FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

March 2017

Volume 5, Issue 5

INSIDE THIS ISSUE

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

Economic Section
Greg Albrecht, Chief Economist
Ben Vincent, Economist

Education Section
Jodi Mauroner, Section Director
Willis Brewer, Fiscal Analyst
Colleen McCrory, Fiscal Analyst

Health & Hospitals Section
Shawn Hotstream, Section Director
Patrice Thomas, Fiscal Analyst
Tanesha Morgan, Fiscal Analyst

General Government Section
Alan Boxberger, Section Director
Zachary Rau, Fiscal Analyst
Monique Appeaning, Fiscal Analyst/Special Projects Coordinator

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Rachael Feigley

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

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

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc.

This edition begins on Page 1 with an overview of the mid-year reduction plans undertaken in FY 17. Following on Page 3 is an overview of the proposed Executive Budget for FY 18. In subsequent pages we analyze the Executive Budget more in depth by section, beginning with General Government, followed by Health & Hospitals, and ending with Education. The final section is an analysis of potential revenue measures as recommended by the Task Force on Structural Change in Budget and Tax Policy.

We hope you find our publication timely, informative and helpful in your preparation for the upcoming Regular Session. This edition is the final newsletter prior to the 2017 Regular Session. We will publish our next edition of the newsletter in Summer 2017, following the Regular Session.

-John D. Carpenter

FY 17 Mid-Year Deficit Elimination Plans

--Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov--
--Willis Brewer, Fiscal Analyst, brewerw@legis.la.gov--

December 2016 #1 ($312.6 M)

On December 13, 2016, the Revenue Estimating Conference (REC) recognized a prior year (FY 16) revenue shortfall in the amount of $312.6 M. Under his unilateral authority, the governor proposed SGF reductions in the amount of $276.8 M. An additional $35.8 in general fund and statutory dedications was reduced with the approval of the Joint Legislative Committee on the Budget (JLCB). The reductions were partially offset by $123.8 M in other adjustments including backfills from statutorily dedicated fund balances as well as an increase in self-generated revenues. The net reduction of $188.8 M included a Medical Vendor program extension of a check write into FY 18 in the amount of $152 M. The resulting net reductions to state agency budgets totaled $36.7 M, or just below 12% of the overall $312.6 M shortfall.

January 2017 #2 ($304.2 M)

On January 13, 2017, the REC recognized a current year (FY 17) revenue shortfall of approximately $340.6 M. This amount was reduced by $27.2 M as a result of a means of financing swap for the Department of Public Safety and by an additional $9.2 M due to a reduction in FY 17 debt service payment requirements below original estimates. After making these adjustments, the FY 17 deficit to be addressed by the governor and legislature totaled $304.2 M.

In order to address this shortfall in the time frame required by law, the governor called the legislature into a special session February 13-22, 2017. Act 34 of the 2017 1st Extraordinary Session resolved the shortfall through the adjustments identified on the following page.

- $99 M – Use of the allowable 1/3 draw down of the available balance in the Budget Stabilization Fund (approximately 82.7% of the $119.7 M 1/3 allowable balance); approved through Senate Concurrent Resolution 2.
- $18.4 M – Use of additional revenues from GO Zone payments in excess of the REC forecast (payments of prior year balances owed as well as an advance payment of $4.8 M from the New Orleans Aviation Board).
- $2 M – Use of available fund balance from the Legislative Auditor Ancillary Enterprise Fund.
- $11.9 M – Use of projected excess funding in salaries and related benefits as a result of attrition and funded, but not filled, vacancies in executive branch agencies.
- $97.6 M – Use of offsets and means of finance swaps utilizing self-generated revenue, statutory dedications and federal funds to backfill targeted SGF operating expenditures.
- $4.9 M – Extend check-write in the Medical Vendor Program related to dental services into FY 18.
- $70.1 M – Reductions to the operating budget of state agencies (approximately 23% of the adjusted $304.2 M shortfall amount)

The combined net reductions from both mid-year deficit elimination plans totaling $106.9 M, or 17.3% of the total $616.8 M adjusted shortfall, are presented by department in Table 1 below.

TABLE 1 - FY 2016-2017 1st and 2nd Mid-Year Net Reductions - State Effort (SGF, SD, FSGR) Only			
Department	1st Mid-Year Cut	2nd Mid-Year Cut	Total Mid-Year Cuts
Executive Department	($3,126,957)	($1,683,161)	($4,810,118)
Veterans Affairs	($377,000)	$0	($377,000)
Secretary of State	$0	$0	$0
Office of the Attorney General	$0	($1,944,530)	($1,944,530)
Lieutenant Governor	$0	($53,365)	($53,365)
State Treasurer	$0	($500,000)	($500,000)
Public Service Commission	$0	($13,404)	($13,404)
Agriculture and Forestry	$0	($1,245,410)	($1,245,410)
Commissioner of Insurance	$1	($715,162)	($715,161)
Economic Development	$0	($1,368,064)	($1,368,064)
Culture Recreation and Tourism	$50,000	($696,635)	($646,635)
Transportation and Development	$0	($1,570,171)	($1,570,171)
Corrections Services	$0	$0	$0
Public Safety Services	($2,688,876)	($9,480,503)	($12,169,379)
Youth Services	$0	($4,467,000)	($4,467,000)
Department of Health*	($164,091,826)	($41,322,654)	($205,414,480)
Children and Family Services	($798,597)		($798,597)
Natural Resources	$0	($37,499)	($37,499)
Revenue	$0	($2,210,354)	($2,210,354)
Environmental Quality	($4,750)	($2,000,000)	($2,004,750)
Workforce Commission	$0	$0	$0
Wildlife and Fisheries	($2,508,943)	($383,975)	($2,892,918)
Civil Service	($134,312)	($52,654)	($186,966)
Higher Education	($11,909,637)	$0	($11,909,637)
Special Schools and Commissions	$0	$0	$0
Education	($2,243,638)	($1,750,000)	($3,993,638)
LSU Health Care Services Division	$0	$0	$0
Other Requirements	($985,425)	$0	($985,425)
Ancillary Appropriations	$0	$0	$0
Non-Appropriated Requirements	$0	$0	$0
Judicial Expense	$0	$0	$0
Legislative Expense	$0	($3,544,574)	($3,544,574)
Special Acts Expense	$0	$0	$0
Capital Outlay	$0	$0	$0
Grand Total	**($188,819,960)**	**($75,039,115)**	**($263,859,075)**
*Medical Vendor extended check write to FY18	$ 152,053,363	$ 4,888,484	$ 156,941,847
Net Reductions	**($36,766,597)**	**($70,150,631)**	**($106,917,228)**

FY 18 Executive Budget Overview

--Legislative Fiscal Office Staff--

The FY 18 Executive Budget increases $1,516,595,808 over the FY 17 existing operating budget (EOB) as of 12/1/16. The total increase includes a growth of $1,493,509,408 Federal funds and $113,302,609 IAT, but an overall net state funds reduction of $90,216,209 (including reductions of $172,459,757 SGF and $3,681,638 Statutory Dedications, and an increase of $85,925,186 SGR) in accordance with the LA Constitution, Article 7, Section 11.A,

For FY 18, the Division of Administration (DOA) identified an overall SGF expenditure need of $9.910 B based on the governor's expenditure priorities. Given the current FY 18 REC SGF estimate of $9.469 B, this places the governor's desired plan into a negative posture of approximately $440.5 M. Addressing the identified priorities will require the legislature to consider additional spending cuts, not funding these priorities, or approving legislation that will increase revenues, or some combination thereof. While the governor has indicated he will propose potential revenue enhancements during the 2017 Regular Session, these measures have not been identified at this time.

TABLE 2 - Pro Rata SGF Reduction by State Department			Annualization of Midyear Cuts
GENERAL APPROPRIATION BILL	Amount	Reduction	SGF
Executive Department	($2,439,282)	2%	$0
Veterans Affairs	($108,252)	2%	$0
Department of State	($61,614)	0.1%	$0
Department of Justice	($334,471)	5%	$0
Lt. Governor	($20,686)	2%	$0
Agriculture and Forestry	($505,453)	2%	$0
Treasury	-	-	-
Public Service Commission	-	-	-
Insurance	-	-	-
Economic Development	($279,685)	2%	$0
Culture Recreation & Tourism	($526,457)	1%	$0
Transportation & Development	-	-	-
Department of Corrections	($9,722,073)	2%	$0
Public Safety Services	($377,357)	1%	$0
Office of Juvenile Justice	($2,069,209)	2%	($5,350,000)
Department of Health*	-	-	($61,164,848)
Department of Children & Family Services	($3,668,317)	2%	$0
Department of Natural Resources	($287,745)	3%	$0
Department of Revenue	($698,689)	2%	$0
Department of Environmental Quality	-	-	$0
Workforce Commission	($130,609)	2%	$0
Department of Wildlife & Fisheries	-	-	-
Civil Service	($107,906)	2%	$0
Higher Education	($18,389,304)	2%	$0
Department of Education**	($2,932,482)	2%	($750,000)
Special Schools & Commissions	($883,246)	2%	$0
Health Care Services Division	($493,291)	2%	$0
Other Requirements	($4,021,891)	1%	$0
TOTAL	**($48,058,019)**	1%	**($67,264,848)**
OTHER APPROPRIATION BILLS***			
Judiciary	-	-	($3,788,273)
Legislative	-	-	($1,650,438)
TOTAL	-	-	($5,438,711)
GRAND TOTAL	**($48,058,019)**	**1%**	**($72,703,559)**

*Annualized mid-year reduction amount does not reflect $156.9 M for pushed check write

**The MFP is not included in the pro rata reduction for Department of Education.

***The governor's initial proposed FY 17 midyear reduction plan included ($3.7 M) for Judicary and ($1.6 M) for Legislative. The adopted plan included no reduction for Judiciary and ($3.5 M) for Legislative. The FY 18 recommended budget reflects the original amounts of the Governor's proposed mid-year reduction plan.

