115,383,480	24,255	129,567,459	24,786	145,640,835	25,194	162,851,464	25,550	181,655,620
Tech	1,654	$4,219,354	1,792	5,028,352	1,831	5,652,297	1,855	6,299,580	1,884	7,038,624
SUB-TOTAL	47,383	$248,567,230	48,573	278,789,170	49,629	312,050,805	50,353	346,864,412	51,062	385,507,761
Tech Early Start	4,939	$1,428,200	4,939	1,428,200	4,939	1,428,200	4,939	1,428,200	4,939	1,428,200
TOTAL	52,322	$249,995,430	53,512	280,217,370	54,568	313,479,005	55,292	348,292,612	56,001	386,935,961
SGF Increase over FY 15	N/A		$30,221,940		$63,483,575		$98,297,182		$136,940,531	
SGF Increase over FY 15***	N/A		$52,221,940		$85,483,575		$120,297,182		$158,940,531	
Avg TOPS Award **	$5,246		$5,740		$6,288		$6,889		$7,550	

**Amount for 2014-15 is minimum estimate based on actual billings through 4/1/2014 representing the latest available projection on 11/1/2014.*
***Excludes Tech Early Start*
****Includes replacement of $22 M in one-time funding from tobacco restructuring/refinancing that must be replaced in FY 16.*

board, and special needs services. For FY 15, TOPS is funded at $250.0 M; $169.9 M in SGF and $80.1 M from the TOPS Fund. The $80.1 M from the TOPS Fund includes $22 M in one-time funding from tobacco restructuring/refinancing that must be replaced in FY 16.

Funding for the TOPS program has increased significantly since passage of the LA Grad Act in 2010 (Act 741 of the 2010 Regular Legislative Session) because tuition increases authorized by the legislation have correspondingly raised TOPS award amounts. Total TOPS awards were $131 M in the last year prior to passage of the LA Grad Act in FY 10. The total dollar value of awards has risen by approximately 91% since 2010 to an estimated $250 M in FY 15 primarily due to tuition increases authorized by the LA Grad Act. By contrast, the number of awards (excluding Tech Early Start) has only risen by approximately 10% from FY 10 to FY 15.

Table 1 on the previous page from the Louisiana Office of Student Financial Assistance (LOSFA) shows estimated and projected TOPS awards for FY 15 through FY 19. LOSFA projects the total number of awards will increase by approximately 7% from FY 15 to FY 19. However, LOSFA forecasts that the total dollar value of awards will increase by approximately $137 M (55%) from FY 15 to FY 19. This increase is approximately $159 M (64%) if the increase includes replacement of the $22 M in one-time funding from tobacco restructuring/refinancing with SGF. This dramatic increase is primarily due to LOSFA's assumption that tuition will increase by 10% per year due to authority granted by the LA Grad Act.

However, public colleges and universities have several limitations relative to their on-going ability to raise tuition per authority granted by the LA Grad Act. Some institutions are close to the Southern Regional Education Board (SREB) tuition cap included in the LA Grad Act and may not be able to raise the full 10% amount authorized each year. Other institutions have seen enrollment declines as tuition goes up, decreasing overall revenues from students. Other institutions may choose not to impose the full 10% increase in order to maintain access for low-income students. Actual collections of tuition and mandatory fees in FY 15 may also be reduced by hardship waivers, fee exemptions or other forms of student aid. Other institutions occasionally fail to meet LA Grad Act performance objectives required to raise tuition. For instance, Southern University A&M, Southern University at Shreveport, and the Southern University Law Center did not pass their Grad Act Student Success objectives in year 4 (FY 14) and lost authority to increase tuition in FY 15.

Louisiana public colleges and universities signed six-year performance agreements in August 2010 per the LA Grad Act. These six-year agreements expire at the end of FY 16. For reasons stated above, institutions may be limited in their ability to raise tuition in future years and may have less incentive to sign subsequent six-year performance agreements under the LA Grad Act beginning in FY 17. Furthermore, the LA Grad Act has higher student success performance objectives that may be unobtainable for many institutions for subsequent six-year performance agreements. Specifically, the Grad Act's second six-year performance agreements require the following graduation rates by Southern Regional Education Board (SREB) category: 1) 75% for SREB "Four-Year 1"institutions. 2) 60% for SREB "Four-Year 2" institutions. 3) 50% for SREB institutions classified as a "Four-Year 3", "Four-Year 4", or "Four-Year 5". 4) A graduation rate that is equal to the SREB average for any community college and technical college campus. Furthermore, the Division of Administration has only provided limited approval for institutions to utilize base level autonomies authorized by the LA Grad Act further decreasing the usefulness of signing subsequent performance agreements.

REVENUE

Revenue Estimating Conference and Act 419, Where Are We Now

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Act 419 of 2013 expanded the state revenue sources that are included in the official revenue forecast, and required official recognition of revenue in order for it to be appropriated. In effect, additional forecasts and recognitions have to be made for a substantial list of statutory dedications and agency self-generated revenues. Forecasts are not required for federal funds, higher education self-generated revenue, and interagency transfers. These additional revenues, as incorporated into the enacted FY 14 budget, were not subject to the Act's requirements in FY 14, while increases in those enacted appropriations were incorporated into the official forecast during the interim. All affected revenues were incorporated into the

official forecasts for the FY 15 budget. Forecasts of these additional revenue sources have not been incorporated into the long-range official forecast horizon of FY 16 – FY 18.

While implementation of Act 419 was not applied to statutory dedications and agency self-generated revenue enacted in the FY 14 operating budget, the Revenue Estimating Conference (REC) did meet on three separate occasions in the first half of FY 14 to incorporate additional amounts to the Act 419 enacted revenue sources. Total adjustments adopted at these meetings amounted to $169.2 M. These REC meetings were held prior to the Joint Legislative Committee on the Budget (JLCB) meetings that then approved the adjustments to agency budgets incorporating the new estimates of these revenues via the typical budget adjustment (BA-7) process after normal analysis and recommendation by both the Division of Administration (DOA) and the Legislative Fiscal Office (LFO).

The 1/15/2014 REC meeting was the first forecast to incorporate the full list of statutory dedications by specific fund and agency self-generated revenue required by Act 419. These new forecasts were presented on a separate submittal to the conference, and detailed some 372 individual statutory dedications totaling $769 M for FY 14 and $3.3 B for FY 15 (inclusive of some $1.9 B of dedications traditionally considered by the REC), as well as 35 agency self-generated revenue estimates aggregated by department and totaling $406 M for FY 14 and $2.3 B for FY 15. Similar expanded forecasts were presented at the REC meetings held on May 19, June 2, and June 19. In addition, about a dozen ad hoc components of the Overcollections fund were considered, along with five new funds being created during the 2014 session and two ad hoc resource amounts being deposited to an existing fund. At the January and May meetings traditional base tax receipt forecast revisions were made, including traditional dedication amounts in addition to adoption of the additional Act 419 revenues.

Incorporation of Act 419 revenues into the official forecast has presented some interesting complications and issues to the revenue forecasting process. Given the large number of additional items involved, both the Legislative Fiscal Office (LFO) and the Division of Administration (DOA) have to utilize efficient methods to prepare their respective estimates. The LFO selected a simple time-trend approach that could be applied to all of the Act 419 dedications across the board. The DOA presents estimates routinely developed by budget analysts for purposes of constructing the specific expenditure plan for the current and ensuing fiscal year. While not a careful evaluation of the idiosyncrasies of each revenue stream, the LFO forecast of Act 419 revenues is consistent with the traditional tax base revenues by being based strictly on the flow of revenue associated with each dedication, and does not consider the budget spending plan. The estimates presented by the DOA, while presumably cognizant of the actual flow of revenue, are developed from the perspective of the spending plan, and are presented by the DOA budget director. Consistent with the spending plan focus of its estimates, the DOA prepares estimates only for the current fiscal year and the ensuing fiscal year. Consistent with the traditional revenue forecast horizon, the LFO prepares five-year forecasts of each of these revenue sources. Only two years of estimates by both offices have been presented to the REC; those for the current fiscal year and the ensuing fiscal year.

On at least one occasion the REC has adopted the higher of the two dedications estimates presented to it to avoid having to have repeated meetings simply to adopt higher estimates for dedications whose spending is ultimately limited by their actual deposits. In addition, to preclude the necessity for an REC meeting to adopt routine carry-forward balances, starting with the 1/15/2014 REC meeting, the forecast adoptions began to include a statement that any balances recognized in the current forecast and carried forward to the subsequent fiscal year are additional revenue available for that subsequent fiscal year. Increases in budgeted dedications already have to be reviewed and approved by the JLCB, through the longstanding BA-7 process that involves analysis and recommendations by both the DOA and the LFO.

Act 419 also requires the official forecasts to include agency self-generated revenues (except those associated with higher education institutions). Neither the DOA nor the LFO have developed a way to forecast and incorporate these revenues into the REC process other than to present them as department level aggregates developed by agency and DOA budget analysts, and little discussion of them has occurred in the REC. Expenditure of appropriations from these revenues is also ultimately constrained by their receipts, and upward adjustments to these revenues are subject to the typical JLCB BA-7 process just as the dedicated revenues are. Thus, maintenance of statutory dedications and agency self-generated revenues in the official forecast is largely a ratification of the spending plan developed through the legislative process.

Of particular importance is incorporation of various ad hoc resources into the official forecasts. These resources have become increasingly significant in financing the budgeted spending plan and, until Act 419, have not been routinely considered by the REC. These resources are now explicitly considered by the REC, and were a primary motivation behind Act 419. These resources have included a wide variety of monies such as transfers of known and projected balances of statutorily dedicated funds, sales of state assets, reserves of state-sponsored entities, legal settlements, and other sources of monies. The nature of such resources is such that they cannot be forecasted in any statistical sense or estimated without considerable information about them. Dollar amounts of these resources have been proposed by the DOA during the budget process and accepted by the REC. Except when known dollar amounts have been received by the state treasury, the LFO has presented no forecasts or projections of these resources. At meetings of the REC on 1/15/2014 and 5/19/2014 ad hoc resources were presented as aggregate figures within the Overcollections Fund. The REC adopted aggregate amounts as presented. At the 6/2/2014 and 6/19/2014 REC meetings, breakouts of these ad hoc resources were presented. The REC adopted these amounts as presented.

The REC has always been charged with designating revenues as recurring or nonrecurring. A nonrecurring designation restricts the use of such monies to directly financing constitutionally enumerated forms of debt or capital outlay. The REC has historically made nonrecurring designations sparingly and primarily with regard to certain resources such as revenue surpluses, special settlements, and extraordinary events. Act 419 reiterated that charge, and the REC has made such designations pursuant to the Act at each meeting since the 1/15/2014 meeting. As of the last REC meeting, on 6/19/2014, the REC designated as recurring an enumerated list of ad hoc resources included in the Overcollections Fund for the FY 14 forecast of $272.53 M, but designated as nonrecurring a $25 M item that had been moved from the FY 15 list to the FY 14 list. For the FY 15 forecast, the enumerated list of ad hoc resources was reduced to $42 M as a result of the shift of the single item to FY 14, and that reduced amount was designated as nonrecurring.

At the 6/2/2014 meeting the REC also adopted estimates of resources associated with legislation that was moving through the legislative process but had not yet been enacted. This is the first time the REC has incorporated resources not associated with current law. This was the last day of the legislative session, and by the end of the day one of these measures had been substantially amended and ultimately enacted with a significantly larger amount of resources associated with it. This larger amount was then adopted as recurring revenue at the 6/19/2014 REC meeting held to make this and other corrections to the forecasts.

Finally, a consequence of Act 419 has been to substantially increase the state debt limit. Traditionally, the debt limit has been calculated by the State Bond Commission (SBC) as a function of the REC total forecast. Act 419 added substantial amounts of statutory dedications and agency self-generated revenue to the total REC forecast. According to the Net State Tax Supported Debt Report prepared by the State Bond Commission dated 6/19/2014, and pursuant to AG Opinion 14-0034 issued 5/5/2014, Act 419 added $3.73 B of revenue to the debt limit calculation base resulting in $223.8 M of additional debt service capacity. While allowable by calculation, the additional dedicated and self-generated revenue included in the official forecasts pursuant to Act 419 is not generally available to support the additional debt service allowed. This appears to have been an unintended consequence of the Act. On 7/17/2014, the SBC discussed a resolution stating its intent to calculate the state debt limit using the pre-Act 419 basis. A final resolution is pending, though the outcome is intended to disregard the impact of Act 419 on the debt limit calculation. The SBC also indicated a desire to introduce legislation during the 2015 Regular Session of the Legislature to maintain the original debt limit calculation basis.

Act 419 has resulted in additional REC meetings and considerable additional considerations at those meetings. The resulting adjustments to the official forecasts during the interim period simply augment the existing JLCB BA-7 process, and adoptions of Act 419 items are essentially ratifications of the spending plan being developed during the legislative process. Ad hoc resources increasingly utilized to construct budgets have been brought into the REC process and have been adopted largely as presented by the DOA. Material amounts of these ad hoc resources have been designated as nonrecurring, with these designations primarily associated with the particular fiscal year for which they are being adopted. A substantial increase in the state debt limit seems to be an unintended consequence of the Act that will likely be remedied. With the first year of operation behind it, the REC is still working out how to routinely implement Act 419.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

August 2014

Volume 3, Issue 2

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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 provides an update of the OGB health plan options for the upcoming plan year, an update on the Alvarez & Marsal Contract, a description of the state treasury seed process and interfund borrowing concepts and an explanation of COLAs and the retirement Experience Account.

I would like to thank two members of our staff, Shawn Hotstream and Stephanie Blanchard for presenting 2 of the 5 comparative data reports at the 68th Annual Southern Legislative (SLC) Conference recently held in Little Rock, AR. Pictures from the presentations are of Stephanie presenting her Corrections Report and of Shawn presenting his Medicaid Report. The comparative data reports can be found on the LFO website at http://lfo.louisiana.gov/publications.

As has been stated before, 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.

John D. Carpenter

FOCUS POINTS

OGB Update

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

The Legislative Fiscal Office (LFO) attended the OGB Policy & Planning Board meeting held on July 30, 2014. Along with multiple presentations from various vendors and the swearing in of new board members, OGB presented to the board the proposed health plan changes effective August 1, 2014 and January 1, 2015. A detailed explanation of the health plan changes and the fiscal impact of the changes are discussed below.

Since the FY 14 fiscal year's accounting cycle is not completed (August 15th is the deadline), the LFO has no additional OGB financial information to report to the committee relative to OGB's current fund balance. However, OGB's contract actuary provided a report to the OGB Policy & Planning Board that indicated the anticipated FY 14 ending year OGB fund balance to be approximately $218.4 M.

Note: Pages 9 and 10 of this document includes a listing of health insurance terms utilized throughout this document.

HEALTH PLAN CHANGES

In order to slow the current OGB monthly "burn rate" of spending $16.1 M more than monthly revenue collections, OGB is modifying the health plan options for all state employees (and participating school board employees) and anticipating these changes to result in $44.7 M in overall expenditure savings and

the prescription drug changes to result in an additional $69 M in expenditures savings all in FY 15.