In constructing the executive budget recommendation, as per standard practice, DOA made adjustments against the EOB as of 12/1/16 to modify expenditure authority for identified needs. Many but not all mid-year deficit adjustments were annualized. Once the DOA had developed its initial expenditure plan, the remaining shortfall was addressed by applying a pro rata reduction to most state agencies while ensuring that all constitutional requirements were provided with the minimum funding level. For most agencies, the pro rata reduction of $48 M represented 2%of their SGF allocation, but the reduction varied from 0% to 5%. There was no statewide SGF pro rata reduction applied to the Louisiana Department of Health (LDH). These adjustments are reflected in Table 2. To the extent known, the LFO will include descriptions of the impacts of the pro rata statewide reduction to agencies in its *"Analysis of HB 1"* publication prior to the beginning of the legislative session.

Table 3 below identifies the most significant state funds adjustments (excluding federal and IAT) contained in the executive budget recommendations.

TABLE 3 - Significant Funds Adjustments, All State Agencies	Total State Funds	
Provide for negotiated increased installment payments by the Governor's Office of Homeland Security and Emergency Preparedness to FEMA in order to repay the state's cost share of the August 2016 flooding event ($11.4 M – first of five payments) and other outstanding federal debts related to prior disasters ($3.4 M increase to $10.4 M total - third of five payments).	$14,855,151	SGF
Increase funding to Corrections Services to provide for supplies and increased costs of medications. $4.8 M of the Corrections' 2% SGF pro rata reduction will be applied against the increase in supplies and medication funding, resulting in a net supplies increase of $6.9 M.	$11,717,738	SGF
Increase funding to Public Safety Services to provide for law enforcement services provided by State Police in the French Quarter ($6 M reimbursed by City of New Orleans); $5.7 M for 400 replacement vehicles and 10 replacement motorcycles; and $1.4 M to provide full funding for a training academy.	$13,156,547	SGR
FY 18 Minimum Foundation Program (MFP) includes adjustments of $18 M for student enrollment increases; $5 M due to changes in local tax bases; and a combined $18 M increase for targeted special education ($8 M) and supplemental course allocation ($10 M) initiatives. An MOF swap of $31.7 M replaces statutory dedications with SGF due to revised REC forecast for a total SGF increase to $72.9 M.	$41,181,824	SGF
Increase funding needed for local housing of state adult offenders according to the per diem of $24.39 as authorized by R.S. 15:824(B)(1)(a). This budget unit's 2% SGF pro rata reduction totals ($3.4 M), resulting in a net increase of $8.5 M. Corrections projects that the net increased recommended funding level will realize a shortfall of approximately $14 M in comparison to projected need.	$11,914,505	SGF

Table 4 below includes the significant payment adjustments for LDH (including all means of finance).

TABLE 4 - Significant Adjustments, LA Dept. of Health	All Means of Finance
Increase in Managed Care capitation payments in FY 18. The increase in capitation payments to the health plans includes $612.5 M funding adjustment in FY 18 for pushed check write (which represents an FY 17 payment liability for Physical and Behavioral Health benefits)	$1.8352 B
Increase in dental managed care capitation payments in FY 18. The increase in payments to the dental benefit manager includes funding for pushed dental check write (dental services Prepaid Ambulatory Health Plan).	$17.3 M
Various provider rate increases (Ambulance, Nursing Home rebase, Federally Qualified Health Center, and Rural Health Clinic, Hospice, Rural Hospitals)	$77.5 M
Funding for projected Utilization increases (Applied Behavioral Analysis, Long Term Personal Care Services, Durable Medical Equipment) for populations excluded from managed care.	$42 M

The DOA identified the following unfunded items listed in Table 5 below, which constitute the $440.5 M shortfall in the governor's identified priorities. This includes funding for some items contained in the Continuation Budget. Commissioner Dardenne reported this list is not presented in order of priority.

TABLE 5 - Governor's List of Unfunded FY 18 Needs	
Full funding for TOPS	$ 81,862,855
Performance Adjustments for state employees	$ 23,862,870
Funding for technology projects	$ 10,000,000
Corrections/contract rates for private prisons	$ 10,872,890
Restore funding for LDH and public/private partnerships	$ 91,691,587
Full funding for agencies (restore pro rata reductions)	$ 48,058,018
Match funding for DOTD*	$ 43,200,000
MFP 2.75% base increase in per pupil amount	$ 74,954,042
GO Grants	$ 34,800,000
Opening of OJJ Acadiana Youth Village	$ 12,069,256
DCFS caseload, including 187 positions	$ 4,653,212
Tourism funding	$ 4,500,000
TOTAL	$ 440,524,730

*Match Funding for DOTD – *In the executive budget presentation at the meeting of the Joint Legislative Committee on the Budget on February 23, 2017, Commissioner of Administration Jay Dardenne reported that DOTD estimates it could be as much as $43.2 M short of needed state monies to match available monies from the federal Highway Trust Fund (HTF). The presentation detailed that the state shortfall for infrastructure projects, when combined with a $172.8 M federal obligation, could result in a potential $216 M total impact.*

Federal transportation funding is currently allocated to the states under the Fixing America's Surface Transportation Act, or "FAST Act," through 2020. The FAST Act authorizes monies for highway, highway and motor vehicle safety, public transportation, motor carrier safety, hazardous materials safety, rail, research, technology, and statistics programs. The federal transportation program is funded via the federal HTF, which draws revenues from an 18.4-cents per gallon federal gasoline tax and a 24.4-cents per gallon federal diesel fuels tax.

States are apportioned a federal obligation from the HTF, which requires varying state and local funds match rates depending upon the type of project undertaken. The general match rate requires a 20% state or local contribution, although different project categories may require a lower match component (i.e. projects on Interstate highways may require only 10%). Additionally, that portion of state allocations nationally that are not fully drawn due to insufficient matching funds then revert to a pool at the end of each federal fiscal year to redistribute to states that have remaining available state matching funds through a process known informally as "plus up." Historically, Louisiana captures its entire federal allocation utilizing match revenues generated by the state's TTF through a 16-cents per gallon tax on motor vehicle fuels (gasoline and diesel), a 4% sales tax on aviation fuels, vehicle license taxes, interest earnings and truck weight permits and fines. Louisiana has been successful in capturing a portion of allocations not utilized nationally by other states during the federal fiscal year "plus up" for more than 25 years. Current estimates indicate up to $70 M of additional federal obligation availability annually by utilizing as much as $17.5 M in available state match.

In the recent past, however, DOTD has been unable to fully meet its full HTF obligation capacity due to recurring mid-year deficits that have resulted in the state transferring significant portions of the TTF into the SGF. Louisiana has only been able to secure all available federal HTF revenues because it could supplement TTF revenue with toll credits. Toll credits are a finite, non-recurring source of match issued to states for previous toll projects. Louisiana received $140 M in one-time toll credits from the federal government associated with LA 1. At the beginning of the current fiscal year, DOTD had a remaining toll credit balance of $111.2 M.

The use of a toll credit allows the state to draw down federal obligation on a per dollar basis, but it decreases the overall size of the construction program. For example, if a $50 M construction program were to be completed with a state match from the TTF, the project cost would generally be distributed as $40 M Federal HTF and $10 M TTF under an 80/20 match scenario. Utilizing toll credits, the project cost is distributed as $50 M Federal HTF with no cash state match. In the latter case, if the state had utilized a normal cash match mechanism, it would have allowed the state's highway program to realize an additional $12.5 M of construction and design activity by matching the full $50 M federal allocation (adding an additional $10M HTF and $2.5 M TTF

<u>Match Funding for DOTD (cont.)</u> – at 80/20). So while the use of toll credits prevents the loss of the state's available HTF allocation, it causes the overall program to shrink.

The estimated shortfall as suggested by the commissioner makes three assumptions that may or may not come to fruition. Namely, the shortfall assumes the following: 1) a possible mid-year reduction of 5% of the Transportation Trust Fund during FY 18 if the state realizes another mid-year deficit, 2) a potential 3% reduction to the Transportation Trust Fund if HCR1 of the 1st Extraordinary Legislative Session of 2017 results in a portion of Transportation Trust Fund revenues being used to pay for general state debt obligations, and 3) that the state will obtain a year-end federal "plus up" of $70 M, requiring an additional $17.5 M state match during both FY 17 and FY 18. If those three scenarios come to fruition, Louisiana would be short approximately $27.4 M in match (either TTF or toll credits) to mitigate the potential shortage, resulting in up to $137 M of HTF obligation not being fully utilized in FY 18. <u>Note: This assumption utilizes updated estimates provided by DOTD since the original report given by the commissioner during the executive budget presentation.</u>

Projected Toll Credit Balance at end of FY 17:	*$67.4 M*
Programmed usage of Toll Credits in FY 18:	*($28.7 M)*
FY 18 Potential BSRF Impact per HRC 1:	*($18.9 M)*
FY 18 Potential Mid-Year Deficit Maximum Impact:	*($29.7 M)*
FY 18 State Match for Federal Year-End "Plus Up":	*($17.5 M)*
Potential Toll Credit Deficit at End of FY 18:	*($27.4 M)*

Regardless of whether the aforementioned scenario materializes, DOTD anticipates that its capacity to fully match its available HTF obligation will expire approximately at the end of FY 19 or beginning of FY 20 due to the depletion of programmed toll credits utilized in its existing transportation plan (estimated at $26.3 M in FY 17, $28.7 M in FY 18 and $34.6 M in FY 19).

FY 18 Executive Budget Departmental Overviews

In this section the LFO will discuss the executive budget recommendations and some potential, significant issues for select departments and agencies. The LFO will publish its comprehensive analysis of the executive budget recommendation prior to the 2017 Regular Session.

GENERAL GOVERNMENT

--Alan Boxberger, General Government Section Director, boxbergera@legis.la.gov--
--Monique Appeaning, Fiscal Analyst/Special Projects Coordinator, appeaningm@legis.la.gov--
--Zachary Rau, Fiscal Analyst, rauz@legis.la.gov--

Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) – The FY 18 Executive Budget recommends a total of $1 B, reflecting a decrease of $299.7 M (including an increase of $11.7 M SGF and decreases of $11.5 M IAT and $299.8 M Federal). The SGF increase primarily accounts for the state's cost share (approximately $11.1 M) for installment payments to the Federal Emergency Management Agency (FEMA) for severe storm and flood events occurring statewide in 2016, other payments due for past emergency events, and $0.7 M for the purchase of 181,500 Meals Ready-to-Eat (MREs) to replenish the state's stock for immediate response during emergency events. The IAT reduction non-recurs funding sent from Public Safety Services for the Louisiana Wireless Information Network (LWIN) system upgrade, projected to be complete during FY 17. The reduction of federal funds accounts for a reduction of excess federal budget authority not required during FY 18.

Department of Military Affairs – The FY 18 Executive Budget recommends a total $78.7 M, reflecting a decrease of $38.3 M ($3.4 M SGF, $9.5 M IAT, $0.6 M SGR and $24.8 M Federal). The budget plan includes a 2% SGF pro rata reduction of $0.7 M in accordance with the LA Constitution, Article 7, Section 11.A, which will result in an additional loss of $1.6 M in federal match funding. The pro rata adjustment will result in a reduction of $525,724 in the Education Program, along with the federal matching funds of $1,577,172 (25% state/75% federal). The department reports that a reduction of this magnitude could result in reducing the overall target graduation rate of the Youth Challenge Program by 124 cadets (approximate standard cost of $17,000 per cadet). A reduction of $21.8 M in federal authority non-recurs authority related to the Camp Minden M6 explosives cleanup (the project is currently 85% complete and is projected to be completed during FY 18).

Corrections Services – The FY 18 Executive Budget recommends a total budget of $539.2 M, reflecting a total increase of $21.3 M ($8.1 M SGF, $8.3 M IAT, and $4.8 M SGR). While the overall recommendation increased over FY 17, the budget plan includes a 2% SGF pro rata reduction of $9.7 M in accordance with the LA Constitution, Article 7, Section 11.A. Significant FY 18 funding adjustments include: 1) $8.3 M IAT increased over FY 17, the budget plan includes a 2% SGF pro rata reduction of $9.7 M in accordance with the LA Constitution, Article 7, Section 11.A. Significant FY 18 funding adjustments include the following: 1) $8.3 M IAT from GOHSEP for the replacement of two (2) pumps needed to pump water into the Mississippi River at Louisiana State Penitentiary – provided by a grant through FEMA's Hazard Mitigation Program, 2) $11.7 M SGF increase to provide for supplies and increased costs of medications ($4.8 M of this amount is eliminated by the agency's 2% SGF pro rata reduction), and 3) $4.3 M SGR to move the Angola Rodeo on budget. The department reports that majority of its remaining pro rata reduction will reduce overtime available to pay corrections officers by the amount of $4.7 M.

Office of Juvenile Justice (OJJ) – The FY 18 Executive Budget recommends a total budget of $115.2 M, reflecting a total decrease of $4.3 M SGF. Contained within the overall SGF reduction is a 2% pro rata reduction of $2.1 M in accordance with the LA Constitution, Article 7, Section 11.A. Significant FY 18 funding adjustments include: 1) annualization of the FY 17 2nd mid-year deficit reduction plan totaling $5.4 M SGF, resulting in an increase in caseload sizes for Probation and Parole Officers from 28 youth per officer to 40 youth per officer ($1.35 M) and elimination of funding that was previously budgeted to Youth Services for services provided by the Louisiana Department of Health (LDH) for the Coordinated System of Care ($4 M SGF), and 2) an increase of $518,199 SGF to provide LEAF financing of 50 replacement vehicles throughout the department. The FY 18 Executive Budget does not provide funds to open the new Acadiana Center for Youth. OJJ 's budget request included $14.3 M SGF to open the facility in July 2017.

Local Housing of State Adult Offenders – The FY 18 Executive Budget recommends a total budget of $166 M, reflecting a total increase of $9 M (including an $11.3 M increase in SGF and a $2.3 M decrease in statutory dedications out of the Insurance Verification System Fund). While the overall recommendation increased over FY 17, the budget plan includes a 2% SGF pro rata reduction of $3.4 M in accordance with the LA Constitution, Article 7, Section 11.A. The entire pro rata reduction amount is applied to the Local Housing of Adult Offenders Program (excluding the Transitional Work Program and the Local Reentry Services Program). The increase in total funding is needed to provide for local housing of state adult offenders in accordance with the per diem of $24.39 as authorized by R.S. 15:824(B)(1)(a), and also provides $468,127 of additional funds for a projected increase in offenders participating in the Transitional Work Program. Corrections projects that the net increased recommended funding level will still realize a shortfall of approximately $14 M in comparison to projected local housing expenditure need.

Judiciary – The FY 18 Executive Budget recommends a total budget of $167.5 M, reflecting a total decrease of $3.8 M SGF. The LA Supreme Court reports that it has not determined the potential impact of the SGF reduction at the current time. Potential solutions include reductions of discretionary funds, administrative costs (travel, supplies, renegotiation and reduction of contracts, etc.), and discretionary programs (drug and reentry courts, Family in Need of Services representation, Child in Need of Care representation, and the Court-Appointed Special Advocates program). Any solution to the $3.8 M reduction is subject to the approval of the Judicial Budgetary Control Council and the Chief Justice of the Supreme Court.

HEALTH & HOSPITALS

--Shawn Hotstream, Health & Hospitals Section Director, hostreas@legis.la.gov--
--Tanesha Morgan, Fiscal Analyst, morgant@legis.la.gov--

The Governor's Executive Budget provides an additional $1.6 B total funding for Medicaid in FY 18. Total Medicaid funding for FY 18 represents a 14.5% increase from the FY 17 Existing Operating Budget. Although program spending is projected significantly higher than FY 17 (from EOB as of 12/1/16), SGF is reduced by $245.7 M, or 10.5%, in the executive budget. SGF is largely reduced and/or offset due to the use of other funds.

FY 18 Medicaid

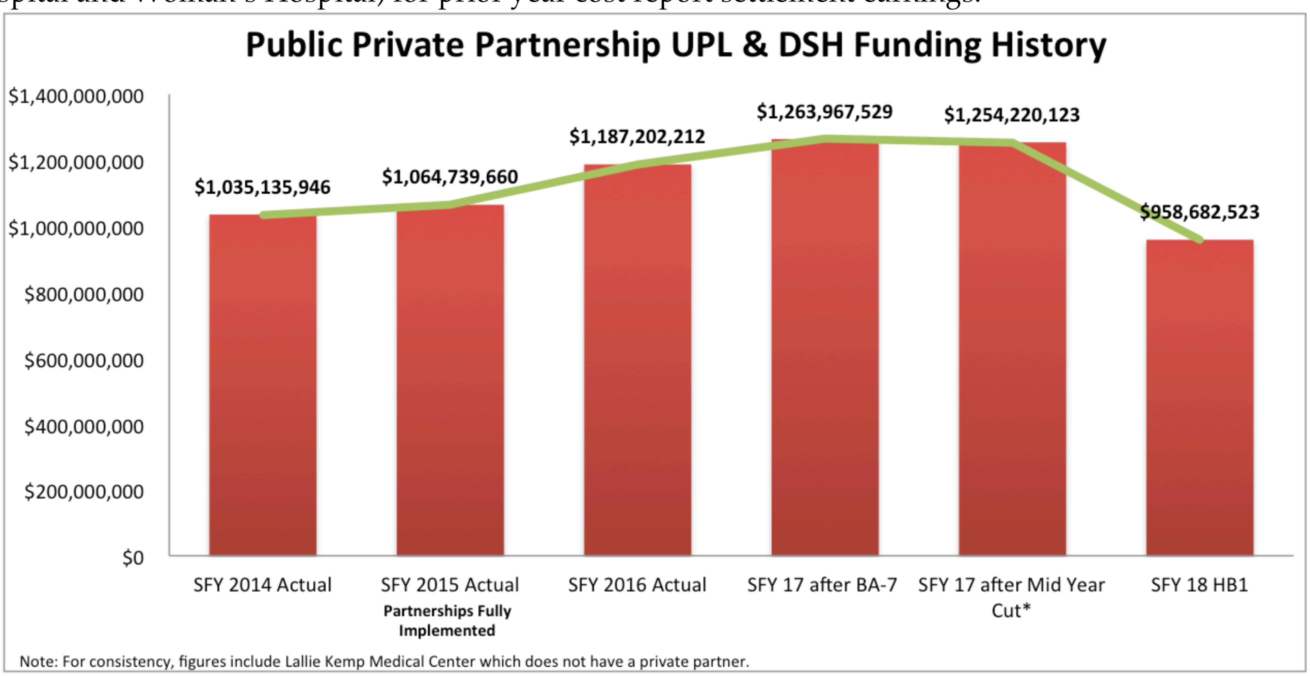
	EOB	*Executive Budget*	*Difference*
SGF	$2,347,201,044	$2,101,425,001	($245,776,043)
IAT	$35,573,960	$24,603,787	($10,970,173)
Fees/Self Gen	$332,224,531	$320,195,434	($12,029,097)
Stat Ded	$690,684,380	$842,358,353	$151,673,973
Federal	$7,601,175,451	$9,319,393,042	$1,718,217,591
Total	$11,006,859,366	$12,607,975,617	$1,601,116,251

Federal Medical Assistance Percentage (FMAP) for FY 18 requiring approximately $90 M less in SGF need, a 22% (or $152 M) increase in Statutory Dedication funding used to replace a like amount of SGF as a state match source to fund the Medicaid program, an increase in SGR contributions from local/public entities to the Medicaid program, non-recurring one-time expenditures, and certain rate reductions/program transfers. A significant reason for the federal funds increase is federal matching funds for additional Medicaid expansion spending in FY 18.