The significant changes to the health plans include:

1. ***Significantly increasing the out-of-pocket maximum for all health plan options;***
2. ***Increasing deductibles for all health plan options;***
3. ***Increasing co-pays 100% for those proposed health plans with co-pays;***
4. ***Increasing the out-of-pocket maximum for the prescription drug benefit by $300 from $1,200 to $1,500 (20% increase);***
5. ***Subjecting the prescription drug benefit to a drug formulary with various drug categories that will result in an increased cost for preferred and brand name drugs and a decreased cost for generic drugs;***
6. ***Implementing other various prescription drug benefit changes including high compound management, over utilization management and the exclusion of medical foods;***
7. ***Requiring prior authorizations for certain medical procedures;***
8. ***Eliminating the out-of-network benefit for some health plan options, which could result in balanced billing for some OGB members depending upon the new health plan choice;***
9. ***Application of standard benefit limits (Blue Cross Blue Shield standard) for skilled nursing facilities, home health care services and hospice care services;***
10. ***Removing all vision coverage from the health plan options;***
11. ***Implementing the Live Better Louisiana wellness initiative;***
12. ***Decreasing premiums for the proposed HRA/HSA compared to the current Consumer Driven Health Savings Account (CDHSA) health plan option.***

The health plan and prescription drug plan policy changes listed above will shift more of the costs from the state (OGB Health Plan) to the OGB plan member and as mentioned above will save the state at least $44.7 M for health plan changes and at least $69 M for prescription drug plan changes in FY 15.

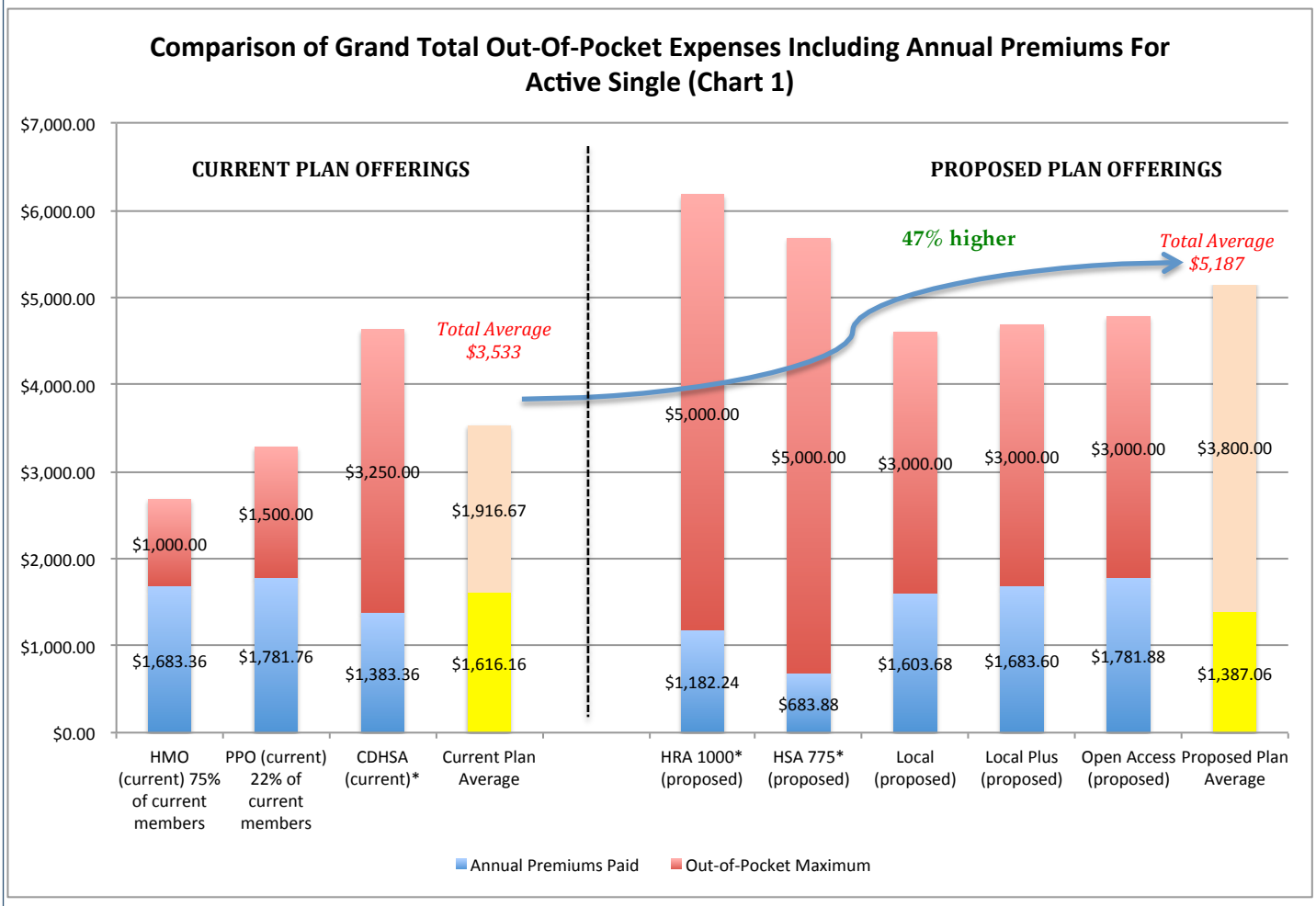
Along with premiums, the major costs incurred for medical services by an OGB plan member will be deductibles, co-payments and coinsurance. Table 1 below is a brief summary comparing the costs of the current major OGB health plan offerings to the proposed OGB health plan options for a Single Active Employee. Based upon Table 1, by adding and/or increasing deductibles, increasing the out-of-pocket maximum and increasing co-payments and coinsurance, the new health plan offerings will significantly reduce the cost to OGB, while the OGB member pays more for their medical services. As shown in Table 1, all new health plan options will have a deductible increase *(PPO plan currently has a $500 deductible for active single)*, an out-of-pocket maximum increase, a copay increase or incur the additional cost of having a deductible that currently does not exist for most OGB members. Of the total OGB population, 75% are currently enrolled in the HMO plan, which currently has a $0 deductible. Thus, the majority of OGB plan participants will be subject to a deductible and coinsurance whereas most are currently only subject to fixed co-pays.

TABLE 1

CURRENT OGB PLAN OFFERINGS				PROPOSED OGB PLAN OFFERINGS				
ACTIVE SINGLE	**PPO**	**HMO**	**CDHSA**	**HRA 1000**	**HSA 775**	**Local**	**Local Plus**	**Open Access**
Deductible*	$500	$0	$1,250	$2,000	$2,000	$500	$500	$1,000
Co-Pays	$0	$15/$25	$0	$0	$0	$25/$50	$25/$50	$0
Coinsurance	10%	$0	20%	20%	20%	$0	$0	10%
OOM (in-network)	$1,500	$1,000	$3,250	$5,000	$5,000	$3,000	$3,000	$3,000
OOM (out-of-network)	$3,500	$4,000	$3,250	$10,000	$10,000	N/A	N/A	$4,000
Out-of-Network Benefit	30%	30%	30%	40%	40%	N/A	N/A	30%

Note: *Based upon Table 1 above, it appears there is not much difference between the current CDHSA plan and the proposed HRA 1000 and HSA 775 health plan choices. However, as of the latest OGB enrollment information, there are approximately 350 total covered lives (223 OGB members) that are currently covered by the current CDHSA plan. This represents 0.15% of the total OGB member population. Since the majority of OGB's member population is either in the PPO Plan (22%) or HMO Plan (75%), comparing the current CDHSA health plan to the new health plans will not illustrate the complete fiscal impact to the OGB program and its membership.*

Chart 1 below compares the total out-of-pocket costs (true costs) including annual premiums paid (denoted in the blue bars below) and the out-of-maximum (total amount member must pay before health plan pays 100% denoted in the red bars below) for all current and proposed health plans. The average out-of-pocket costs for all proposed health plans are 47% higher than the average out-of-pocket costs of the current health plans (active single).



Based upon the new health plan offerings, the diagram on the next page is an illustration of how deductibles, coinsurance and out-of-pocket maximums work in relation to the new OGB health plan options that have deductibles and coinsurance. Due to the majority of OGB members being in the HMO plan without deductibles and coinsurance, these individuals will likely choose a plan with deductibles and coinsurance if the member wants a similar plan structure to the current HMO plan.

(Continued on the next page)

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DURING OGB PLAN YEAR (JANUARY 1 THROUGH DECEMBER 31)

How Deductibles, Coinsurance and Out-of-Pocket Maximums will work for the proposed HRA 1000, HAS 775 and Open Access Plan members.

STEP 1

Deductible

OGB member pays 100% of the healthcare costs up to the amount of deductible. Deductibles range from $500 to $8,000 depending upon health plan choice, plan type (single, family) and if the deductible applies to an in-network or out-of-network provider.

Note: If the OGB member has the HRA 1000 or HSA 775 plans, the resources in their HSA or HRA can be utilized to pay the deductibles and coinsurance.

Note: There are different out-of-pocket maximums and deducitibles for the out of network benefit portion of the health plan.

STEP 2

Coinsurance

After the deductible is met, the OGB member will pay coinsurance % up to the out-of-pocket maximum. Coinsurance costs range from 80/20 to 90/10 depending upon health plan choice. For example, 80/20 coinsurance means the OGB member will pay 20% of the contracted rate while the health plan pays 80%. Proposed out-of-pocket maximums range from $3,000 to $20,000 depending upon health plan choice and plan type (single, family).

Note: There are some health plan choices that do not have coinsurance and only have co-pays (Local/Local Plus)

Note: Along with the conisurance and co-pays, deductible payments go toward out-of-pocket maximum.

STEP 3

100% Paid by Health Insurance Plan

After the OGB member has met the out-of-pocket maximum (through deductible, co-pay & coinsurance), the health insurance plan will pay 100% of the medical costs.

Note: The pharmacy benefit has a separate out-of-pocket maximum, which is being increased by $300 from $1,200 to $1,500 effective August 1, 2014 for all active and Non-Medicare Retirees. The prescription drug out-of-pocket maximum for Medicare Retirees will be effective on January 1, 2015.

VARIOUS OGB SCENARIOS

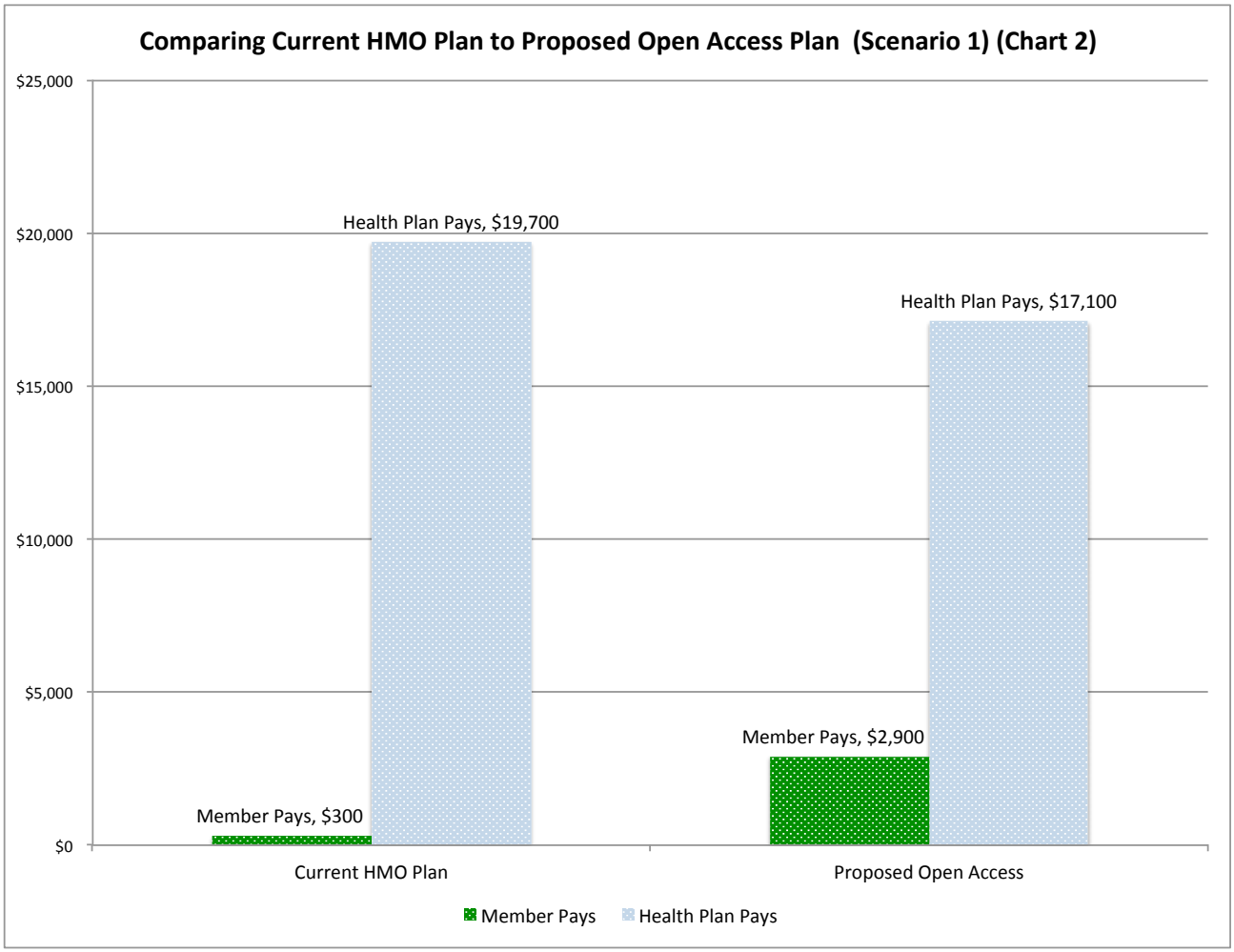
After reviewing the new health plan offerings presented to the board, the LFO has created a few scenarios to illustrate the cost saving potential to the OGB of the new health plan options compared to the existing plans. **These scenarios are based upon assumptions of the total contracted rate costs and assume all providers are in-network providers and facilities (hospitals) of the current Blue Cross Blue Shield Provider Network**.

Note: *For purposes of simplicity, all scenarios presented are for an active single member. A detailed and specific health plan comparison cannot be completed until the OGB/DOA releases the official proposed health plan documents of all five health plan options, which will not be made available until annual enrollment begins in October 2014. These scenarios are meant to assist in explaining the differences between the current plans and the proposed plans based upon OGB's presentation to the OGB board on July 30, 2014 and are in no way actuarially sound.*

***Scenario 1*:** At the beginning of the health plan year, an individual (active single) breaks his foot and has to have emergency surgery. Due to the complexity of the procedure, the individual is required to stay in the hospital for 3 days following surgery and requires the assistance of home health services upon hospital discharge. For this scenario, the total cost of these medical services is $20,000, which is broken down as follows:

- $17,000 – emergency room plus 3 days inpatient hospital bill
- $3,000 – home health bill
- $20,000 – Total

Based upon the proposed health plan offerings for this scenario, the OGB program will save significant medical claim expenditures. See Chart 2 below that compares the current HMO plan to the proposed Open Access heath plan option. ***Note:*** *These two plans were picked for comparison because the majority of OGB members (75%) have the HMO Plan and the Open Access Plan is the only proposed health plan option that is a traditional health plan that also has an out-of-network benefit like the current HMO plan.*



Based upon Chart 2 on the previous page, the OGB health plan will decrease its financial expenditures from paying 98% of the medical costs to paying 86% of the medical costs. In this scenario, this represents a 13% decrease in OGB health plan expenditures, but also represents a significant out-of-pocket increase for OGB plan members.

***Scenario 2*:** An individual (active single) visits an ENT (Specialist) on January 2, 2015 for treatment of a severe sinus infection. Due to January 2 being the second day of the new health plan year, the entire cost of the doctor visit (assuming $600 for an ENT visit with in-house lab work) will be borne by the OGB plan member (dependent upon health plan choice), which will result in expenditure savings to the overall OGB program. See Table 2 that compares scenario 2 costs under current health plan options to proposed health plan options.

$600 ENT DOCTOR VISIT ON JANUARY 2nd (SCENARIO 2) (TABLE 2)								
	PPO	HMO	CDHSA**	HRA 1000**	HSA 775**	Local***	Local Plus***	Open Access
Deductible	$500	$0	$1,250	$2,000	$2,000	$500	$500	$1,000
Copays	$0	$25	$0	$0	$0	$50	$50	$0
Coinsurance*	90/10	$0	80/20	80/20	80/20	$0	$0	90/10
ENT Visit Costs	**$600**	**$600**	**$600**	**$600**	**$600**	**$600**	**$600**	**$600**
Member Pays (deductibles, copays, coinsurance)*	($510)	($25)	($600)	($600)	($600)	($50)	($50)	($600)
Health Plan Pays	($90)	($575)	$0	$0	$0	($550)	($550)	$0

Coinsurance for the current **PPO plan is 90/10 once the deductible is met. Thus, under this scenario, a current PPO plan member would be responsible for paying the $500 deductible as well as 10% coinsurance of the remaining doctor visit cost, which equates to $10 in this scenario (10% of $100 = $10).*

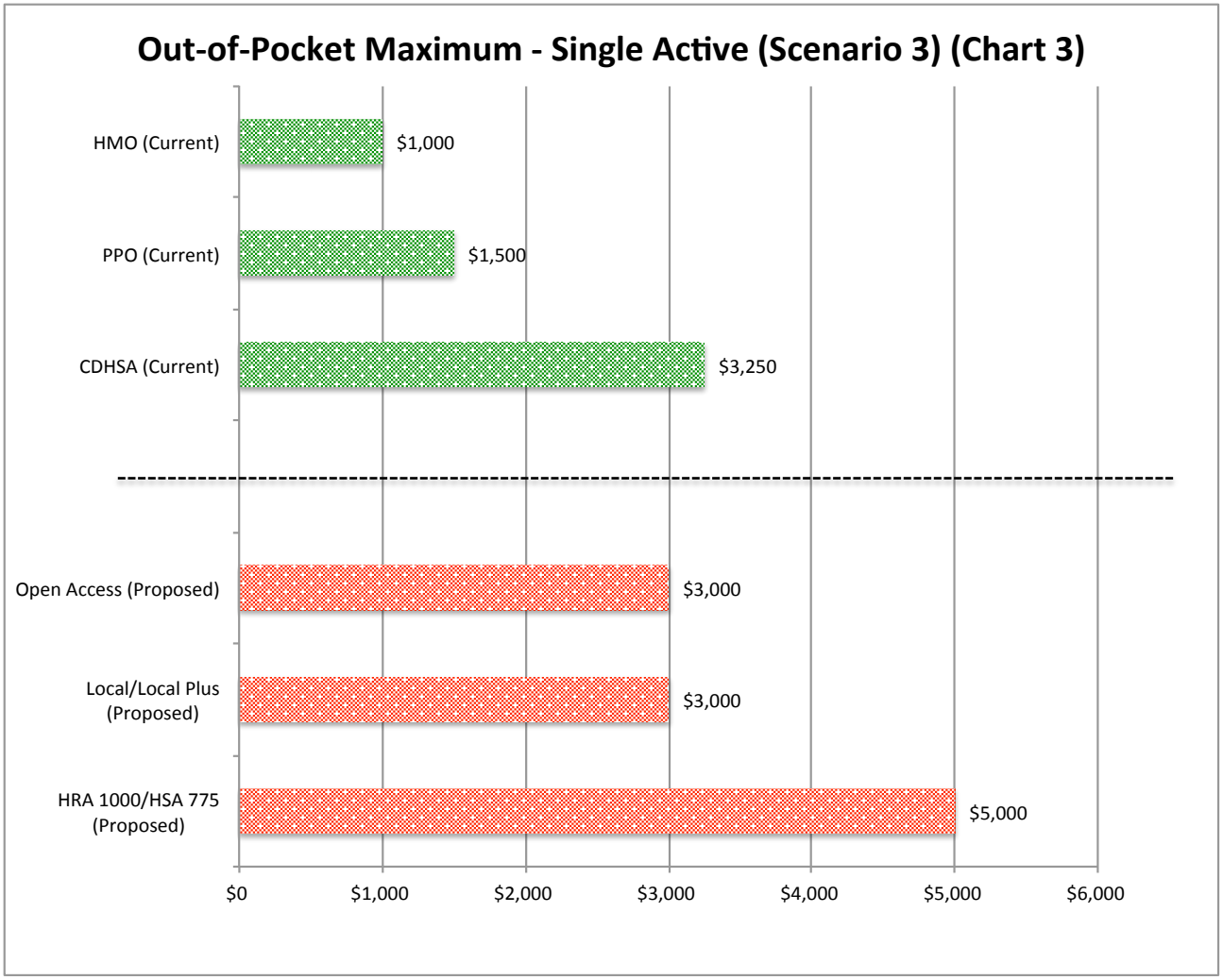
***If the OGB member has the HSA 775 or HRA 1000, the $600 ENT visit could be funded with resources contained within the members' HSA or HRA account. This is currently the case for those members who have the CDHSA account. There is currently 0.15% of OGB's member population who has the CDHSA plan.*

TABLE 3		
Health Plans	**Out-of-Network Benefit (Yes or No)**	**Out-of-Network Benefit**
HMO Plan (Current)	YES	30% of fee schedule up to out-of-pocket maximum of $4,000 (individual) or $12,000 (family)
PPO Plan (Current)	YES	30% of fee schedule up to out-of-pocket maximum of $3,500 (individual) or $12,700 (family)
CD-HSA (Current)	YES	30% of fee schedule up to out-of-pocket maximum of $3,250 (individual) or $11,000 (family)
Local/Local Plus (Proposed)	NO	No Out-of-Network Benefit
Open Access (Proposed)	YES	$1,000 deductible (single), $3,000 deductible (family), 30% coinsurance up to out-of-pocket maximum of $4,000 (individual) or $12,000 (family)
HRA 1,000/HSA 775 (Proposed)	YES	$4,000 deductible (single), $8,000 deductible (family), 40% coinsurance up to out-of-pocket maximum of $10,000 (individual) or $20,000 (family)

****These health plans only have an in-network benefit and no out-of-network benefit, which could result in the OGB member being **balanced billed** for medical services provided by providers outside the Blue Cross Blue Shield nationwide network for Local Plus plan option or the Blue Cross Blue Shield community network (Baton Rouge, Shreveport, New Orleans areas only) for the Local plan option. Balanced billing is the practice of an out-of-network provider billing the health plan member the difference between the amount the health insurance plan pays (only if there is an out-of-network benefit) and the total medical services costs. If a health plan has an out-of-network benefit, it will only pay a percentage of what is known as the "reasonable and customary" amount. **If your health plan does not have an out-of-network benefit, the health plan member would be responsible for the entire medical service cost of the out of network provider. See Table 3 above for an out-of-network benefit comparison of the health plan choices compared to current plans.***

***Scenario 3*:** The same individual (active single) visits the ENT (Specialist) again on December 30, 2015 for treatment of a similar severe sinus infection. Due to December 30th being at the end of the health plan year, the $600 visit (with in-house lab work) could be completely covered 100% by the health plan, if the active single individual has met the out-of-pocket maximum of the health plan. See Chart 3 below that compares the out of pocket maximums for the current health plan options to the proposed health plan options before the plan covers 100% of an in-network providers' costs.

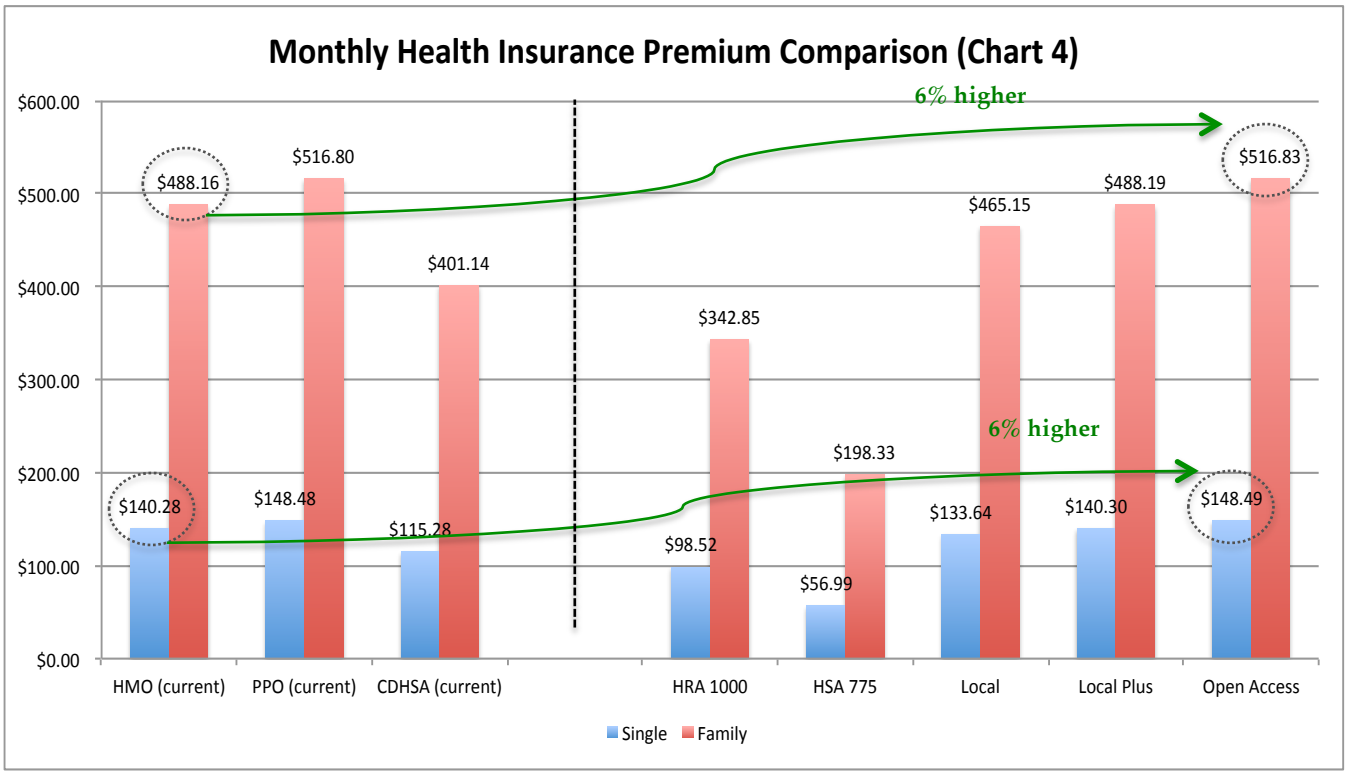
As illustrated in Chart 3 below, the $600 ENT visit at the end of the health plan year will be 100% covered if the out-of-pocket maximum is reached. **The out-of-pocket maximums for OGB plan members are significantly increased ranging from 54% increase (comparing current CDHSA to proposed HRA 1000/HSA 775) up to a 300% increase (comparing current HMO to proposed Open Access and Local Plus). This change will result in significant cost savings to OGB.**



HEALTH PREMIUMS

Other than the HRA 1000 and HSA 775 (premiums will be lower than current CDHSA), the health premiums for the new health plan options will remain unchanged for January 1, 2015. **However, due to the majority of the current OGB plan members (75%) being under the HMO Plan, those individuals that choose the Open Access Plan, which is the only traditional health plan with both an in-network and out-of-network benefit like the current HMO plan, will pay approximately 6% more in premiums beginning January 1, 2015. Due to the 5% premium increase that was effective July 1, 2014 these specific OGB members will be subject to a total premium increase of 11% in FY 15 (See Chart 4).** The Open Access plan premium mirrors the current PPO plan premium, which is currently 6% higher than the current HMO plan premium. OGB members who have the PPO plan and who pick the Open Access Plan would see no change in premium payments. See summary bullets and Chart 4 on the next page.

- Proposed HRA 1000 and HRA 775 premiums are significantly lower than the current CDHSA plan option;
- Proposed Local Plus premiums are the same as current HMO plan option;
- Proposed Open Access premiums are the same as current PPO plan option.



PRESCRIPTION DRUG CHANGES

Effective August 1, 2014, the prescription drug benefit changed for all current (active/non-Medicare retirees) OGB plan members. The prescription drug benefit will be subject to a tiered drug formulary and the out-of-pocket maximum will increase $300 from $1,200 to $1,500 (20% increase). The OGB anticipates these changes, along with other prescription drug changes, will result in overall OGB expenditure savings in the amount of $69 M in FY 15.

A drug formulary is a list of medications available to health plan members under the health plan's drug benefit. The formulary consists of 4 different drug categories: generic drug, preferred brand drugs, non-preferred brand drugs and specialty medications. Table 4 below is comparison of the prescription drug benefit prior to the August 1st changes and after the August 1st changes.

TABLE 4

Co-pay Before Out-Of-Pocket Is Met	Prior to August 1st	Change
Generic	50%, maximum $50 per month's supply	50%, maximum $30 per month's supply
Brand	50%, maximum $50 per month's supply	50%, maximum $55 per month's supply
Non-Preferred Brand	50%, maximum $50 per month's supply	65%, maximum $80 per month's supply
Specialty	50%, maximum $50	50%, maximum $80
Co-pay After Out-Of-Pocket Is Met	**Prior to August 1st**	**Change**
Generic	$0 per month's supply	No change
Brand	$15 per month's supply	$20 per month's supply
Non-Preferred Brand	$15 per month's supply	$40 per month's supply
Specialty	$15	$40

Based upon Table 4, the new prescription drug benefit changes incentivize OGB health plan members to purchase generic drugs as opposed to brand and/or non-preferred brand drugs.

Note: *The drug benefit changes effective August 1, 2014 will only impact Actives and non-Medicare retirees. The drug benefit changes will impact Medicare Retirees on January 1, 2015.*

Other prescription drug changes

In addition to implementing a tiered drug formulary and increasing the out-of-pocket maximum $300, OGB is implementing other prescription drug changes. OGB is anticipating the drug formulary changes to result in $43.2 M of FY 15 savings and the remaining $25.8 M in savings (for a total of $69 M) will come from the significant items listed below.