Overall program growth resulted from certain significant increase adjustments, including Medicaid enrollment growth, certain provider rate increases, funding for a pushed check write for both physical and dental health premium payments (represents a prior payment liability), projected fee for service payment utilization increases, a dental managed care capitated payment increase, payments for prior year cost report settlements, and annualized funding needs from FY 17. Specific significant Medicaid increase adjustments for FY 18 are reflected below.

$1.8352 B – Managed Care payment increase, includes $612.5 M funding adjustment in FY 18 for pushed check write payment liability (Physical Health)
$13.96 M – Funding for pushed dental check write (dental services Prepaid Ambulatory Health Plan)
$77.5 M – Rate increases (Ambulance, Nursing Home rebase, FQHC and RHC providers, Hospice, Rural Hospital)
$42 M – Utilization increases (Applied Behavioral Analysis, LT-PCS, Legacy Fee for Service)

Public Private Partnership Funding
Based on specific budget adjustments reflected in the Executive Budget, Private Partner hospital payments are reduced by approximately $305 M in supplemental payments from the existing budget (EOB at 12/1/16 as reflected in the January Medicaid Monthly Financial Report). Specific budget decreases to partnership hospital providers include reducing $84 M (6%) in supplemental Medicaid payments (UPL) and Disproportionate Share (DSH) payments in FY 18. In addition to these specific cuts, approximately $215.4 M in total payments (both UPL and DSH funding) is redirected to fund base per diem rate increases to all hospital providers in FY 18. This redirection of funds alone is anticipated to result in a net reduction to the partner hospitals. Finally, $45.6 M in one-time UPL payments to various partners is reduced (which were paid to cover costs associated with prior year cost report settlements). There is additional supplemental funding in the amount of $14.6 M added to pay certain partners (Our Lady of the Lake Hospital and Woman's Hospital) for prior year cost report settlement earnings.



*An October BA-7 added an additional $135 M in supplemental payments to the partner hospitals (source of match are fees from local hospitals and the LSU Medical Schools)

For FY 17, each partner hospital and the DOA entered into separate Memorandums of Understanding (MOU). The MOUs indicate maximum supplemental payment funding levels (not including Title 19 Medicaid claim payments) to be paid to each partner by LDH. Information provided by the DOA indicates the MOUs for FY 17 will be extended into FY 18, and amended at some point in FY 18. Based on the Executive Budget, current supplemental funding allocations to the PPP's are less than the current MOU levels of funding. To the extent the funding levels itemized in the MOUs are not amended to match the level of funding allocation, there may exist some state payment liability over funding levels allocated for FY 18.

Note: Information provided in the Medicaid budget request indicates all supplemental Medicaid UPL payments will be provided to the health plans through Full Medicaid Pricing (FMP), which will be built into the monthly capitation payments. Full Medicaid Pricing payments are similar to legacy Medicaid UPL payments, just directed to hospitals through the health plans versus directly to the hospital provider.

Note: Federal regulations limit the use of FMP (directed supplemental payments in MCO contracts/rates) in future years, beginning in 2018. (*See "Medicaid and CHIP Managed Care Final Rule" issue below*).

Hospital Base Rate Funding

The FY 18 Executive Budget reduces both supplemental UPL payments and DSH payments and re-directs and utilizes the SGF associated with these reductions for hospital "base rate" increases. These increases represent an increase in per diems "across the board" to all hospitals, by peer group. The specific per diem increase by hospital peer has not been provided to the LFO. This adjustment is initially budget neutral (SGF) for Medicaid as reflected in the Executive Budget (see budget adjustment below in Illustration A). However, the actual costs associated with per diem increases for FY 18 may not necessarily equal the budgeted amounts of claims payments because claims payments are not capped as supplemental payments are.

Illustration A:

Hospital Supplemental Reduction

SGF	Self Gen	Federal	Total	
(8,214,414)	($1,035,958)	($88,036,495)	($97,286,867)	- Reduces hospital UPL supplemental payments
($42,888,680)	$0	($75,229,415)	($118,118,095)	- Reduces hospital DSH supplemental payments
($51,103,094)	($1,035,958)	($163,265,910)	($215,404,962)	

Corresponding Hospital Per Diem Increase

SGF	Federal	Total	
$51,103,094	$325,219,245	$376,322,339	- Increase in hospital per diem payments

Note: Although the partnership hospitals will receive per diem rate increases, the effect of the movement of funding from supplemental payments to rate increases is anticipated to reduce overall net payments to the Public Private Partnerships, as supplemental payments are cost based versus per diem rates which are based largely on service volume.

Note: Increases in hospital provider rates have the effect of reducing the UPL cap. Rate increases in both FY 17 and FY 18 are anticipated to reduce the aggregate allotment of supplemental UPL payments in FY 18. The effect on specific hospitals will depend on how supplemental payments are allocated to providers by LDH.

Managed Care Funding

The FY 18 Executive Budget provides for an increase in total funding to the health plans by approximately $1.84 B for both the expansion and non-expansion populations (these additional payments do not include premium payments for the dental managed care program). Total projected premium payments built into the FY 18 Executive Budget total $8.64 B. Note: This overall level of premium funding assumes payment rates at the rate floor. In addition, the total increase includes the pushed check write prior payment liability ($612.5 M).

FY 18 total MCO (Physical and Behavioral Health) capitation payments:

	EOB	Executive Budget Adjustments	FY 18 Executive Budget
Managed Care *base population*:	$4,885,554,876	($120,004,813)	$4,765,550,063
Managed Care *Expansion population*:	$1,921,423,806	$1,955,215,741	$3,876,639,547
TOTAL	$6,806,978,682	$1,835,210,928	$8,642,189,610

Significant adjustments resulting in this net increase in projected MCO premium payments in FY 18 are related to the expansion population, and include costs associated with enrollment growth, maternity kick payment increases, and growth in trend costs (utilization and inflation).

Dental managed care funding increased by $17.3 M in FY 18, largely to cover the costs associated with a pushed check write payment liability from FY 17 ($13.9 M), and due to both capitation rate increases and projected enrollment growth in the program ($3.3 M) in FY 18.

FY 18 total Dental capitation payments:

	EOB	Executive Budget Adjustments	FY 18 Executive Budget
Dental Program *base population*:	$158,114,632	$12,584,112	$170,698,744
Dental Program *Expansion population*:	$ 9,910,376	$4,712,565	$14,622,941

Medicaid and CHIP Managed Care Final Rule

The final federal managed care rule released by CMS will determine for future years the level of supplemental payments (Full Medicaid Pricing) that can be directed to hospital providers through MCO contracts.

As stated above, additional supplemental payments will be paid by LDH to the Medicaid health insurance plans through capitated payments, and passed through by the plans to the Public Private Partnership hospitals. Note: Based on a final federal managed care rule from the Centers for Medicare and Medicaid Services (CMS) intended to modernize Medicaid Managed Care regulations, FMP supplemental pass through payments (that do not meet the definition of acceptable payments under 438.6(a)) are anticipated to be phased out incrementally, possibly beginning in Federal Fiscal Year 18. States would no longer be able to direct supplemental pass through payments to certain providers through managed care plans (in the capitation payments). Specifically, language in the final rule (CFR 438.6) states "our final rule phases out the ability of states to use pass through payments by allowing states to direct MCO expenditures only based on utilization, delivery of services of individuals under the contract, or the quality and outcomes of services" (value based payments). The final rule provides for a phase out/transition period for using pass through payments (under 438.6(d)). The rule states that pass through payments to hospitals will be phased out over 10 years (10% annual reduction). After July 1, 2027, states are not allowed to direct certain pass through payments to hospital providers through an MCO (Medicaid managed care) contract. Additionally, the rule prohibits pass through payments to physicians and nursing facilities after July 1, 2022 (5-year transition/phase out period).

Although CMS intends through federal rule to eliminate directed payments through Medicaid managed care contracts, the FY 18 budget increases FMP payments. The LFO is seeking further clarification on the rule in order to determine the potential reduction of such pass through payments each year, which will impact payments to certain hospital providers (including both partner hospitals and rural hospitals).

EDUCATION

--Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov--
--Willis Brewer, Fiscal Analyst, brewerw@legis.la.gov--
--Colleen McCrory, Fiscal Analyst, mccroryc@legis.la.gov--

FY 18 Minimum Foundation Program (MFP)/Dept. of Education

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 17, the MFP is funded at $3.669 B; $3.378 B in SGF and $290.8 M in Statutory Dedications from the Support Education in LA First Fund ($109.7 M) and Lottery Proceeds Fund ($181.1 M). The FY 18 Executive Budget includes an adjustment of $18 M for an anticipated increase of 4,031 students and $5.1 M adjustment based on changes to the local tax base. Additionally, there is a $31.8 M MOF swap replacing statutory dedications with SGF. FY 18 funding totals $3.710 B ($3.451 B SGF, $152.8 M Lottery Proceeds Fund and $106.3 M SELF Fund).

In January, the MFP Task Force recommended a funding request including a 1.375% inflation adjustment ($35 M) as well as increased funding for High Cost Services ($6.9 M) and Supplemental Course Allocations ($7.8 M). While the recommended budget does not include increases to the base per pupil amount, which remains at $3,961, it does include $18 M in recommended funding outside of the formula for increases to High Cost Services ($8 M) and Supplemental Course Allocations ($10 M).

Department of Education (DOE) FY 18 funding totals $1,625 B (including $143.7 M SGF, $284.6 M IAT, $57.4 M SGR, $14.6 M Stat Ded and $1,124 B Federal). This represents a total reduction of $8.6 M. In addition to other budget adjustments, the SGF pro rata reductions made as part of the budget balancing plan total $2.9 M (2%).

Subgrantee Assistance will be reduced by $12.3 M, primarily as a result of budget authority adjustments based on historical spending levels. Activities funded in this program include the LA4 Program and the Student Scholarship for Educational Excellence Program (SSEEP) (vouchers). *The Cecil J. Picard LA 4 Early Childhood Program* is the primary preschool program in the state, serving approximately 16,300 children. It provides up to ten hours of early childhood education and before and after activities daily to four-year-olds from disadvantaged families. The *Nonpublic Schools Early Childhood Development Program (NSECD)* provides low-income families the opportunity to attend state-approved private preschools and childcare centers and serves approximately 1,500 preschool children annually. Current per child funding is $4,580.