- *Clinical Utilization Management* – Require prior authorizations and quantity limits on prescription drugs ($10.8 M);
- *90 Day Fill Option* – For maintenance medications, 90-day prescriptions fills for 2.5 times the cost of your co-pay with a maximum of $75 ($9 M)
- *High Cost Compounds* – Require prior authorizations on high cost compounds over $400 ($3.4 M);
- *Over Utilization Management* – Identify OGB members receiving an equivalent greater than 120 mg/day of morphine or other narcotics being prescribed by multiple doctors and filled at multiple pharmacies ($1.2 M);
- *Acetaminophen Management* – Identify OGB members receiving more than the FDA recommended dose ($1.1 M);
- *Polypharmacy Management* – Identify OGB members receiving multiple prescriptions and determine if alternative options are available ($0.1 M);
- *Excluding Medical Foods* – The FDA does not have safety guidelines for these types of foods ($0.2 M).

LIVE BETTER LOUISIANA WELLNESS INITIATIVE

Although the costs for medical services will continue to increase, OGB is anticipating the Live Better Louisiana wellness initiative will assist in reducing future medical costs of the overall member population. This initiative encourages members to focus on preventive health including the use of the online personal health assessment tool and preventive onsite health checks. OGB anticipates this initiative will improve the OGB member future health outcomes that may result in reduced future medical expenditures of the overall program. Since the program's launch on 5/30/2014, there have been at least 280 members that have had a clinic check up of which 31% were identified as pre-hypertension and 14% were identified as pre-diabetic. OGB's remaining calendar year 2014 goal is to have 25% of the total member population screened.

HEALTH INSURANCE DEFINITIONS

Based upon research, the LFO has provided definitions of commonly used health insurance terms that are utilized throughout this document. The source of the prescription drug terms is from MedImpact's presentation to the OGB board on 7/30/2014. MedImpact is OGB's pharmacy benefit manager.

- ***Premium*** *– Amount of money a member pays monthly for health insurance.*
- ***Deductible*** *– Amount of money a member pays for eligible medical expenditures. After the deductible is met, the health plan pays 100% or the member shares the costs (coinsurance) with the health plan up to the out-of-pocket maximum (like the proposed OGB health plan options). The deductible is typically different for in-network and out-of-network providers. All new health plan options have different deductibles for in-network and out-of-network, excluding the Local/Local Plus health plans which have no out-of-network benefit at all.*
- ***Coinsurance*** *– Health cost sharing between the OGB member and the health plan. Cost share ranges included in the new OGB plan offerings range from 90/10 to 80/20, whereby the health plan pays either 90% or 80% of the medical service cost and the member pays the balance up to the out-of-pocket maximum.*
- ***Out-of-pocket Maximum*** *– The maximum amount of money an OGB member pays out-of-pocket for medical services in a health plan year. Under the OGB health plan offerings, co-pays, coinsurance and deductibles are all included in the out-of-pocket maximum calculation. The out-of-pocket maximum typically varies for in-network and out-of-network providers.*
- ***Health Savings Account (HSA)*** *– A savings account that is utilized in conjunction with a high deductible health insurance policy that allows an individual to save money tax-free in an account for medical expenses. Depending upon the employer policy, contributions are made to the account by the employer and employee*

and these funds can follow the employee.

- ***Health Reimbursement Arrangement (HRA)*** *– An employer funded account that reimburses employees for out-of-pocket medical expenses. HRAs are notional accounts and the funds cannot follow the employee. In addition, only the employer can contribute to the account.*
- ***Generic Drugs*** *– Identical to a brand name drug in dosage, strength, effectiveness and safety.*
- ***Preferred Brand Drugs*** *– Drugs that have been on the market and do not have a generic equivalent available.*
- ***Non-preferred Brand Drugs*** *– Higher-cost medications that have recently come on the prescription drug market.*
- ***Specialty Medications*** *– Brand or generic drugs that cost over $600 and typically treat specific diseases such as Cancer, Multiple Sclerosis and Rheumatoid Arthritis.*
- ***Balanced Billing*** *– The practice of an out-of-network provider billing the health plan member the difference between the amount the health insurance plan pays (only if there is an out-of-network benefit) and the total medical services costs. If a health plan has an out-of-network benefit, it will only pay a percentage of what is known as "reasonable and customary" amount. If the health plan does not have an out-of-network benefit, the OGB member would be responsible for the entire medical costs of the out-of-network provider.*

In addition to the health and prescription drug changes, other topics of note related to OGB include the OGB Policy & Planning Board, the staff augmentation contract with Alvarez & Marsal (A&M) and the recently approved State Civil Service layoff plan.

OTHER OGB ISSUES

Office of Group Benefits Policy and Planning Board

Pursuant to R.S. 42:881, the OGB Policy & Planning Board shall review life and health benefit programs offered to eligible employees. In addition, the statute provides that the CEO shall submit any proposed changes to the life and health benefit programs to the board for review prior to the final adoption of the plan. The OGB board met on 7/30/2014 and the CEO presented to the OGB board the major health plan changes that will be effective on 1/1/2015 and the health plan changes that were effective 8/1/2014.

Although R.S. 42:802(B)(6) and R.S. 42:802(B)(7) authorize the OGB to establish premium rates and establish benefit plans under the direction of the commissioner of administration, it is unclear if the health plan and premium changes implemented by OGB in the middle of a plan year require official OGB board approval or if changing the health plan in the middle of the plan year is contradictory to the argument that the annual enrollment documents may be considered an annual contract between the health plan and the member. Also, pursuant to R.S. 42:881, the OGB shall submit a written report to the appropriate legislative oversight committees, including any comments and recommendations regarding modifications to proposed health plans. To date, this written report has not been completed. OGB's legislative oversight committees are the House Appropriations Committee and the Senate Finance Committee.

According to the Division of Administration (DOA), pursuant to federal law ***(26 CFR 54.9815-2715 – Summary of Benefits and Coverage and Uniform Glossary, paragraph (b) – Notice of Modification)*** if a group health plan makes any material modification, it must provide notice of the modification to enrollees no later than 60 days prior to the effective date change. OGB notified all plan members on June 3, 2014 of the 8/1/2014 health plan changes, which is within the 60-day requirement outlined in the federal law.

Note: *Prior to the 7/30/2014 OGB board meeting, the last OGB board meeting was held in February 2013. During that time frame, some of the significant changes that have been put in place include a health premium decrease (August 2013) and a health premium increase (July 2014).*

A&M Staff Augmentation Consulting Services Contract

On 12/19/2013, the State entered into a $4.2 M contract with Alvarez & Marsal (A&M) for consulting services relative to finding efficiencies in state government, which resulted in the production of the Governmental Efficiencies Management Support (GEMS) Report. The contract was amended on 1/27/2014 increasing the contract by $794,678 for staff augmentation support of OGB's Acceleration of Benefits Transformation Initiative. This contract amendment increased the total contract value to $5 M. The Acceleration of Benefits Transformation are the A&M recommended changes included in the GEMS Report

impacting the OGB including health plan and prescription drug changes as well as recommendations to completely reorganize the entire agency and implementing a wellness program that is anticipated to modify future health outcomes.

As was discussed by the LFO in the January 2014 edition of *Focus on the Fisc (Volume 2, Issue 7)*, the A&M consulting contract included provisions that allow for staff augmentation services. The contract provides for augmentation services to be provided on an hourly basis depending upon the labor category of the work order and project. In May 2014, the DOA and A&M amended the $5 M contract again to include 5 various state agency work orders for staff augmentation services that total $2.4 M of which $199,752 is associated with the OGB. This contract amendment essentially extended the original OGB work order from ending on 4/18/2014 to ending on 6/30/2014. Based upon the contract amendment, the hourly rates charged to the state for OGB staff augmentation services range from $198/hour to $446/hour. Upon approval of the A&M contract amendment of $199,752, the total maximum amount the state will pay to A&M for staff augmentation services will be $994,430.

The specific tasks included in the contract amendment to be provided by A&M for OGB include:

- Supporting leadership changes to OGB including supporting the search for CEO and COO;
- Assisting interim CEO and COO by supporting other OGB executive roles;
- Establishing & supporting a vendor-related strategic timeline and assist in any key vendor transitions;
- Supporting benefit open enrollment;
- Supporting, planning and execution for an agency reorganization and implementation of administrative efficiencies;
- Advising and implementing recommendations regarding change management and communication strategies and;
- Other staff support as requested regarding subject matter.

Layoff Plan Approved

The State Civil Service Commission officially approved the OGB layoff plan on 7/28/2014. According to documentation provided to the LFO by OGB, the layoff "is necessary because of a lack of work due to the change in function and structure of the OGB organization." The layoff plan will be effective 9/1/2014 and will impact 24 positions. The 24 positions being laid off impact the following OGB sections: Executive, Administration, Eligibility, Customer Service and Flexible Benefits. After the layoff, OGB will consist of 47 positions. The position reductions are associated with the overall reorganization of the agency, which is a portion of the OGB *Acceleration of Benefits Transformation*. For context, OGB's positions were 327 in FY 11.

GENERAL GOVERNMENT

Alvarez & Marsal (A&M) Contract Update

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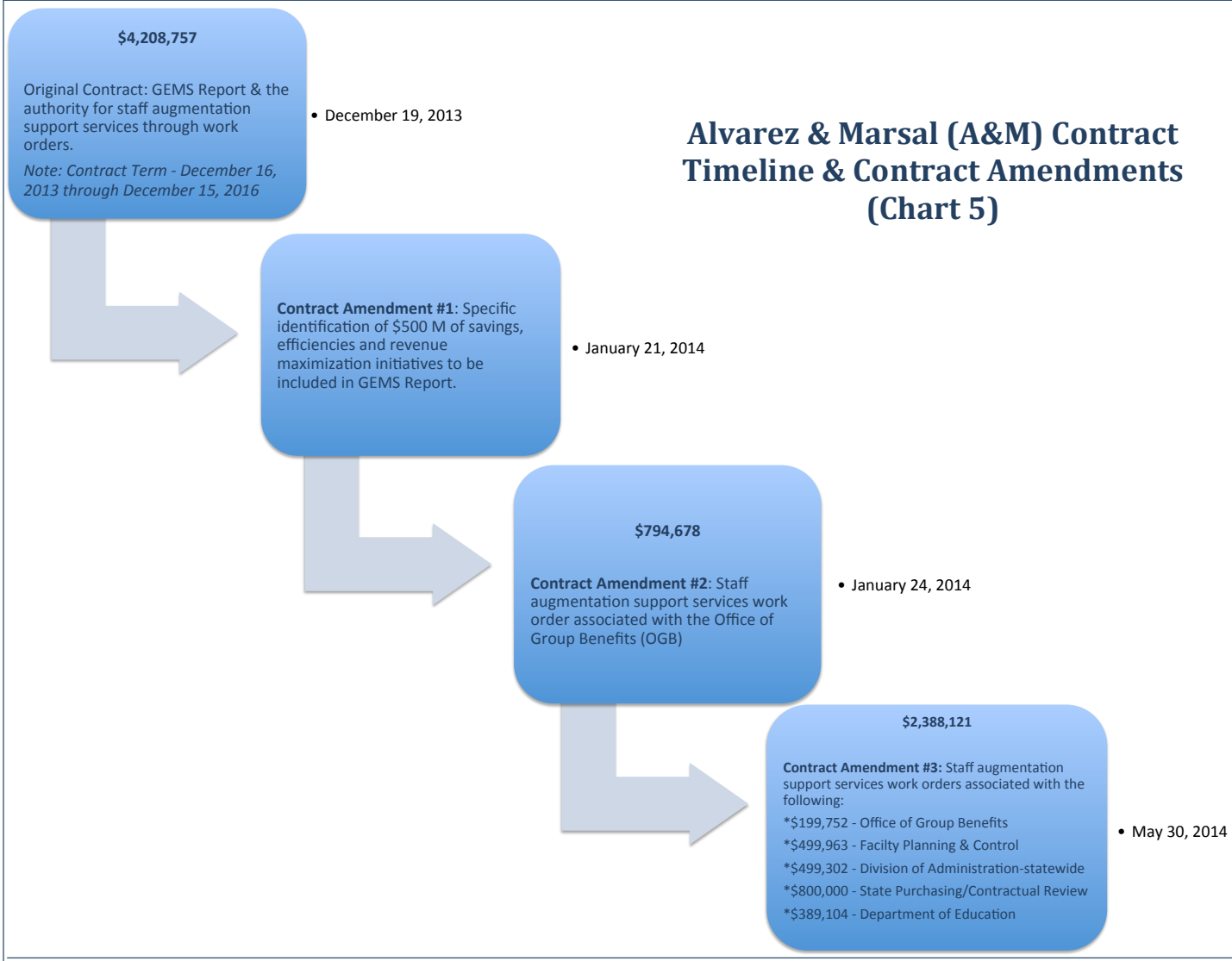
As was discussed by the LFO in the January 2014 edition of *Focus on the Fisc (Volume 2, Issue 7)*, the State entered into a $4,208,757 consulting services contract in December 2013 with the consulting firm Alvarez & Marsal (A&M) relative to efficiencies in state government. Since 12/1/2013 (start date), the total maximum value of the contract has increased $3.2 M, or 76%, and is now worth $7,391,556.

All of the increases are due to staff augmentation work orders. Although the original due dates for the various deliverables ranged from January 2014 to April 2014, the contract term actually ends on December 15, 2016. This is due to provisions in the contract that allow A&M to provide staff augmentation services to state agencies for implementing any recommendations presented in the Governmental Efficiencies Management Support (GEMS) Report. The specific work orders that resulted in the $3.2 M increase along with a timeline of events are shown Chart 5 on the next page. As the contract end date being December 15, 2016, there may be additional work orders approved that could further increase the maximum value in excess of $7.4 M. ***Note: Work Order #5 of the A&M staff augmentation for the DOE related to the MFP student enrollment counts seems to be duplicative of the work requested of the Legislative Auditor pursuant to HCR 112 that passed during the 2014 R.S.***



State Treasury Seeds & Interfund Borrowing

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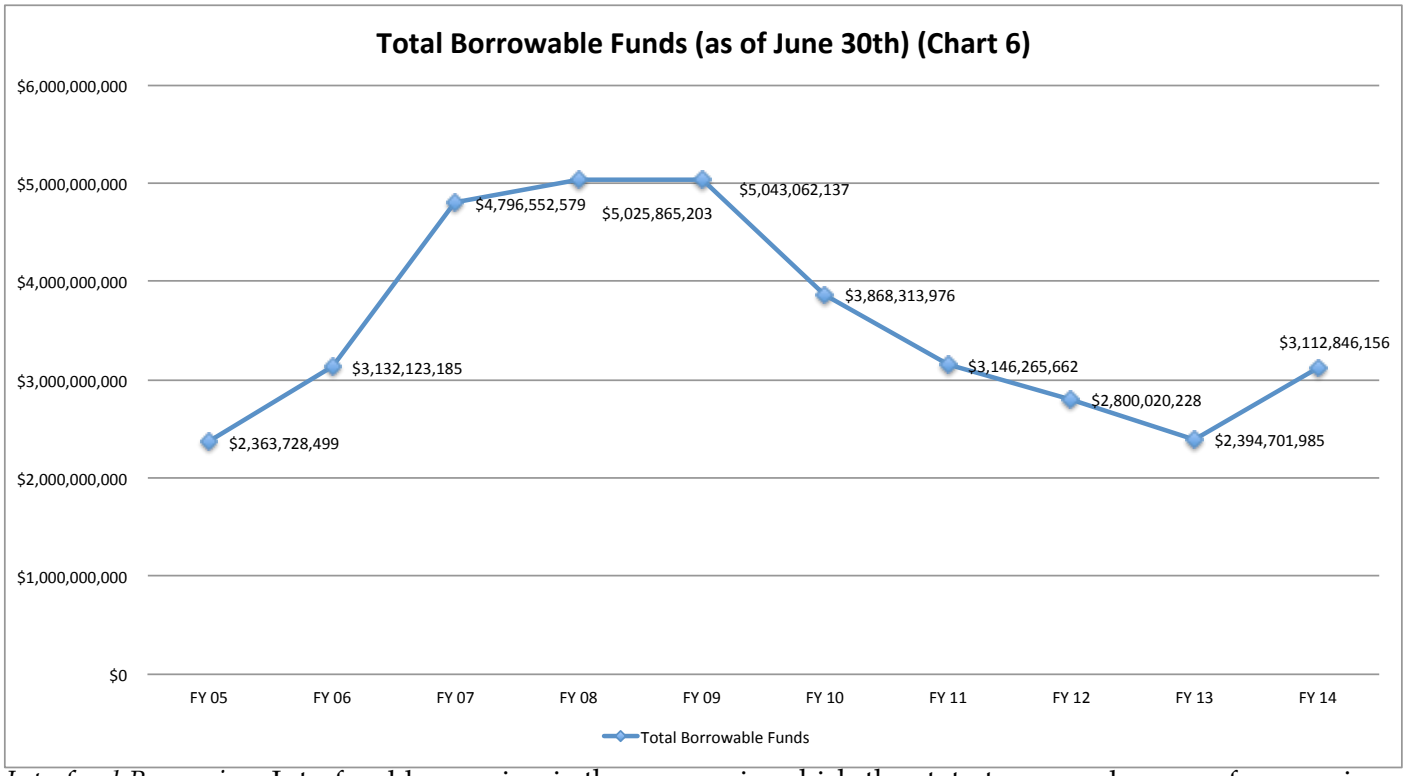
Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

Pursuant to R.S. 39:71(D), upon approval of the commissioner of administration and concurrence of the state treasurer, a cash advance or seed may be granted to a requesting state agency. Typically treasury seeds are designed to provide operating capital to a state agency until an anticipated revenue source is actually collected. For example, a state agency whose primary source of operation is from a statutorily dedicated fund that only collects revenues one time during a fiscal year needs resources to operate until that fund's revenues are actually collected. Thus, the commissioner of administration in concurrence with the state treasurer can approve a seed until those statutorily dedicated revenues are actually collected. Once collected, the agency will utilize these collections to repay the state treasury for the total amount of seed resources expended. State treasury seeds are basically short-term loans that must be repaid prior to the close of the fiscal year. However, in some instances, the state treasury seed is being paid in full by reseeding it in the next fiscal year. The state is essentially repaying the short-term loan with another short-term loan and the fund's short-term debt is being pushed to the next fiscal year. An example of this situation is the Oil Spill Contingency Fund. Instead of having the remainder of the same fiscal year in which the seed was requested to repay a seed, DPS has had multiple fiscal years to repay the seed (FY 12, FY 13 & FY 14) and will continue to have multiple fiscal years until such time as BP settlement funds are received. Table 5 is a listing of significant FY 13 treasury seeds paid back with a portion of reseeded FY 14 proceeds.

Significant FY 14 "Reseeds" Utilized to Pay FY 13 Seed (TABLE 5)

Agency	Amount
Bayou Corne (DNR)	$8,000,000
Oil Spill Contingency Fund (DPS)	$24,400,106
TOPS Fund	$5,995,170
Public Service Commission	$2,000,000
TOTAL	**$40,395,276**

Based upon information provided to the Legislative Fiscal Office by the State Treasury and utilizing the Oil Spill Contingency Fund as an example, the fund's seed has been paid in full each fiscal year by reseeding. Although the agency's official documentation indicates the $0.02 per barrel fee (approximately $8 M annually collected) will be utilized to repay the seed, the administration and DPS contend these loans will actually be paid in full upon settlement resolution. ***Thus, instead of using SGF direct appropriation to fund these items and then utilize any legal settlement proceeds to reimburse those prior SGF direct expenditures, the state is currently using SGF/interfund borrowing cash to fund these expenditures via the state treasury seed process***. As long as the state maintains healthy borrowable cash on hand, the reseeding process will continue to work. However, to the extent the borrowable reserves significantly decrease, supporting these expenditures and/or financing additional seeds of this nature with annual short-term loans could be problematic. See Chart 6 below for a 10-year history of the total borrowable fund resources as of June 30th of each fiscal year. Although the FY 14 borrowables increase from FY 13 borrowables, the state's borrowable funds have decreased in four of the last five fiscal years. *On page 14 of this edition of Focus on the Fisc are illustrations of how a traditional state treasury seed works and how a reseed treasury seed is working per information provided by State Treasury.*

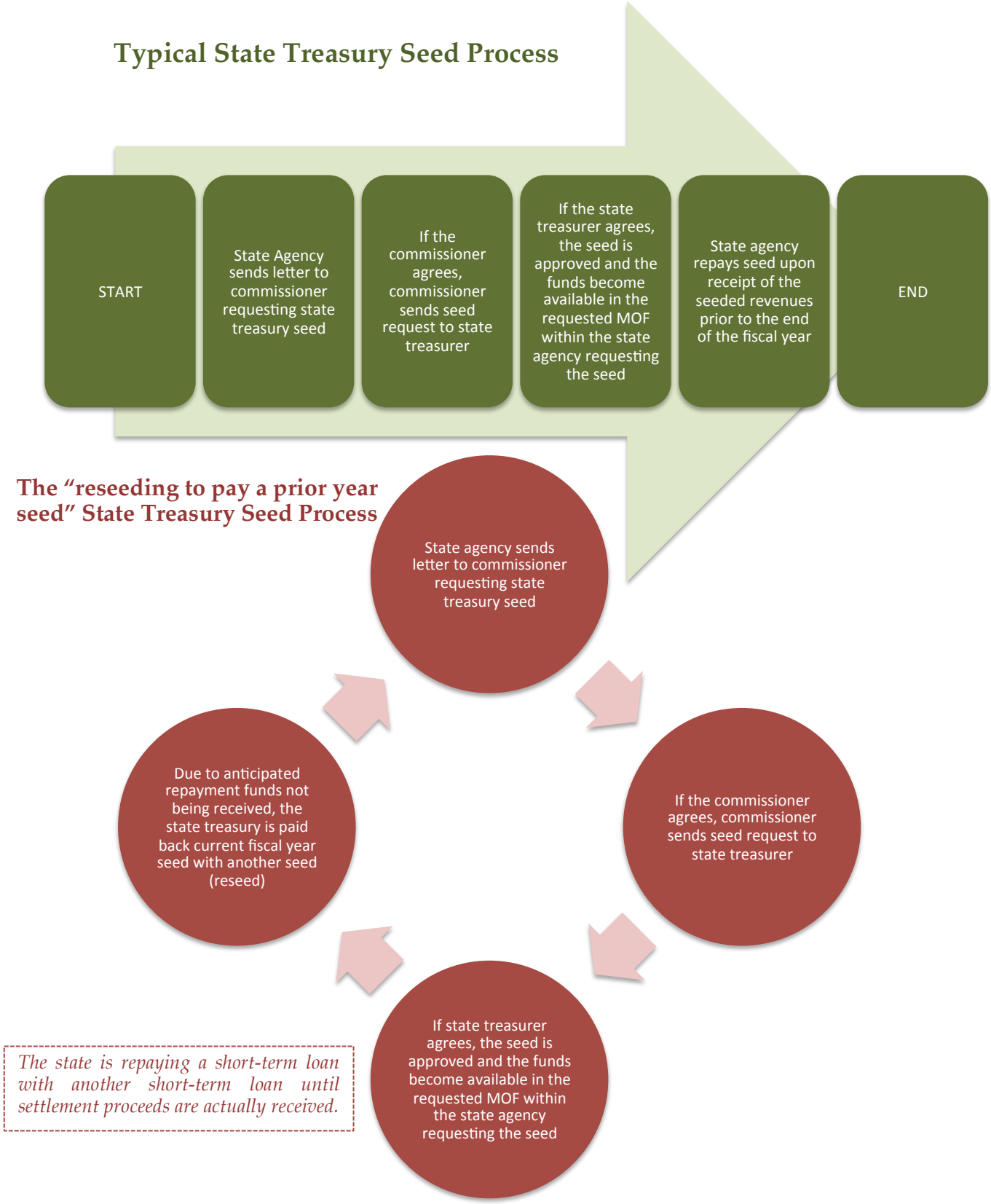


Interfund Borrowing: Interfund borrowing is the process in which the state treasurer borrows from various eligible statutorily dedicated funds in order to support the cash flow needs of the SGF during a fiscal year. R.S. 49:308.4 authorizes the state treasurer to interfund borrow from any eligible fund to make payments from the SGF. As has been previously discussed, during a fiscal year there are times when SGF expenditures may exceed SGF cash on hand. When this occurs, the state enters into interfund borrowing until SGF collections are received that can support SGF expenditures. This is a typical occurrence for most governmental entities (state & local) that have irregular expenditure and revenue patterns.

Similar to a Bank: Interfund borrowing and the state treasury seed process can easily be compared to how a traditional bank operates. For example, even though an individual has $100 in his/her checking account, the bank is actually using these funds through the loan process for other customers. The bank does not necessarily have to provide that $100 to the customer until that customer makes a draw against his/her account. This is similar to the interfund borrowing and state treasury seed process. Even though a statutorily dedicated fund may have $1 M of cash on hand registered in the state's accounting system, that cash is either being invested, loaned through the state treasury seed process, or is borrowed by the SGF during a fiscal year (interfund borrowing). The $1 M balance does not necessarily have to materialize until expenditures have been drawn by a state agency. This process works because the state currently has approximately $3 B in borrowable cash from various eligible statutorily dedicated funds (See Table 5 on previous page). ***Note:*** *A minimal fiscal impact resulting from interfund borrowing and state treasury seeds is that*

it reduces the investable pool of resources contained in the state treasury. Thus, utilizing these cash items for interfund borrowing and short-term loans purposes decreases the amount of interest earned by the state.

Diagrams of State Treasury Seed Process: Below are diagrams of the typical state treasury seed process (green) and the Oil Spill Contingency Fund state treasury seed process (red). Notice that the typical state treasury process has an ending, while the reseeding state treasury seed process does not.



Experience Account Funding and Cost of Living Adjustments (COLAs)

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With the enactment of Act 399 of the 2014 Legislative Session, the calculation for automatic gain sharing rules were changed for all four state retirement systems. Automatic gain sharing is the transfer of investment gains earned by the retirement system to the system's Experience Account. Each system has a different calculation for how much is to be transferred to the Experience Account. As a result of Act 399, the amount of investment gains transferred to the Experience Account will be less and more of the investment gains will be used for payment towards the existing Unfunded Accrued Liability (UAL). According to the actuarial note for Act 399, employer contributions will be decreased by approximately $5 B over the next 30 years as a result of more investment returns being used to pay down the UAL.

Current Experience Account Funding Method: Each system has a different gain sharing calculation that funds the system's Experience Account if the system meets the assumed rate of return. The Experience Account is the account used to fund COLAs for retirees. Once certain hurdles are met for each system, 50% of investment gains are transferred to each system's Experience Account and the remaining 50% is used to pay down the UAL. For example, when the Louisiana State Employees' Retirement System (LASERS) meets its assumed rate of return, 50% of investment gains in excess of $100 M are deposited into the Experience Account. In 2013, once the funding hurdles were cleared, the remaining investment gain was $391.2 M, which would result in a transfer of $195.6 M into the Experience Account and $195.6 M paid to the UAL.

New Experience Account Funding Method: The significant change for the Experience Account is the amount that can be transferred into the account. Any amount that is not transferred into the Experience Account that previously would have been, will be applied to the UAL.

Once the investment gains are reduced to pay the debt of the system, 50% is available for the Experience Account. Under the previous calculation, half of the $391.2 M went to the Experience Account ($195.6 M) and the other 50% ($195.6 M) was used to reduce the UAL. Table 6 and the discussion that follows provide an illustration of how the previous transfer worked and how the new transfer will work:

TABLE 6

	Previous Calculation	Current Calculation
50% for Experience Account	$195,623,963	$195,623,963
Cost of 1.5% COLA	($97,481,233)	($97,481,233)
Remaining Investment Gain	$98,142,730	$0
Investment Gain Paid to UAL	$0	$98,142,730

Under the new calculation, an additional $98.1 M that would have been in the Experience Account would now be used to reduce the UAL. As a result of this new calculation a total of $293.7 M (195.6 M 50% investment gain + $98.1 M remaining from Experience Account transfer) would now be paid towards the UAL instead of only $195.6 M in years past. ***Note:*** *Table 6 above is purely for illustrative purposes to show how the new gain sharing mechanism will work. It has not been calculated by an actuary.*

The amount transferred into the Experience Account will vary depending on the funded ratio of the system. Table 7 below reflects the impact on COLAs as the funded ratio increases.

TABLE 7

Funded Ratio	Transfer Amount to Experience Account (EA)
80% or more	Difference of the cost of a 3% COLA and amount in the EA
75% - 79.9%	Difference of the cost of a 2.5% COLA and amount in the EA
65% - 74.9%	Difference of the cost of a 2% COLA and amount in the EA
55% - 64.9%	Difference of the cost of a 1.5% COLA and amount in the EA
Less than 55%	No transfer can occur

Cost of Living Adjustments (COLAs) Granted: After the 2014 Legislative Session, four bills allowed qualified retirees within the four state systems to receive COLAs. The COLAs were granted to retirees that were retired for at least 1 year and 60 years old, disability retirees that were retired for at least 1 year regardless of age, beneficiaries of retirees who would have met the applicable criteria to receive the increase if they had survived, and non-retiree beneficiaries who have been receiving a benefit for at least one year and whose benefits originate from service of deceased members who would have attained age sixty. All retirees were granted a 1.5% increase, however the maximum amount the increase was based on varied by system. All COLA costs and retirees affected are detailed in Table 8 below:

TABLE 8

System	COLA Cost	Retirees Affected	Maximum Benefit Amount
STPOL	$4.5 M	1,069	$94,313
STPOL*	$5.0 M	720	$94,313
LASERS	$97.4 M	36,969	$96,931
LSERS	$15.8 M	11,930	$94,313
TRSL	$185.1 M	61,074	$93,755

** STPOL retirees and beneficiaries over the age of 65 received a supplemental COLA of 2% on a benefit up to $94,313.* ***Note:*** *The costs and affected members were taken from the actuarial note on the respective Acts.*

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

July 2014

Volume 3, Issue 1

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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 FY 15 major budget issues, remaining FY 14 budget issues and an update on the Office of Group Benefits (OGB) fund balance. As has been stated before, 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 pleased to announce two members of our staff, Shawn Hotstream and Stephanie Blanchard, will be presenting comparative data reports at the Southern Legislative Conference in Little Rock, Arkansas at the end of the month. Shawn Hotstream, Section Director, will present a report on Medicaid and Stephanie Blanchard, Fiscal Analyst, will present a report on Adult Corrections. These reports are two of five reports to be presented at the conference.