For FY 18, the LA4 Program is funded at $77 M ($36.5 M SGF and $40.5 M TANF) a slight increase from current year and NSECD funding is slightly lower at $6.9 M SGF for total LA4 program funding of $83.9 M.

SSEEP allows selected students to attend participating non public schools with tuition expenses paid by the state. FY 17 funding is $40.1 M. There were 6,995 students enrolled in the first quarter ending 9/30/2016 for an annualized cost of $38.1 M. FY 18 recommended funding totals $39.8 M, a slight reduction from current year.

Special Schools and Commissions The FY 18 budget also includes $4.5 M in new funding for the Thrive Academy ($4.2 M SGF, $233 K Federal and $65 K IAT). This new state school was authorized by Act 672 of 2016 to provide educational and residential services to at-risk students in the state. Thrive currently serves 140 students in grades 6 – 11, primarily in the Baton Rouge and surrounding areas. At their 2/8/2017 meeting, BESE approved the FY 18 MFP forumula, which includes approximately $1.8 M for Thrive. If the legislature approves the MFP, the $4.2 M SGF allocation could be reduced by this amount resulting in a $4.5 M appropriation as follows: $2.4 M SGF, $233 K Federal and $1.8 M IAT.

FY 18 Higher Education

The FY 18 Executive Budget recommends a total budget of $2,560.2 B, reflecting total reductions of $31.7 M (including $19 M SGF, $9.5 M Statutory Dedications, and $3 M IAT).

Significant adjustments include the elimination of SGF ($18.3 M) as part of the statewide reductions implemented to address the SGF shortfall, as well as statutory dedication reductions based on the most recent REC forecasts ($9.5 M). This represents a reduction of approximately $28 M (for an average 2.5%) for institutions from the Higher Ed funding formula. In previous years institutions had authority to increase tuition (Grad Act) and fees (Act 377 of 2015), however these authorities expire June 30, 2017. As such, institutions do not have a mechanism to replace this revenue loss with other self-generated revenues.

Table 6 on the following page illustrates the potential impacts of the SGF reductions on individual institutions and systems. 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 (BOR) for allocation after passage of the appropriations bill. The SGF allocation for each institution/system in FY 18 contained in the table is based on the same relative portion of their SGF allocation from FY 17.

Furthermore, the table assumes that the Legislature will fund the SGF requirements related to the GO Grant Scholarship Program ($26.4 M) and TOPS ($149.1 M) within the LA Office of Student Financial Assistance (LOSFA)). Excluding LOSFA, the table assumes that remaining higher education institutions and systems will receive a 2.5% pro rata reduction in SGF. Some institutions may receive a higher reduction as a result of the $9.5 M statutory dedication reduction. In reality, the funding formula adopted by the BOR WILL NOT allocate funding to institutions and systems on a uniform basis. However, the table is intended to GENERALLY illustrate the magnitude of the reductions in SGF faced by institutions and systems in the proposed budget.

The Higher Education Funding Formula currently allocates funds based on the following components: a pro-rata or base funding share (70%), cost share (15%) and outcomes share (15%). The BOR has indicated a goal to increase the portion of total funding allocated to institutions utilizing outcomes metrics, however, the BOR has not yet provided information on any changes to the allocation ratios that may be proposed for FY 18.

TOPS funding for FY 17 totals $209.4 M ($149.1 M SGF and $60.3 M Stat Ded) or 70% of actual need. FY 18 projected need is $291.2 M, however funding remains at a standstill level. Based on this funding level, OSFA estimates that a projected 49,493 recipients will continue to receive only 70% of the amount otherwise authorized by statute. GO Grant funding is anticipated to remain at a standstill level ($26.4 M).

TABLE 6 - Higher Education State General Fund by System and Institution - FY 17 EOB compared to FY 18 Recommended (Prorated SGF Cut).

	EOB Base for Distribution[1]	($18,389,304)	% Chng	FY 18 Recommended[2]	% Chng
Board of Regents	$14,046,612	($349,142)	-2.5%	$13,697,470	-8.2%
LA Universities Marine Consortium	$2,279,428	($56,657)	-2.5%	$2,222,771	-2.5%
Office of Student Financial Assistance					
Administration	$3,255,366	($80,915)	-2.5%	$3,174,451	-2.5%
Scholarships/Grants	$1,507,301	($37,465)	-2.5%	$29,798,944	-0.1%
TOPS Tuition	$0	$0	0.0%	$149,116,312	0.0%
Total Board of Regents	**$21,088,707**	**($524,179)**	**-0.3%**	**$198,009,948**	**-0.7%**
Baton Rouge Community College	$14,843,377	($368,946)	-2.5%	$14,474,431	-2.5%
Bossier Parish Community College	$10,611,041	($263,748)	-2.5%	$10,347,293	-2.5%
Central La Technical Community College	$5,186,197	($128,908)	-2.5%	$5,057,289	-2.5%
Delgado Community College	$25,156,147	($625,280)	-2.5%	$24,530,867	-2.5%
L.E. Fletcher Technical Community College	$3,166,341	($78,702)	-2.5%	$3,087,639	-2.5%
LCTCS Board of Supervisors	$7,103,950	($176,575)	-2.5%	$6,927,375	-2.5%
LCTCSOnline	$1,287,012	($31,990)	-2.5%	$1,255,022	-2.5%
Louisiana Delta Community College	$7,637,236	($189,831)	-2.5%	$7,447,405	-2.5%
Louisiana Technical College	$10,021,027	($249,082)	-2.5%	$9,771,945	-2.5%
Northshore Technical Community College	$5,038,565	($125,238)	-2.5%	$4,913,327	-2.5%
Nunez Community College	$3,445,379	($85,638)	-2.5%	$3,359,741	-2.5%
River Parishes Community College	$3,191,701	($79,333)	-2.5%	$3,112,368	-2.5%
South Louisiana Community College	$12,240,139	($304,240)	-2.5%	$11,935,899	-2.5%
SOWELA Technical Community College	$6,793,216	($168,852)	-2.5%	$6,624,364	-2.5%
Total LCTCS System	**$115,721,328**	**($2,876,363)**	**-2.5%**	**$112,844,965**	**-2.5%**
LSU Agricultural Center	$67,678,648	($1,682,218)	-2.5%	$65,996,430	-2.5%
LSU Alexandria	$5,111,186	($127,043)	-2.5%	$4,984,143	-2.5%
LSU A&M College	$113,941,275	($2,832,120)	-2.5%	$111,109,155	-2.5%
LSU Eunice	$4,561,088	($113,370)	-2.5%	$4,447,718	-2.5%
LSU Health Sciences Center New Orleans	$75,749,770	($1,882,833)	-2.5%	$73,866,937	-2.5%
LSU Health Sciences Center Shreveport	$58,142,892	($1,445,197)	-2.5%	$56,697,695	-2.5%
LSU Shreveport	$6,964,229	($173,103)	-2.5%	$6,791,126	-2.5%
Pennington Biomedical Research Center	$16,154,792	($401,543)	-2.5%	$15,753,249	-2.5%
Total LSU System	**$348,303,880**	**($8,657,427)**	**-2.5%**	**$339,646,453**	**-2.5%**
Southern Board of Supervisors	$2,208,087	($54,884)	-2.5%	$2,903,203	-1.9%
Southern Univ A&M College	$20,979,791	($521,473)	-2.5%	$20,458,318	-2.5%
Southern University Law Center	$3,998,169	($99,378)	-2.5%	$3,898,791	-2.5%
Southern University New Orleans	$6,603,318	($164,132)	-2.5%	$6,439,186	-2.5%
Southern University Shreveport	$5,714,036	($142,028)	-2.5%	$5,572,008	-2.5%
SU Agricultural Research/Extension Center	$2,442,477	($60,710)	-2.5%	$3,381,767	-1.8%
Total SU System	**$41,945,878**	**($1,042,605)**	**-2.5%**	**$42,653,273**	**-2.4%**
Board of Supervisors-Univ of LA System	$1,026,178	($25,507)	-2.5%	$1,000,671	-2.5%
Grambling State University	$12,826,623	($318,818)	-2.5%	$12,757,805	-2.4%
Louisiana Tech University	$26,550,006	($659,926)	-2.5%	$25,890,080	-2.5%
McNeese State University	$16,718,898	($415,564)	-2.5%	$16,303,334	-2.5%
Nicholls State University	$14,017,818	($348,426)	-2.5%	$13,669,392	-2.5%
Northwestern State University	$19,372,164	($481,514)	-2.5%	$18,890,650	-2.5%
Southeastern Louisiana University	$27,336,478	($679,474)	-2.5%	$26,657,004	-2.5%
University of Louisiana - Lafayette	$43,881,375	($1,090,714)	-2.5%	$42,975,661	-2.1%
University of Louisiana - Monroe	$23,266,317	($578,307)	-2.5%	$22,688,010	-2.5%
University of New Orleans	$27,779,142	($690,477)	-2.5%	$27,088,665	-2.5%
Total UL System	**$212,774,999**	**($5,288,727)**	**-2.5%**	**$207,921,272**	**-2.4%**
Total Postsecondary Education	**$739,834,792**	**($18,389,301)**	**-2.0%**	**$901,075,911**	**-2.1%**

[1] FY 17 EOB Base excludes funding for START ($1.9 M), Go Grants ($26.4 M), TOPS ($149.1 M), and $2 M SGF for SU Ag, SUS BOS, and Grambling.

[2] FY 18 Recommended includes $185,000 SGF to ULL for the LA Procurement Technical Assistance Center (PTAC); currently funded via IAT.