In addition, July 1, 2014 marked the office's 40th anniversary of the LFO as it was created in 1974 via Act 169. SCR 176 of the 2014 Regular Legislative Session highlighted this anniversary. On Sunday June 1, 2014, the office held an event to honor all current and former LFO employees to congratulate and thank them for their service to the Louisiana Legislature and the State of Louisiana. Check out pictures from the event on page 12 of this newsletter.

John D. Carpenter

FOCUS POINTS

Office of Group Benefits (OGB) Fund Balance Update

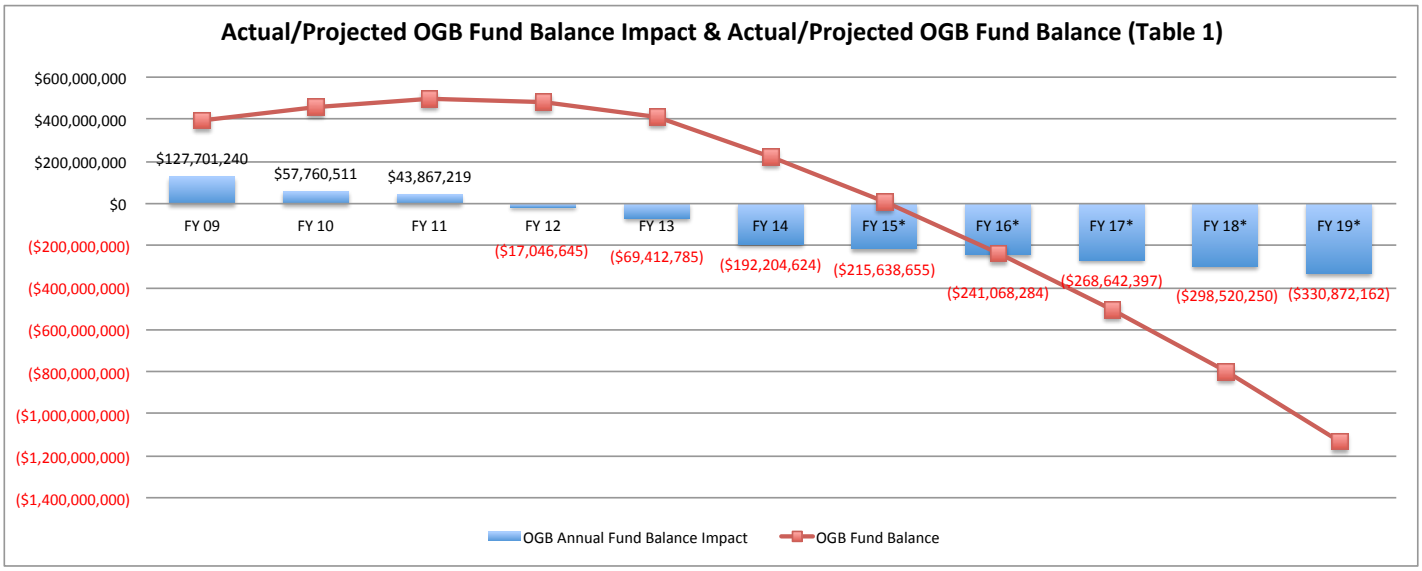
J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Based upon the latest OGB financial statements (as of May 2014), OGB's current fund balance is approximately $237.2 M, which is $176.2 M (or 57%) less than the fund balance as of June 30, 2013 ($413.4 M). In FY 14, OGB expended an average of approximately $16.1 M more per month than actual per month revenue collections, which equates to utilizing a projected $192.2 M of OGB balance in FY 14 (See Table 1 on the next page). To the extent this continues, OGB's projected ending year fund balance may be $221.2 M for FY 14 and $5.6 M for FY 15. *Without the 5% premium increase effective July 1, 2014, which is anticipated to generate $57.9 M of additional revenues, the anticipated ending year FY 15 fund balance could be greater than negative $50 M. These projections assume no material changes in OGB's expenditures, which on average increase approximately 6% annually (From FY 08 – FY 14).* See Table 1 on the next page, which shows the annual amount of fund balance OGB "generated" or "lived on" from FY 09 to FY 14 and projects the next 5 years based upon the **current OGB expenditure trend (6% increase annually) and assuming revenues increase 5% annually**.

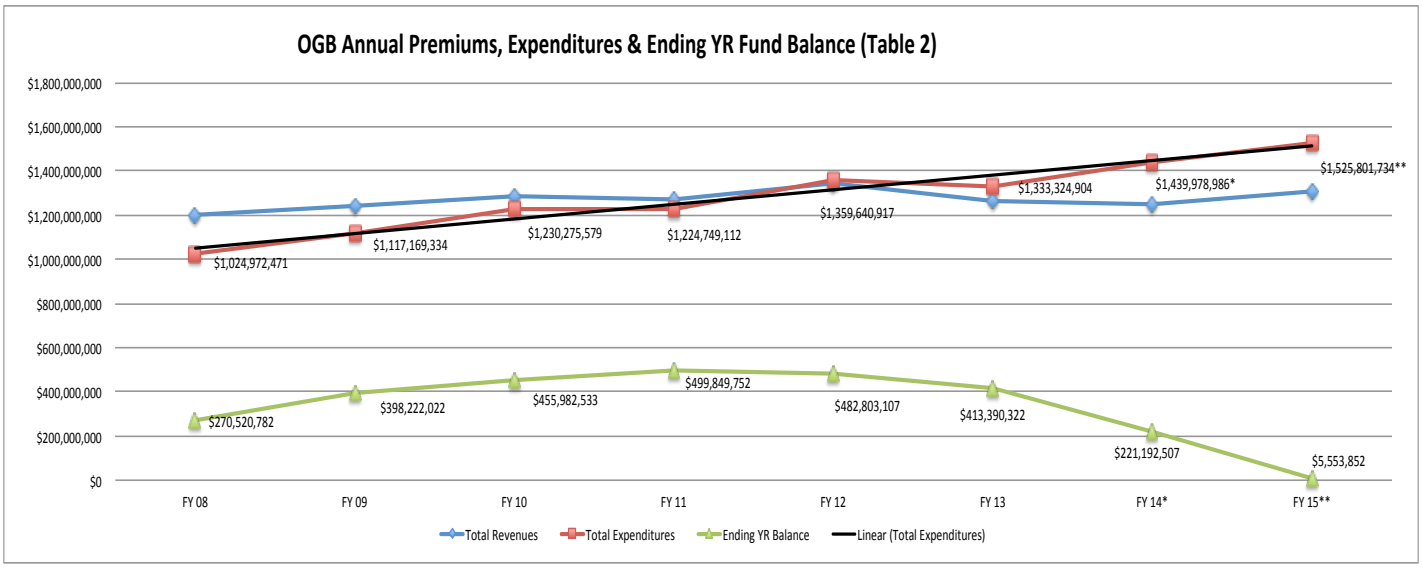
How did we get here?

Table 2 on the next page shows total OGB revenues, total OGB expenditures and the ending year OGB fund balance for the past 6 fiscal years with projected amounts for the remainder of FY 14 and all of FY 15. Based upon Table 2 *(see next page)*, OGB started to expend more than revenue collections beginning in FY 12. Thus, OGB began to live off its fund balance and has continued to do so through FY 14. There are 3 variables that play a role in understanding how OGB's fund balance decreased from $524.6 M in April 2011 (FY 11) to the

current FY 14 projected ending year fund balance amount of $221.2 M. The variables include: *1.) OGB enrollment, 2.) Total OGB expenditures, and 3.) Total OGB revenue collections. Based upon LFO analysis, overall revenue collections is the most significant factor contributing to the reduction in OGB's fund balance the past 3 fiscal years, which largely consist of health insurance premium collections.*



FY 15 – FY 19 OGB Fund Balance Impact & Fund Balance Projection is based upon historical OGB expenditures, which increase an average of 6% annually, and assumes OGB revenues will increase 5% due to annual health insurance premium increases.* ***To the extent the OGB Administrative changes and Health Insurance Plan changes suggested by Alvarez & Marsal (A&M) result in overall programmatic expenditure savings, the subsequent fiscal year projections of the annual amount of fund balance utilized to run OGB illustrated above would likely be eliminated and/or significantly reduced depending upon the actual expenditure savings which will occur as a result of such changes.*



**FY 14 information is based upon prior 11 months of actual revenues and expenditures.*
***FY 15 information is based upon expenditure and revenue trends from FY 08 – FY 14.*

OGB Enrollment: Based upon the information provided to the LFO by the OGB/DOA, the total number of OGB members paying premiums has remained relatively unchanged having only decreased 2% (or 2,311) from 133,822 in FY 08 to 131,511 in FY 14. In addition, total OGB population covered, which includes all dependents and OGB members combined, has minimally increased from 227,899 in FY 08 to 232,609 in FY 14. Thus, OGB's enrollment changes have likely had little impact to the OGB fund balance, as the enrollment figures have remained static.

Total OGB Expenditures: Based upon the latest financial information provided to the LFO by the OGB/DOA, OGB's overall expenditures have grown an average of 6% per year. In fact, the trend line, which is included in Table 2 above, illustrates that FY 14 anticipated expenditures are extremely close to the anticipated trend over a 6-year period (FY 08 – FY 14). Thus, OGB's overall expenditures have

consistently increased an average of 6% per year from FY 08 to FY 14 with expenditures increasing 10% and 11% in FY 10 and FY 12 and decreasing 1% and 2% in FY 11 and FY 13.

Total OGB Revenue Collections: Health insurance premiums (state share/employee share) represent the majority of OGB revenue collections. Based upon the latest financial information provided to the LFO by the OGB/DOA, OGB's health insurance premiums have increased only an average of 2.1% over the past 7 fiscal years. Table 3 reflects the OGB health insurance premium rate changes from FY 08 to the current year (FY 15).

% OGB Premium Rate Change (Table 3)	
FY 08	6.0%
FY 09	3.7%
FY 10	0.0%
FY 11	5.6%
FY 12*	8.1%
FY 13	-7.0%
FY 14	-1.8%
FY 15	5.0%

**Due to OGB changing from a state fiscal year to a calendar fiscal year, the health insurance premiums increased twice over a 12-month period (August 2011 by 5.6%, January 2012 by 5.0%) during FY 12. The 8.1% premium increase reflected in Table 3 has been annualized to reflect the FY 12 % change in OGB health insurance premiums over a 12-month timeframe.*

The OGB Board is meeting 7/30/2014 to present the anticipated benefit plan changes. The Legislative Fiscal Office will provide an update of the information presented at the board meeting in the next Focus on the Fisc and will include this information in our monthly OGB Report at the next JLCB meeting in August 2014.

GENERAL GOVERNMENT

Budget Stabilization Fund
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Act 646 (HB 1026) of 2014 once again modified the statutory provisions of the Budget Stabilization Fund. Under the new law, the greater of $25 M from any source, or 25% of officially designated nonrecurring revenue shall annually be deposited into the fund. The dedication of 25% of nonrecurring revenue already existed. Thus, this change results in a minimum of $25 M per year to be deposited regardless of whether any nonrecurring revenue has been designated. For FY 15, $25 M is allocated to the fund from anticipated Overcollections Fund resources officially designated as nonrecurring. For FY 16 and FY 17, the official forecast anticipates $25 M per year be deposited from state general fund resources. Prior to Act 646, current law provided for FY 16 repeal of a provision that prohibits deposits into the Stabilization Fund until the official forecast exceeds actual general fund collections of FY 08. Act 646 provides for this repeal one year later, in FY 17. The official revenue forecast currently anticipates $270.6 M of general fund resources being deposited to the Stabilization Fund in that year.

The Budget Stabilization Fund's statutory provisions are currently subject to litigation regarding the constitutionality of R.S. 39:94(C)(b). This provision effectively provides that no deposits of mineral revenue shall be made into the Budget Stabilization Fund until the official forecast exceeds the state general fund revenue collections for FY 08. This language has allowed mineral revenues to flow into the state general fund to finance the state operating budget rather than flow into the Budget Stabilization Fund up to its maximum balance (currently established as $800.7 M). The case currently remains in District Court awaiting a trial date.

Revenue Impact of Act 641 of 2014
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Act 641 of the 2014 Legislative Session increased the fees for motorists that operate a vehicle without automotive liability insurance. As a result of increasing the fees, collections by the Office of Motor Vehicles (OMV) are expected to increase significantly and the increased collections will be used by the Office of State Police (OSP), district attorneys, Department of Corrections, and for other law enforcement purposes in future fiscal years.

The reinstatement fees that were increased are for insurance cancellations for less than 30 days, insurance cancellations between 31 to 90 days, insurance cancellations over 91 days, and notices of violation 1st offense and 2nd offense. The fee increases are noted in Table 4 on the next page.

According to information received from OMV, there was an average of approximately 320,000 insurance cancellation fees assessed annually over a 3-year period for operating a vehicle without automotive liability insurance. In addition, there was an annual average of 20,548 notices of

Type of Fee (Table 4)	Previous Amount	New Amount	Fee Increase
Insurance cancellations for less than 30 days	$25	$100	$75
Insurance cancellations between 31 & 90 days	$100	$250	$150
Insurance cancellations for over 90 days	$200	$500	$300
Notice of violation - 1st offense	$50	$100	$50
Notice of violation - 2nd offense	$150	$250	$100

violations issued (20,000 1st offense + 548 2nd offense) over the same time period. The fees and the amounts collected are detailed in Table 5 below.

Fee (Table 5)	# of Fees Paid	Previous Fee Total	New Fee Total	Difference
Cancellations < 30 days	150,000	$3,750,000	$15,000,000	$11,250,000
Cancellations 31 - 90 days	75,000	$7,500,000	$18,750,000	$11,250,000
Cancellations > 90 days	95,000	$19,000,000	$47,500,000	$28,500,000
Notice 1st offense	20,000	$1,000,000	$2,000,000	$1,000,000
Notice 2nd offense	548	$82,200	$137,000	$54,800
TOTAL	**340,548**	**$31,332,200**	**$83,387,000**	**$52,054,800**

To the extent the average number of fees paid remains constant in future years, OMV would collect approximately $83,387,000 annually in insurance cancellation and notice of violation fees. This is an increase of $52.05 M ($83.38 M – $31.33 M). Act 641 creates the Insurance Verification System Fund, which will receive the revenue from the fees. Act 641 also designates how the increased collections are to be spent in FY 15 and FY 16.

The fund must first use collections to operate and maintain the real-time insurance database at OMV. This is expected to cost $1.1 M in FY 15 and $1.0 M in FY 16 and subsequent years. To the extent $52 M is collected in FY 15 and $1.1 M is spent on the insurance database, $50.9 will remain in the fund. Act 641 then mandates $42 M be dedicated to OSP, but does not specify what the funding will be used for. In the event $42 M is spent by OSP, $8.9 M will be available for public safety and law enforcement purposes. The Act does not define what those purposes are. It is the LFO's understanding that some of the $42 M will be used for state police pay raises. In OSP's FY 15 budget request, $14.6 M was the requested salary adjustment increase for state police that includes salaries and related benefits. **However, at this time the State Police Commission has not approved a new salary pay grid and the potential cost is unknown.**

In FY 16, Act 641 specifies that the deposits into the fund will be used to pay for the operation of the database ($1 M), a dedication to OSP ($42 M), funding for the parole violators (DOC inmates released on parole who are subsequently arrested) as a result of Act 652 ($7 M), and funding for additional assistant district attorneys ($1 M) in FY 15. These dedications amount to $51 M, which would leave $1 M to be used for public safety and law enforcement purposes in FY 16. See Table 6 below.

Insurance Verification System Fund Distributions by Act 641 (Table 6)		
Item	FY 15	FY 16
Real-time Database	$1,100,000	$1,000,000
State Police	$42,000,000	$42,000,000
Parole Violators	$0	$7,000,000
District Attorneys	$0	$1,000,000
Law Enforcement Purposes	$8,900,000	$1,000,000
TOTAL	**$52,000,000**	**$52,000,000**

***Note**: The $52 M increase in revenue is an estimate based on current collections. The amount actually collected may change based on a number of variables, including the following:*

1. *The increased amount of fees may encourage more motorists to carry automotive liability insurance, which would reduce the number of fees issued and result in a smaller collections increase.*
2. *As a result of the real-time insurance database, more motorists that do not have automotive liability insurance may be ticketed, which would support the estimate of additional collections.*

The Act specifies that the order of distribution from the fund as the real-time insurance database first and the dedication to OSP second in FYs 15 and 16. In FY 16 the order of distribution adds the parole violators after the OSP dedication (DOC inmates released on parole who are subsequently arrested), then district attorneys, followed by public safety purposes. To the extent $52 M is not collected annually, it is unknown if the distribution amounts would not occur depending on the amount collected or would the distribution order remain and amounts be reduced.

FY 14 & FY 15 Overcollections Fund Revenue Collections

J. Travis McIlwain, Gen. Govt. Section Director,
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Act 420 of 2013 provides for the transfer of various funds and resources into the Overcollections Fund for FY 14 appropriation. Table 7 on the next page represents outstanding FY 14 Overcollections Fund to date. After the August 15th FY 14 close-out accounting period, the

LFO will provide more specific details as to how short the FY 15 Overcollections Fund appropriation may be in a future newsletter. At this time, the FY 14 Overcollections Fund has not collected approximately $61.2 M. ***Also, to date the Overcollections Fund has collected $202 M of revenues anticipated to be expended in FY 15 of which $61.2 M was utilized to repay the FY 14 outstanding State Treasury Seed balance (See Table 8). The majority of the FY 14 state treasury seed was associated with the $70 M of approved borrowing for higher education (Table 9). Thus, at this time there is at least a $61.2 M deficit in the FY 15 Overcollections Fund appropriation (recurring Overcollections Fund resources), which funds the items in Table 10.*** *Note: The Legislative Fiscal Office will include a discussion of the State Treasury Seed process and Interfund borrowing in the next edition of Focus on the Fisc.*

FY 14 OC Fund Rev. Sources (Table 7)	Anticipated	Collected & Transferred	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$132,230,991	$8,019,009
Legal Settlements	$64,771,871	$64,771,871	$0
Sale of Pointe Clair Farms	$12,000,000	$12,000,000	$0
Sale of Baton Rouge State Office Bldg.	$10,250,000	$10,250,000	$0
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	$21,057,770	($1,057,770)
Excess FEMA Reimbursements (Act 597)	$19,950,000	$6,604,609	$13,345,391
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$24,235,674	$4,048,826
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$2,000,000	$0
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	$988,632	$999,474
2% Fire Insurance Fund	$2,358,715	$2,358,715	$0
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$48,298	$0
Compulsive & Problem Gaming Fund	$57,071	$57,071	$0
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	$8,605,392	$0
Transfer from fund to SGF	($5,000,000)	($5,000,000)	$0
TOTAL	**$413,207,388**	**$352,041,223**	**$61,166,165**

FY 15 OC Fund Rev. Sources (Recurring) (Table 8)	Anticipated	Collected & Transferred	Left to Collect
Community Water Enrichment Fund	$777,318	$777,318	$0
Department of Justice Debt Collection Fund	$90,375	$90,375	$0
Department of Justice Legal Support Fund	$191,558	$0	$191,558
Department of Health and Hospitals' Facility Support Fund	$238	$0	$238
DNA Testing Post-Conviction Relief for Indigents Fund	$1,773	$1,773	$0
Employment Security Administration Account	$3,850,189	$3,850,189	$0
FEMA Reimbursement Fund	$35,375	$35,375	$0
Fish and Wildlife Violations Reward Fund	$679	$679	$0
Hazardous Waste Site Cleanup Fund	$2,681,729	$2,681,729	$0
Health Care Facility Fund	$267,900	$267,900	$0
Louisiana Interoperability Communications Fund	$17,329	$17,329	$0
Louisiana Help Our Wildlife Fund	$496	$496	$0
Marketing Fund	$24,064	$24,064	$0
Medical & Allied Health Professional Ed. Scholarship & Loan Fund	$187	$187	$0
Payments Towards the UAL Fund	$12,570,426	$12,570,426	$0
Riverboat Gaming Enforcement Fund	$18,600,000	$18,600,000	$0
Small Business Surety Bonding Fund	$409,144	$364,271	$44,873
Two Percent Fire Insurance Fund	$1,544,046	$131,657	$1,412,389
UNO Slidell Technology Park Fund	$111	$111	$0
Variable Earning Transaction Fund	$19,892	$19,892	$0
Pharmaceutical Settlements	$106,000,000	$59,211,660	$46,788,340
Interest amounts from underground storage tank settlements	$9,000,000	$0	$9,000,000
SGR from DOA	$7,900,000	$7,900,000	$0
Sinking Fund for major repairs & equipment purchases	$7,000,000	$7,000,000	$0
Office Facilities Corporation (OFC) interest earned & savings from bond refunding	$25,000,000	$25,000,000	$0
ORM Self Insurance Fund	$34,000,000	$34,000,000	$0
FY14 SGF Reversions	$13,067,171	$0	$13,067,171
Louisiana Property Assistance Agency	$3,700,000	$3,700,000	$0
Aircraft Services	$250,000	$250,000	$0
Go Zone Payoff - Convention Center	$25,528,429	$25,528,429	$0
TOTAL	**$272,528,429**	**$202,023,860**	**$70,504,569**

FY 14 Overcollections Fund Seeds (TABLE 9)	
Agency	**Total Seed**
DNR	$4,104,286
Judgments	$5,758,143
State Aid	$1,100,000
Higher Education	$70,000,000
TOTAL	**$80,962,429**

State Agency (Table 10)	Agency Name	FY 15 EOB	FY 15 Exp. To Date	Unexpended
09-306 (Act 15)	Medical Vendor Payments	$266,346,081	$0	$266,346,081
01-133 (Act 55)	Elderly Affairs	$1,700,000	$0	$1,700,000
19-681 (Act 55)	DOE-Subgrantee Assistance	$1,700,005	$0	$1,700,005
TOTAL FY 15 OC Recurring Resource Appropriation		**$269,746,086**	**$0**	**$269,746,086**

FY 16 Replacement Financing Decision List

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

The LFO is providing you with a list of potential FY 16 financing replacements as a result of the FY 15 budget. See Table 11 below for a listing and description of resources being utilized in FY 15 that will likely require another revenue source in FY 16.

TABLE 11

Program	Potential Financing Replacement in FY 16 *(in millions)*	FY 15 Funding Sources
MVP - Overcollections Fund	$266.3	$266.3 M REC Recurring Overcollections Fund - fund sweeps, various DOA SGR resources, Pharmaceutical Settlements, Self Insurance Fund, Go Zone Bond Repayments. These resources are utilized to fund recurring Medicaid expenditures (09-306).
MVP - Medicaid Trust Fund for the Elderly	$233.7	Monies will be exhausted in FY 15 and other resources will have to be identified in FY 16.
MVP - 2013 Tax Amnesty Fund	$156.5	Remaining Phase I & projected Phase II resources. Phase III collections that are above projections from Phase II could be utilized to replace a portion of these Medicaid expenditures though the specific amount of Phase III collections is indeterminable at this time. Phase II collections are anticipated to be approximately $100 M.
Advanced Debt Payment - SGF	$210.0	REC Non-Recurring Revenues & other revenues - LA Housing Corporation ($25 M), DOJ Mortgage Settlement Funds ($4.6 M) and SGF savings and reductions included in Act 55 (HB 1094) ($7.4 M) along with FY 13 Prior Year Surplus and FY 12 Rescinded Capital Outlay Projects is being utilized to fund the advance debt payment. This use of these resources frees up SGF that would otherwise have been utilized on GO bond debt payments. This budget mechanism is essentially a way to get non-recurring resources into the state's operating budget.
Bond Premium - SGF	$34.2	In FY 14 the state sold GO bonds that generated a bond premium. Much like the advanced debt payment discussed above, utilizing these resources reduces the amount of SGF allocated for debt payments. This resource basically frees-up a like amount of SGF to expend elsewhere in the FY 15 operating budget.
Department of Revenue	$20.0	SGF need due to exhausting all retained SGR proceeds from the Tax Amnesty Program.
TOPS Fund	$22.0	Remaining proceeds from the Tobacco Refinancing. These funds will have to be replaced in FY 16 from the TOPS Fund in the TOPS Program.
Health Insurance High Risk Pool	$16.0	Act 646 (HB 1026) provides for the remaining proceeds from the LA Health Insurance High Risk Pool to be transferred to the Mega-Project Development Fund once the plan has paid all of its current obligations. This risk pool is no longer needed due to Affordable Care Act (ACA) requirements. These funds are utilized to pay economic development obligations in lieu of utilizing SGF.
WISE Fund	$23.2	$12.15 M of CDBG Program Income and $11 M of non-recurring Overcollections Fund resources are being utilized to fund the WISE Initiative Act 803 - HB 103) for FY 15. Utilizing these resources likely requires a State Action Plan amendment approval by HUD. These resources will have to be replaced in FY 16 as the current version of Act 803 (HB 1033) contemplates an annual program with at least $40 M of appropriated resources for this initiative.
LA Lottery Reserves	$9.0	Senate floor amendment to Act 646 (HB 1026) (Funds Bill) provides for the LA Lottery Corporation to transfer $9 M of its reserves to the State Treasury for deposit into the LA Mega-project Development Fund. These funds are utilized to pay economic developoment obligations in lieu of utilizing SGF.
Potential November 2014 Bond Sale	?	*See information below*
TOTAL	**$990.9**	

The FY 15 budget anticipates a $300 M bond sale that is expected to require SGF for debt service in FY 16, the amount of which will depend on the final structure of the bonds. Level debt at 5% over 20 years places this amount at $24 M in principal and interest for FY 16.

EDUCATION

Workforce & Innovation for a Strong Economy (WISE) Fund

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Act 803 of 2014 created the Workforce & Innovation for a Stronger Economy (WISE) Fund and requires that $40 M be deposited into the fund each year, subject to an annual appropriation by the legislature.

The General Appropriations bill (GAB) (Act 15 of 2014) includes $29 M for the WISE initiative from the following sources: $16.85 M in SGF and $12.15 M in IAT from the Community Development Block Grant (CDBG) Program. The Legislature did not appropriate or transfer this $29 M to the WISE Fund specifically. However, there is a deposit of $11 M from the Overcollections Fund into the WISE Fund contained in the Funds bill (Act 646 of 2014). These monies are appropriated in the Capital Outlay Bill (Act 25 of 2014) for Library, Instructional and Scientific Equipment. All three funding sources together from the General Appropriations and Capital Outlay bills total $40 M for the WISE initiative from the following sources: $16.85 M SGF, $12.15 M in IAT, and $11 M statutory dedicated WISE Fund.

The $12.15 M in CDBG funds for the WISE initiative are from repayment of interest and repayment of loans from the Louisiana Farm Recovery & Grant Program and Louisiana Agri-Business Recovery Loan Assistance Program. Interest and loan repayments from these agricultural programs are considered "Program Income" under the current CDBG Action Plan and Amendments and can be used for "Continuing Disaster Assistance". "Continuing Disaster Assistance" includes "Economic Revitalization" projects in 53 parishes affected by hurricanes Gustav and Ike targeted towards low and moderate-income individuals. The Board of Regents is writing a grant to use the $12.15 M for the WISE initiative and should complete and submit the grant to the U. S. Department of Housing & Urban Development (HUD) by the end of July 2014. Allowable uses of the CDBG funding for the WISE initiative will not be known until HUD reviews and approves the grant.

The Funds bill directs the Treasurer to deposit the $11 M from the Overcollections Fund from monies collected from the Louisiana Department of Revenue (LDR) fraud initiatives and debt recovery efforts. It also directs the Treasurer to fund $6 M in UAL payments to LASERS and TRSL systems and $25 M to the Budget Stabilization Fund from LDR revenues prior to depositing the $11 M into the WISE Fund. The actual amounts to be collected from the LDR initiatives are unknown at this time. As such, the amount that will be eventually deposited into the WISE Fund and the timing of deposits are dependent upon actual collections by LDR and the amounts still available after the Treasurer makes UAL and Budget Stabilization Fund payments as required in the Funds bill.

A language amendment in the GAB directs the Board of Regents (BOR) to distribute the following amounts by institution from the $29 M in the GAB: Pennington ($1.5 M), College of Engineering at LA Tech ($1 M), and School of Pharmacy at ULM ($1 M), which leaves $36.5 M in remaining funding for the WISE initiative distributions to higher education institutions in FY15. The Funds bill (Act 646 of 2014) also has language stating "any specific legislative allocations to postsecondary education institutions from the WISE Fund shall not preclude any postsecondary education institutions from receiving additional monies from the WISE Fund." This language in the Funds bill presumably refers to the distributions to Pennington, LA Tech, and the School of Pharmacy at ULM contained in the GAB and the Board of Regents confirms that Pennington, LA Tech, and the School of Pharmacy at ULM will all be eligible for allocations from the $36.5 M for the WISE initiative in addition to the amounts distributed in the language amendment mentioned above.

Monies in the WISE Fund are for degree/certificate production and research priorities in high demand fields through programs offered by Louisiana's public postsecondary education institutions to meet the state's future workforce and innovation needs. 80% of WISE funding is to be allocated to institutions based on degree and certificate production leading to 4 and 5 STAR jobs as defined by the LA Workforce Commission. The remaining 20% of WISE funds allocation is based on federally funded research expenditures as defined by the National Science Foundation. The WISE Council also has the authority to adjust the percentage of the distributions by no more than 10% relative to funds allocated for degree certification production (80%) and for federally funded research expenditures (20%). However, in no event shall the distribution based on federally funded research expenditures be reduced below 20%. To receive funds, institutions will have to partner with private industry by securing at least a 20% private match in cash or in-kind, such as technology and equipment. However, in any fiscal year that the total appropriated funds from the sum of the state

general fund and dedicated funds for higher education are below the appropriated funding in the prior fiscal year, the WISE Council may delay or waive the match requirements.

The WISE Council held its first meeting on 6/18/2014 to broadly discuss the WISE initiative, use of funding sources, and methods of distributing funding. The $12.15 M in IAT funding from the Community Development Block Grant (CDBG) Program is the WISE funding source in FY 15 with the most restrictions. As such, the Council spent much of the time at the meeting on June 18th discussing how institutions might use the CDBG funds for the WISE initiative.