FY 18 REVENUE MEASURES

--Greg Albrecht, Chief Economist, albrechtg@legis.la.gov--
--Ben Vincent, Economist, vincentb@legis.la.gov--

House Concurrent Resolution 11 of the 2016 First Extraordinary Session created the Task Force on Structural Change in Budget and Tax Policy. The Task Force's charge was to evaluate budget and tax reforms, and to make recommendations of changes to the state's tax laws in an effort to modernize and enhance the efficiency and fairness of the state's tax policies for individuals and businesses, as well as to examine the structure and design of the state budget and make recommendations for long term budgeting reforms. The Task Force submitted its recommendations on November 1, 2016. Those recommendations are described below, but no specific legislation implementing them has been filed to date for consideration in the upcoming legislative session.

The Task Force made recommendations for changes to the state and local sales tax systems, the individual income tax, the corporate income and franchise tax, the property tax, and various economic development incentive programs. With regard to the **sales tax**, major recommendations included (1) reducing the state sales tax rate to a minimum of 4.0% and preferably less as the revenues derived from a tax base expansion and eliminations of exemptions are quantified; (2) eliminating certain exemptions from the sales tax base to include items now taxed according to Act 26 passed in the 1st Extraordinary Session and amended by Act 12 of the 2nd Extraordinary Session; (3) expanding the sales tax base to include the same services that are currently taxed in Texas and digital products; (4) including non-residential utilities as part of the tax base; (5) including manufacturing machinery equipment as part of the state sales tax base but establish rebates in order to be competitive with other states; and (6) establishing a uniform state and local administration and collection system.

With regard to the **individual income tax**, major recommendations included (Option 1) requiring a constitutional amendment to expand the tax base through full elimination of the deduction for federal income taxes paid and half of the deduction for excess federal itemized deductions. In addition, brackets are narrowed, and tax rates are reduced by 25%; and, (Option 2) requiring only statutory enactment to expand the tax base through full elimination of the deduction for excess federal itemized deductions. In addition, brackets are narrowed, but tax rates are not reduced. Additionally, the Task Force recommends the elimination or retention of certain exclusions, deductions, and credits.

With regard to the **corporate income and franchise tax**, major recommendations included the following: 1) a careful evaluation by the Louisiana Department of Revenue and the Louisiana Tax Institute of a move from single-entity taxation, as we currently have, to a system of combined reporting to further assist in creating a simpler more predictable source of revenue for the state; and 2) restructuring, phasing out, or eliminating the Corporate Franchise Tax provided the replacement revenue source to coincide with that restructure, phase out, or elimination is identified. The determination of the appropriate restructure, elimination, or phase out would be through a study conducted by the Louisiana Department of Revenue and the Louisiana Tax Institute. The study of the franchise tax and the combined reporting evaluation are to be completed within two years and recommendations are to be made to the Legislature based on the findings by 2019. Additionally, the Task Force recommends the elimination or retention of certain exclusions, deductions and credits, and that all temporary changes enacted during the 2015 and 2016 Legislative Sessions be allowed to sunset in 2018 in favor of the implementation of the permanent adjustments recommended by the Task Force.

With regard to the **property tax**, major recommendations included: 1) maintaining the present homestead exemption; 2) amending the Constitution to allow for local governmental approval of the industrial tax exemption and creating a statutory framework that ensures local governments are included in the approval process and establishing policies for use of the exemption as an economic development tool that favors job growth. Further, the industrial exemption can be up to 100% of the value of the investment for the first five years and then up to 80% for the next three years; 3) a constitutional amendment to allow for a gradual elimination of the assessment of ad valorem taxes on inventory over a ten-year time period, with millage rollup provisions or other local tax base expansions or a state level revenue sharing fund, accompanied by an elimination of the state income and franchise tax credit for ad valorem taxes paid on inventory over a five-year time period; 4) the elimination of the ad valorem tax credit for natural gas over a five-year period, but the retention of the tax credits associated with offshore vessels and other telephone company property; five-year time period; 4) the elimination of the ad valorem tax credit for natural gas over a five-year period, but the retention of the tax credits associated with offshore vessels and other telephone company property; 5) expanded use of payment in lieu of tax ("PILOT") arrangements for local governments considering ad valorem tax exemptions to attract economic development; and 6) a constitutional amendment limiting the ad valorem tax exemption for property owned by non-profits to property exclusively used for the tax exempt purposes of the non-profit.

With regard to certain **economic development incentive programs**, major recommendations included the following: 1) adjusting the wage requirement ($14.50/hour) of the Quality Jobs Program periodically to keep pace with the growth of the economy; 2) restructure the R&D program from a 40% tax credit to a 30% rebate, limit participation to only companies that receive a federal Small Business Innovation and Research (SBIR) grant, and cap this program at $5 million per year; 3) retain the film credit program as a non-appropriated, non-refundable tax credit incentive with both discounted redemption and transferability as alternative options for use, and that the back-end cap be replaced with a front-end cap; and 4) establish program sunsets of July 1, 2021 and July 1, 2022 on all LED tax credit and rebate incentives, respectively, along with a rigorous studies of tax incentive programs following a number of guidelines recommended by the Task Force.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

February 2017

Volume 5, Issue 4

INSIDE THIS ISSUE

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

Economic Section
Greg Albrecht, Chief Economist
Ben Vincent, Economist

Education Section
Jodi Mauroner, Section Director
Willis Brewer, Fiscal Analyst
Colleen McCrory, Fiscal Analyst

Health & Hospitals Section
Shawn Hotstream, Section Director
Patrice Thomas, Fiscal Analyst
Tanesha Morgan, Fiscal Analyst

General Government Section
Alan Boxberger, Section Director
Zachary Rau, Fiscal Analyst
Monique Appeaning, Fiscal Analyst/Special Projects Coordinator

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Rachael Feigley

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

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

FROM THE DESK OF THE FISCAL OFFICER

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

On the first page you will find a summary of the revisions to the official revenue forecast made at the most recent meeting of the Revenue Estimating Conference (REC) in early January, followed by a brief article regarding the Office of Group Benefits' (OGB) fund balance at the end of FY 16.

John D. Carpenter

FOCUS POINTS

Revenue Forecast Revisions: REC meeting of 1/13/2017

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

The Revenue Estimating Conference (REC) met on January 13, 2017 and reduced overall state tax revenue forecasts for the current fiscal year (FY 17) and the ensuing fiscal year (FY 18) relative to the June 30, 2016 forecast. Base revisions were actually made in February 2016. The result of the latest meeting was to reduce the state general fund revenue forecast by $340.5 million for FY 17 and $397.6 million for FY 18. These forecast downgrades are net of recognition of higher oil and natural gas prices, but these upward adjustments were not sufficient to offset weakness in other revenues associated with the state's economy, especially corporate taxes, the personal income tax, and the general sales tax. Table 1 displays the major forecast revisions for FY 17 and FY 18 compared to the previous forecasts in place.

Table 1

MAJOR REC REVENUE FORECAST REVISIONS
January 13, 2017

Revenue Source (millions $)	FY17 As of 6/30/16	FY17 As of 1/13/17	FY17 Forecast Change	FY18 As of 6/30/16	FY18 As of 1/13/17	FY18 Forecast Change
Personal Income	$3,088.3	$2,881.3	-$207.0	$3,177.3	$2,929.0	-$248.3
Sales, General	$3,774.5	$3,741.2	-$33.3	$3,751.5	$3,798.2	$46.7
Corporate	$510.4	$412.1	-$98.3	$605.2	$451.9	-$153.3
Severance	$278.9	$404.2	$125.3	$304.2	$463.3	$159.1
Royalty	$176.7	$176.4	-$0.3	$209.3	$188.6	-$20.7
Gaming	$906.6	$881.1	-$25.5	$889.4	$867.8	-$21.6
Sales, Vehicle	$523.6	$517.3	-$6.3	$530.1	$511.3	-$18.8
Motor Fuels	$624.1	$632.5	$8.4	$605.2	$635.8	$30.6
Premium Tax	$793.8	$852.4	$58.6	$842.6	$864.6	$22.0
Earnings	$21.0	$8.0	-$13.0	$22.0	$8.5	-$13.5
All Other	$1,334.2	$1,289.3	-$44.9	$1,381.3	$1,325.3	-$56.0
Total Tax	$12,032.1	$11,795.8	-$236.3	$12,318.1	$12,044.3	-$273.8
Less Dedications	$2,407.5	$2,511.7	$104.2	$2,451.0	$2,574.7	$123.7
General Fund	$9,624.6	$9,284.1	-$340.5	$9,867.1	$9,469.6	-$397.5
Oil Price per bbl	$30.00	$48.13	$18.13	$35.55	$51.41	$15.86

The total tax revenue downgrades are largely the effect of reductions in the personal income tax, corporate taxes, and sales taxes, although various miscellaneous receipts are also weak. These reductions are partially offset by upgrades to the severance tax, motor fuels tax, and an increment added to the premium tax by the Conference based on testimony by the La. Dept. of Health (LDH). Increased dedications exacerbate the extent of the downgrades from the perspective of the general fund, with the net of all revisions reflected in the general fund bottom line revisions.

The oil price projections implicit in the June 30, 2016 forecasts actually date to an earlier base revision adopted on February 10, 2016. Those prices appeared reasonable at the time, but eventually became obsolete, and have awaited revision as part of an overall base re-evaluation. The oil price forecast for FY 17 is now $48.13/bbl, and for FY 18 $51.41/bbl. Thus, the latest base revision now incorporates higher prices more consistent with current market trends. Higher natural gas prices were also incorporated into this latest base revision. These mineral price adjustments are reflected in higher severance tax forecasts of $125 million and $159 million, for FY 17 and FY 18, respectively. Royalty receipts have not reflected the mineral price adjustments because royalty production volumes have fallen off significantly, essentially negating the revenue benefit of higher prices. Regardless of these nearly one-year delayed price adjustments to the current market, the state's energy sector is still weakened and negatively affecting the overall economy, contributing to poorer performance in corporate taxes, personal income taxes, and general sales taxes. In addition, there are other issues with regard to these taxes that were discussed at the REC.