The WISE Council also indicated at the meeting on June 18th that staff from the BOR would be developing data to set up a framework for distribution of WISE funding. The BOR also will be studying restrictions on the uses of funds for the WISE initiative in FY 15, such as limitations on use of CDBG funding and funding from Capital Outlay for Library, Instructional and Scientific Equipment. The BOR reports that funding from Capital Outlay for Library, Instructional and Scientific Equipment will need to meet a general requirement of being "capital intensive" in nature, but was unable to give more specifics at this time.

The next WISE Council meeting is scheduled for 8/6/2014. At this meeting, the Council will further define methods and data to use and distribute WISE funding to institutions in the state. Furthermore, no distributions will be made until institutions apply to their management boards for funding and management boards select projects and institutions for submission to the Board of Regents. No dates or deadlines have been established for institutions and management boards to apply for WISE funds. As such, limitations on uses of available WISE funds, methods for distribution of WISE funds, and actual amounts of WISE funds by system and institutions will not be known for a few months. The LFO will monitor deliberations and actions by the WISE Council and report on significant developments in subsequent *Focus on the Fisc* publications.

REVENUE

Major Revenue Collections Summary, June 2014, FY 14 (Adjusted For Amnesty Receipts)

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Twelve 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 many revenues. Thus, for the most part, eleven accrual months have actually been collected for FY 14. A number of these months 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 June 19, 2014 REC meeting. Major receipts' collection performance is depicted and discussed below.

MAJOR REC REVENUE SUMMARY, FY 14
June 2014, Adjusted For Amnesty Receipts

Revenue Source	Current Month *	% Chg Same Month PY	FYTD (Jul - Jun) *	% Chg FYTD PY cash ***	% Chg FYTD PY acc **	FY 14 Forecast	FY 14 Forecast Growth Rate	FY 15 Forecast Growth Rate
Income	$317.0	36.2%	$2,784.7	1.8%	1.2%	$2,811.5	2.1%	4.3%
Sales, General	$231.4	3.4%	$2,619.0	0.5%	1.6%	$2,609.9	1.1%	3.3%
Corporate	$86.9	-9.1%	$331.2	-13.7%	-1.3%	$279.5	-16.9%	25.5%
Severance	$67.7	-9.0%	$822.4	-2.4%	-3.2%	$850.5	0.4%	-4.9%
Royalty	$37.8	-14.9%	$471.8	0.0%	-5.3%	$524.1	5.9%	-7.9%
Gaming **	$47.2	9.9%	$599.6	0.5%	0.5%	$623.1	0.6%	-0.6%
Sales, Vehicle	$26.7	1.6%	$360.2	4.4%	3.8%	$366.1	3.0%	3.8%
Premium Tax	$5.5	259.5%	$441.7	7.7%	5.9%	$434.1	2.9%	3.6%
						6/19/14 REC		6/19/14 REC

* millions of $
** Riverboat, video draw poker, and racetrack slots combined
*** cash = July through June collections, acc = July through June less accrual to prior year

Income tax net receipts reported for June were strong but, while reversing the weak performance of the prior 2 months (relative to the one time strength of last year as taxpayers accelerated income into 2012 to avoid federal tax increases scheduled for 2013), the now full year-to-date cash growth of the tax is still only 1.8%. It is encouraging that much of this June strength came from withholdings, but stronger end-of-

quarter remittances are normal and this component of the tax has lagged all year long. Caution is advised going into the accrual period for the year. Return processing changes have distorted the pattern of net receipts reporting, making the monthly receipts data less reliable as an indicator of likely annual performance. Even with strong June net receipts, total yearly collections are only minimally greater than last year, and a negative FY 14 finish is still possible. Larger than typical accruals are required to hit even the modest forecast for FY 14.

For FY 15, the growth forecast is also modest at 4.3%, but is still a doubling of the current growth forecast and may be applied to a lower current year base. The FY 15 dollar forecast level may be difficult to hit unless underlying growth materially accelerates next fiscal year.

Sales tax is closing in on its third consecutive year of essentially no growth on a cash basis even though June receipts reversed poor collections in the prior two months. Year-to-date growth for the cash fiscal year is only 0.5%. The very modest growth forecast for this fiscal year may be met on an accrual basis, but only because the growth forecast is so low. Cautious conditions still appear to prevail within households and businesses, and with any inflation, real buying power tax receipts will still likely exhibit no growth. For FY 15, the growth forecast is 3.3%, but this more normal growth rate is a tripling of the current year forecast growth, and will require a distinct acceleration in spending to be achieved.

Vehicle sales tax cash receipts in June were only slightly greater than prior year, continuing the sharp growth step-down that has occurred through the second half of the fiscal year. Year-to-date cash growth finished the year at less than half the pace of the first half. The typical income tax refund support to car purchases did not appear to be significant this spring, and the double-digit growth surge in this tax appears to have run its course as of the first half of this fiscal year. The FY 14 growth forecast may be bested somewhat, but not be a large amount.

The growth forecast for FY 15 is 3.8%, only a small bump up from this year, but auto purchases can't get much weaker if this forecast is to be achieved.

Corporate tax collections in June were solid but still less than prior year, making year-to-date cash 13.7% behind prior year. However, the FY 14 official forecast calls for an even larger drop. Thus, barring a particularly bad accrual, collections this fiscal year are likely to exceed forecast. Corporate receipts are erratic, though, on a monthly basis and in the accrual period. Only the very low forecast provides any confidence the forecast will be achieved.

The forecast for FY 15 is sharply higher but reflects the idiosyncrasies of the official forecast adoption where an early forecast downgrade for FY 14 was retained while a later forecast upgrade for FY 15 was adopted.

Severance tax receipts in June were weaker than prior year and last month as tax exemption refunds returned to more typical levels. In the absence of refund variation, receipts largely follow movements in oil prices with a 2 to 3 month lag. Year-to-date cash collections are below forecast growth and a very large accrual will be needed to meet forecast. Although oil prices are projected to average about $100/bbl in FY 14, it is likely that collections will fall short of forecast.

For FY 15, receipts are forecast to drop along with a drop in oil prices to about $96.70/bbl. The dollar level forecast will be diminished if the growth drop has to be applied to a lower result in the current year.

Royalty receipts in June were also weaker than prior year and last month, generally following a similar pattern as severance taxes. Year-to-date cash collections are below forecast growth and a very large accrual will be needed to meet forecast. For FY 15, receipts are forecast to drop, as well, and the dollar level forecast will be diminished if the growth drop has to be applied to a lower result in the current year.

Gaming receipts on a cash basis in June from riverboats, video poker, and racetrack slots were better than last year, and this boosted year-to-date growth to just about the forecast growth rate. This group has been carried all year by modestly positive riverboat growth offsetting negative racetrack slot and video poker growth. Sustained positive spending growth across all three of these discretionary gaming sectors has yet to be observed, and collections will finish close to the current forecast on the strength of only one component. The FY 15 forecast is very cautious at a slight drop. Some upside may be possible here, but these sectors combined are in their fourth year of 1% or less growth.

Premium Tax receipts in June were not particularly large but were greater than last year and brought year-to-date cash basis growth over forecast. Again, a modest growth forecast for FY 14 means that

accrual basis collections are likely to exceed forecast. Bayou Health premiums are fully incorporated into the tax base now, and any increases in Medicaid participants and premium increase in general will add to collections going forward. For FY 15, a somewhat higher growth forecast is anticipated, and a stronger performance this year will make it easier to attain the dollar level forecast next year.

Overall, while June was a good month for state tax receipts, bringing year-to-date receipts closer to forecast for FY 14, much of the good news relative to forecast is due to having very modest forecasts in place rather than reflecting strong revenue collections over the course of the year. Without regard to forecasts, the pace of revenue growth is still anemic. Personal income tax can still finish negative this year, although June made that less likely. The general sales tax is still barely growing and the three-year surge in vehicle sale tax appears over. Mineral revenue will likely fall relative to last year, and gaming revenue will be essentially flat. Positive growth will occur for the premium tax, but at a much lower rate than last year. Corporate will likely finish ahead of forecast and maybe ahead of last year, but accruals for this tax are no more certain than the monthly receipts.

Forecasts for FY 15 are generally modest and should be achievable. However, they do require some acceleration of revenue collections, and a similar situation existed in early FY 14 that ultimately required forecast downgrades to be made as the year progressed. The state may be on the cusp of significant industrial expansion, but there has been no suggestion of that in tax revenue collections so far, and FY 15 forecasts are no shoe-in.

HEALTH & HOSPITALS

Transfer of the Child Care & Development Fund (CCDF) Block Grant from the Department of Children & Family Services to the Department of Education

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Act 868 of 2014 was passed to continue developing a unified Early Childhood System of Local Networks that was started with the passage of the Early Childhood Education Act (Act 3) of 2012. The Early Childhood Education Act will bring all publically funded early childhood education providers under a unified Early Childhood System by FY 2015-2016. Act 868 transfers the lead agency with the authority to receive and expend Child Care Development Fund (CCDF) Block Grant federal funds from the Department of Children & Family Services (DCFS) to the Department of Education (DOE). The transfer of authority will be established in a cooperative endeavor agreement (CEA) no later than 7/1/2015.

The CCDF is the principal source of federal funding for childcare subsidies for low-income families so that they can work or attend training and education. As a result of Act 868 there will be a transfer of $79.9M in total funding ($79.4 M in CCDF and $285,450 in SGR) from DCFS to the Department of Education. The SGR is from licensing fees charged to the 1,538 early learning centers currently licensed to operate. The transfer will include 131 positions related to the DCFS licensing functions, including provider directory staff (11), licensing staff (40), state office (3) and eligibility staff (77). Of the total positions, 54 are filled positions. The 77 eligibility staff positions will transfer as vacant positions only. All transfers will be made via mid-year budget adjustments (BA-7) in accordance with the provisions of the CEA.

The DCFS utilized CCDF funds to pay direct costs of childcare, including subsidies through the Child Care Assistance Program (CCAP). In addition, DCFS utilized CCDF funds to pay for indirect costs associated with personal services and operating expenses of their department. Historically, DCFS utilized approximately $2.8 M of the CCDF grant funds to cover indirect departmental expenses. A provision of Act 868 requires DCFS and DOE to enter into a cooperative endeavor agreement to ensure the transfer of CCDF funds does not result in a budgetary shortfall for DCFS in FY 15 and future fiscal years. Specifically, "the cooperative endeavor agreement entered into by the agencies to facilitate the transfer of the grant and services shall ensure the transfer of funds from the state Department of Education to the state Department of Children & Family Services in an amount sufficient to fully fund the indirect costs of the state Department of Children & Family Services which were previously funded by the Child Care Development Fund, until such time as another funding source is identified by the state Department of Children & Family Services to pay for those indirect costs." Although the CEA does not require the approval of the Joint Legislative Committee on the Budget (JLCB), *it must be submitted to the Committee for review.*

In FY 15, the transfer of CCDF will reduce approximately $2.3 M (10 months of the $2.8 M total indirect costs) of funding from DCFS. Information provided by DCFS indicates that this budget neutral transfer will be executed by the

following plan. The DOE will send $2.3 M in SGF to DCFS via IAT as part of a means of financing substitution. As part of the substitution, DCFS will increase TANF funding to the LA-4 programs within the DOE. The TANF funds are available based on projected decreases in expenditures associated with TANF core programs such as cash assistance. The additional TANF funding in LA-4 will allow DOE to transfer SGF to DCFS to replace the loss of federal indirect cost allocated funding from the CCDF block grant. The DOE has indicated that the details are still being developed and there is no proposed plan at this point.

In addition, DOE will transfer $5.8 M in CCDF funds to DCFS for day care services that are provided to the Child Welfare Program, recipients in the STEP programs and to continue licensing Office of Juvenile Justice (OJJ) facilities. Although funded with CCDF funds, these activities will continue to be provided by DCFS.

Medicaid Outlook

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The FY 15 Medicaid budget contains approximately $655.8 M in funding from 3 separate sources that will likely have to be partially or entirely replaced with SGF or alternate revenue sources in FY 16. These sources of revenue include tax amnesty collections projected to be collected in FY 15 (and a portion collected in FY 14), Overcollections Fund revenues, and revenues from the Medicaid Trust Fund for the Elderly (MTFE). These fund sources collectively will draw $1 B ($1,072,721,008) in federal match for a total of $1.7 B ($1,728,522,411) in claims payments.

Amnesty Revenues: Act 15 reflects $156.5 M in amnesty revenues appropriated in MVP Payments to Private Providers Program for FY 15. Any revenues anticipated to be generated through a tax amnesty program are deposited into the 2013 Amnesty Collections Fund. Act 421 established the 2013 Amnesty Collections Fund through the LA Tax Delinquency Amnesty Act of 2013. All $156.5 M of these revenues will be used as a state match source to draw federal financial participation for claims payments to private providers. Based on the FY 15 blended Federal Medical Assistance Percentage (FMAP) of 62.06% (37.94% state match) for LA Medicaid, $156.5 M in amnesty revenues will generate approximately $256.1 M in federal matching funds for a total of $412.6 M in Medicaid claims payments. To the extent amnesty tax revenues are not realized up to the level of appropriation in Medicaid for FY 15, claims payments to providers will be reduced by a proportionate amount (inclusive of federal match).

Overcollections Fund Revenues: Act 15 contains $266.3 M in Overcollections Fund revenues appropriated in MVP Payments to Private Providers Program for FY 15. The specific revenues in the fund that will be used in Medicaid include, but are not limited to, fund sweeps, pharmaceutical settlements, excess self generated revenues, savings from bond refunding, ORM insurance proceeds, state general fund agency reversions, fraud initiative revenues, LA Housing Authority revenues, and debt recovery revenues. The various revenue sources that are projected to be in the Overcollections Fund are anticipated to be collected in both FY 14 and FY 15. All $266.3 M of the Overcollections Fund revenues appropriated in Medicaid for FY 15 will be used as a state match source to draw down federal financial participation for claims payments to private providers. Based on the FY 15 blended Federal Medical Assistance Percentage (FMAP) of 62.06% (37.94% state match) for LA Medicaid, $266.3 M in Overcollections Fund revenues will generate approximately $435.7 M in federal matching funds for a total of $702 M in Medicaid claims payments. To the extent Overcollections Fund revenues are not realized up to the level of appropriation in Medicaid for FY 15, claims payments to providers will be reduced by a proportionate amount (inclusive of federal match).

Medicaid Trust Fund for the Elderly: Act 15 contains $232.9 M in revenue from the Medicaid Trust Fund for the Elderly (MTFE) used to fund nursing home and long term care payments. These revenues are used as a state match source in FY 15 to draw down federal financial participation for long term care claims payments. Based on the FY 15 blended Federal Medical Assistance Percentage (FMAP) of 62.06% (37.94% state match) for LA Medicaid, $232.9 M in MTFE revenues will generate approximately $380.9 M in federal matching funds for a total of $613.9 M in Medicaid claims payments to long term care providers.

The sources of revenue are reflected in Table 12 below:

Table 12

Revenue Source	Amount
State Tax Amnesty Program Revenues	$156,539,178
Overcollections Fund	$266,346,081
MTFE Revenues	$232,916,144
FY 15 non-SGF match sources used as match	**$655,801,403**

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LFO Turns 40

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