The personal income tax forecast was reduced substantially, the result of the state's employment situation which continues to deteriorate. While employment losses reported in October and November were smaller than in previous months, these months still experienced declines compared to their year-earlier levels, which were themselves loss months. Thus, the absolute level of employment in the state is still falling, and income tax collections are reflecting that. Collections in FY 17 are expected to only slightly exceed prior year as a result of legislation further limiting the credit allowed for the Citizens Insurance assessment many taxpayers see on their homeowner's policies. Underlying base growth in later years is expected at no more than 1.5% per year until sustained positive employment growth occurs.

Corporate tax weakness is likely the result of a variety of issues, including uncertain reductions to credits and deductions enacted in the 2015 session, dramatic and prolonged oil and gas price weakness, a strengthening dollar foreign exchange rate, and successive amnesty programs (fiscal years 2010, 2013, 2014, and 2015) that can suppress corporate collections as liabilities that would have normally been received as base collections were collected as amnesty receipts in earlier periods. While the corporate receipts forecast has been downgraded, it still presumes material growth from FY 16 actual collections. Through the first half of FY 17, a backlog of film tax credits have been paid, with no more such credits allowed to be charged against corporate receipts. Actions taken in the 2015 and 2016 sessions, including reductions to credits and deductions as well as add-back and apportionment provisions should, when combined with the exhaustion of allowable film credit charges, ultimately work to increase receipts in the second half of the fiscal year.

Negative employment growth and slowing income growth is the root of the downgrades to the general and vehicle sales tax forecasts. Actual monthly collections are greater in each month of FY 17 relative to FY 16, but this is to be expected since the state tax rate has been increased by 25%, and some additional percentage increase would be expected in the general sales tax due to the expansion of the tax base to include numerous previously exempt transactions. However, collections are not being received sufficient with the previous forecast and are downgraded accordingly. This occurred even in light of greater receipts associated with spending to rebuild neighborhoods in the post-August flooding period. While certainly occurring, on a quarterly basis, additional receipts of general sales tax collections are not readily identifiable in the collections data beyond those that appear associated with the rate and base expansions effective late in the last fiscal year. This spending and associated sales tax receipts is likely to occur over a long drawn out period that doesn't exhibit an obvious surge. These receipts are incorporated into the revenue forecast because they are occurring within the actual collections history, but they are not enough to offset statewide economic weakness. A surge in vehicle sales tax collections is obvious, especially in November receipts. However, these receipts are much more likely to exhibit a one-time bump as vehicles are replaced. This bump has been observed and incorporated into the forecast, but even vehicle sales tax has been downgraded reflecting the weakness of the statewide economy.

The gaming sectors of riverboat, video poker, land-based, and racetrack slots have all been downgraded as a result of weaker spending on this form of discretionary entertainment consumption. Only the lottery is stronger for purposes of the FY 17 budget because of a large Powerball jackpot that enhanced transfers to the state. However, for FY 18 purposes, the lottery sales projection returns to a stepped-down normal level that does not assume abnormally large jackpots.

Baseline premium tax receipts (excise license tax) were also downgraded by a minor amount, reflecting a weak economy. However, collections have stepped up in recent years as the expansion of coverage associated with the Healthy Louisiana Program has proceeded (Medicaid coverage formerly called the Bayou Health Medicaid Managed Care Program). On the basis of testimony by the LDH regarding continuing enrollment growth, the Conference added an additional $62.27 million of the FY 17 baseline forecast, and $86 million to the FY 18 baseline forecast. All premium tax collections associated with Medicaid premiums are dedicated to support of the Medicaid program, and do not result in additional general fund resources for other programs of the state budget. The baseline forecast and the additional increment added by the Conference will largely be verified once collections in March and April are reported.

All other revenue sources comprise a variety of revenue flows that both increased and decreased relative to the prior forecast. Material downgrades were made to receipts expected from certain health care providers reflecting slowing trend growth, and to general fund earnings from state financial investments reflecting smaller investable balances and very low available yields. A material upgrade was made to tobacco tax collections as this revenue source appears to be settling into a higher average monthly position than expected after two successive tax increases in the 2015 and 2016 legislative sessions. Finally, a material net downgrade was made to the vehicle title tax consistent with Conference approval to allow the Office of Motor Vehicles to reclassify receipts resulting from an increase in the tax enacted in the 2015 session as fees and self-generated revenue rather than major state tax revenue. This reduced the previous baseline amount by $56.9 million. This reduction was offset somewhat by an associated increase in Agency Self-Generated Revenue Overcollections reflecting the estimated $24.6 million of the title tax increase not to be budgeted for Dept. of Public Safety purposes. The net effect on total REC collections is a loss of $32.3 million.

Along with forecast reductions for FY 17 and FY 18, the entire forecast horizon baseline was reduced, reflecting a slower and weaker employment and income growth outlook over the forecast horizon, offset somewhat by higher recognized mineral prices. Relative to the June 30, 2016 forecast, total tax projections are now lower by $141.1 million for FY 19, and $164.8 million for FY 20. An FY 21 projection was not made as of the June 30, 2016 forecast. General fund projections are now lower by $244.8 million for FY 19, and $266.5 million for FY20.

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

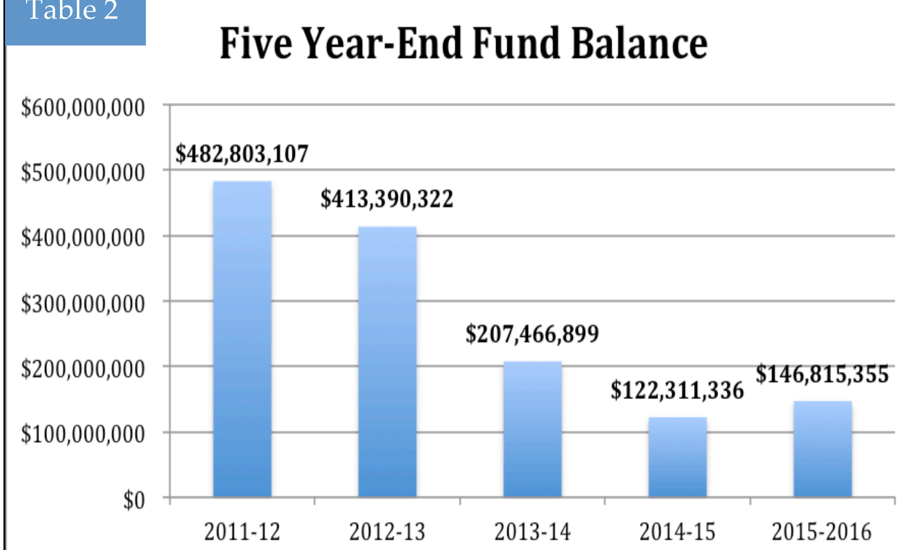
GENERAL GOVERNMENT

Office of Group Benefits Fund Balance Update
Willis Brewer, Fiscal Analyst, *brewerw@legis.la.gov*

The Office of Group Benefits (OGB) finished FY 2015-2016 with a fund balance of $146.8 million. This represents an increase of $24.5 million (20%) over last year's ending balance of $122.3 million. The FY 16 ending fund balance represents the first increase to OGB's fund balance during the last five years (See Table 2).

The overall change from FY 12 to

Table 2



FY 16 has revenues increasing by $54.6 million (4%) and expenditures increasing by $13.1 million (1%). While total expenditures have increased by only $13.1 million, prescription drug expenses have increased by $65 million or 20%. As Table 3 shows, the rise in prescription drug costs has been offset by a decline in medical expenditures that have fallen by $30.5 million (3%), administrative expenditures that have fallen by $16 million (21%), and other expenditures by $5 million (12%).

OGB Five Year Revenue and Expenditure Trend FY 12 – FY 16 (Table 3)

						FY16 over FY12	
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	$ Chng	% Chng
Revenues							
Self-Funded Plans	$1,242,033,566	$1,173,659,317	$1,151,694,803	$1,199,090,536	$1,282,632,643	**$40,599,077**	**3%**
Fully-Insured Plans	$39,623,377	$35,686,790	$29,092,520	$36,362,859	$45,522,823	**$5,899,446**	**15%**
Other	$60,937,329	$54,976,520	$65,606,894	$67,550,106	$69,088,065	**$8,150,736**	**13%**
Revenues Total	**$1,342,594,272**	**$1,264,322,627**	**$1,246,394,217**	**$1,303,003,501**	**$1,397,243,531**	**$54,649,259**	**4%**
Expenditures							
Medical Expenditures	$908,365,300	$902,303,141	$979,551,136	$930,667,685	$877,910,297	**($30,455,003)**	**-3%**
Prescription Drug	$329,428,457	$324,579,299	$368,998,353	$361,692,269	$394,549,164	**$65,120,707**	**20%**
Administrative	$79,593,439	$72,430,586	$67,279,876	$68,817,613	$63,261,367	**($16,332,072)**	**-21%**
Other	$42,253,721	$34,422,386	$36,488,274	$26,981,498	$37,018,683	**($5,235,038)**	**-12%**
Expenditures Total	**$1,359,640,917**	**$1,333,735,412**	**$1,452,317,639**	**$1,388,159,065**	**$1,372,739,512**	**$13,098,595**	**1%**
Net Income/(Deficit)	**($17,046,645)**	**($69,412,785)**	**($205,923,422)**	**($85,155,564)**	**$24,504,019**		

OGB implemented several benefit changes to their medical and prescription drug plans that went into effect January 2015 (retirees were excluded from prescription drug changes) that resulted in cost savings in FY 15 and FY 16. These changes resulted in a reduction in medical expenditures in FY 15 and FY 16 that offset the medical inflation increases. However, prescription drug inflation has continued to rise at a greater rate than medical expenses and as a result prescription drug expenditures have increased compared to previous years.

Office of Group Benefits Revenue and Expenditure Projections FY 17 – FY 21

OGB is projecting for FY 17 approximately $160.6 million fund balance, a net increase of $14 million. Based on these estimates, OGB has projected it may not need to increase premium rates for FY 18 (January 2018) in order to maintain their fund balance within the targeted year end fund balance ranges as long as their current strategic initiatives are implemented.

During the Group Benefits Policy and Planning Board on January 10, 2017, OGB presented to its board a strategic plan to offset the actuarial projected increase in medical pharmacy costs of $102 million in FY 18. OGB estimates it will save $77.5 million through contract management initiatives ($60.9 million) and formulary management ($16.6 million) from enhanced rebates, increased network discounts, and revising administrative fees from a per member per month (PMPM) to a per claim charge.

The remaining $24.5 million will be offset by implementing a one percent (1%) plan change, a spousal surcharge, and tobacco surcharge that, combined, is estimated to save $25,240,000 (slightly exceeding the $24.5 million target). The 1% plan change initiative raises the out-of-pocket maximum on all of the OGB plans by $1,000 and increases the emergency room co-payment by $50 in the Local Plus plan only. The spousal surcharge initiative imposes a $50 per month surcharge on all participants who cover a working spouse who is eligible to be covered by an employer sponsored plan but who has declined this coverage. The tobacco surcharge initiative would impose a $50 per month surcharge on all participants who use or whose covered dependents use tobacco products. Absent any written objection to these strategic initiatives, the OGB Board will advise OGB to proceed with the recommendations.

Projected Fund Balance FY 17 – FY 21

The projected fund balance (Table 4, following page) anticipates a net loss in FY 19 – 21 even including a 5% plan rate increase. The fund balances are above the minimum year-end target ranges for FY 19 and FY

20, but the FY 21 projected fund balance falls slightly below the minimum target range. The forecast does include the contract and formulary savings, but does not yet include the strategic changes outlined above. Once the strategic initiatives are implemented, the projected year-end fund balances are anticipated to reflect additional gains.

Projected Actuarial Fund Balance FY 17 – FY 21 (Table 4)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Beginning Fund Balance	$146,815,355	$160,615,355	$184,315,355	$171,415,355	$157,915,355
Revenues	$1,430,800,000	$1,487,000,000	$1,523,600,000	$1,599,800,000	$1,679,700,000
Expenditures	($1,417,000,000)	($1,463,300,000)	($1,536,500,000)	($1,613,300,000)	($1,693,900,000)
Net Income/(Loss)	*$13,800,000*	*$23,700,000*	*($12,900,000)*	*($13,500,000)*	*($14,200,000)*
Year-End Fund Balance	***$160,615,355***	***$184,315,355***	***$171,415,355***	***$157,915,355***	***$143,715,355***
Year End Target Ranges					
Min	$137,000,000	$128,000,000	$134,000,000	$141,000,000	$148,000,000
Max	$236,000,000	$244,000,000	$256,000,000	$269,000,000	$282,000,000
Midpoint	$186,000,000	$186,000,000	$195,000,000	$205,000,000	$215,000,000
Projected Plan Rate Changes	7%	0%	5%	5%	5%

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

DECEMBER 2016

Volume 5, Issue 3

INSIDE THIS ISSUE

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

Economic Section
Greg Albrecht, Chief Economist

Education Section
Jodi Mauroner, Section Director
Matthew LaBruyere, Fiscal Analyst
Colleen McCrory - Intern

Health & Hospitals Section
Shawn Hotstream, Section Director
Patrice Thomas, Fiscal Analyst
Willis Brewer, Fiscal Analyst

General Government Section
Alan Boxberger, Section Director
Zachary Rau, Fiscal Analyst
Monique Appeaning, Fiscal Analyst/Special Projects Coordinator

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Rachael Feigley

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

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

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office hearby presents the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This issue contains articles pertaining to K-12 and higher education. The K-12 articles discuss the teacher preparation program, and the Teacher Incentive Fund grant award. The article pertaining to higher education discusses the new funding formula implemented in FY 17.

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

Louisiana Department of Education Believe and Prepare - Teacher Preparation Programs Proposed Rule Change

Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov

The Louisiana Department of Education (LDE) has proposed a rule change to the current teacher certification policies which creates a structure requiring completion of competency-based curriculum and demonstrated mastery of competencies. Most significantly, the changes incorporate a full year residency requirement for teacher candidates to teach alongside a mentor teacher in the classroom. The department proposes transition funding totaling $7.3 M over the next three years (FY 16/17 through FY 18/19) using a mix of state and federal funds. Additionally the LDE will utilize approximately $4 M annually from the recently awarded federal Teacher Incentive Fund grant. Beginning in FY 19/20 the department proposes to redirect existing federal funds of up to $2.2 M, and to require districts to utilize $2.5 M in existing federal funds in partial support of the program costs. However, based on cost model simulations, cost estimates from pilot participants, and the cost of including the alternative certification programs, actual expenditures could significantly exceed these amounts.

For the past three years, an average of 1,250 graduates have completed traditional teacher training programs and an additional 1,350 have completed an alternative certification program. Since 2013 the LDE has provided $4.9 M utilizing a mix of federal and state funds to support a pilot (Believe and Prepare) aimed at developing partnerships between local school districts (Districts) and Institutions of Higher Education and other approved program providers which award teaching certificates (Providers) to create a practice-based teacher preparation program. The proposed rule creates a competency based teacher certification structure which includes the requirement that, beginning in July 2018, all teacher candidates serve a one-year residency in a classroom with a teacher of record (mentor teacher) who holds a valid teaching certificate. In order to obtain certification, residents must spend a minimum of 60% to 80% of instructional time engaged in resident activities, depending upon the area of certification. A team comprised of a school-based mentor teacher, the residency school site principal, or designee, and a provider program faculty member shall supervise traditional teacher candidates, as well as candidates seeking alternative certification. The supervision shall contain at least two formal observations of teaching practice each semester. Although not specifically stated in the proposed rule, the LDE proposes compensating teacher mentors (of traditional teacher candidates only) with a minimum stipend of $1,000 and resident teacher candidates with a stipend of $2,000 annually.

To provide guidance and tools to assist Districts and Providers, the department provided a number of documents in their "Believe and Prepare Toolkit". Relative to the budget, the document states that partnerships may require two phases of funding: the first associated with launching the program may include the cost of an administrator to oversee implementation; the second may include stipends for mentor teachers and coaches, salaries for long term program leadership positions and ongoing supply and program maintenance costs. The model is based on the experience of pilot programs in Louisiana and mature programs in other states. Table 1 reflects the potential costs of such programs using this LDE cost model. *Note:* The cost model is based on a program of 100 teachers; it does not include the cost of teacher resident stipends; university faculty stipends may not be required but the model assumes 6 at each participating university as a one-time cost only. Applying state graduation rate data, the model projects a potential $7.5 M annual cost for the Districts and public universities.

Potential Program Costs (Table 1)

Sample From LDE Toolkit	Annual Cost	LA Projected	LA Annual Cost
District Coordinator Stipend	$ 3,000	69	$ 207,000
University Coordinator Stipend	$ 3,000	14	$ 42,000
Mentor Teacher Stipend[1]	$ 2,000	1250	$ 1,250,000
University Faculty Stipend[2]	$ 2,000	84	$ 168,000
Stipends for Coaches[3]	$ 6,000	345	$ 1,035,000
Classroom Upgrade/Technology[2]	$ 10,000	0	$ -
Supplies[4]	$ 10,000	83	$ 830,000
Training for Teacher Coaches (1:10)[5]	$ 10,000	35	$ 350,000
Training for Mentor Teachers (1:100)[6]	$ 45,000	26	$ 1,170,000
Teacher Resident Stipend[7]	*$ 2,000*	*1250*	*$ 2,500,000*
		TOTAL	**$ 7,552,000**

1) LDOE proposal includes $1,000 stipend for mentor teacher of (1250) traditional teacher candidates only; **no stipends proposed for mentor teachers of (1350) candidates seeking alternative certification which would add an additional $2.7 M in costs**

2) Model assumes one time cost only

3) No ratio provided in documents; assumes 5 coaches for each of the 69 public school districts at $3,000 each

4) Assumes this amount for each of the 69 public school districts and 14 public universities

5) Teacher coaches are trained alongside or by program faculty to ensure feedback to cadidates is aligned to expecations

6) Assumes mentor training for both traditional teacher mentors and alternative certification mentors

7) Not included in cost model: LDE proposal includes $2,000 stipend for traditional teacher candidates only; no stipends proposed for candidates seeking alternative certification as they are eligible to serve as a salaried teacher of record during their residency

Based on information from local school districts, estimated training costs depicted above may be understated. Notably, the University Providers were only asked to identify costs associated with undergraduate residencies and therefore, did not examine the additional cost for the implementation of alternative certification programs. Furthermore, University Providers and Districts participating in the pilot have identified other potential costs which are generally not contemplated in this sample budget. This includes continued stipends for University Coordinators and Supervisors (included in this cost projection) an increase in the number of supervisors; travel costs for supervisors traveling to schools throughout the districts; principal stipends; materials for teacher candidates; participation in state and national conferences and meetings; as well as data management systems and research centers to track outcomes and effectiveness. Actual costs will depend upon the parameters of the partnership agreement between the Providers and the Districts, resource availability, and the number of graduates in each program and may not reprsesent new or increased costs for all participants. The cost model provides the following suggestions for Providers and Districts launching and achieving sustainability of the program: provide lower salaries to resident teachers; charge certification fees; reduce or eliminate mentor teacher stipends over time and reallocate existing Title II funding. At this juncture, the LDE proposal only includes the reallocation of the federal funds to pay resident stipends.

For the period FY 16/17 through FY 18/19, the LDE proposes to redirect a total of $7.3 M from existing state and federal funds, to provide for the design and implementation of the new structure and the teacher residency requirements. Proposed means of finance and expenditures as provided by LDE are outlined in Tables 2 and 3 on the next page. (*Note:* Projected expenditures exceed projected revenues by $106 K.)

Proposed expenditures do not include all potential costs identified in the sample budget included in the toolkit rather, the LDE offers this as minimal, foundational funding. Table 3 depicts the proposed allocation of funds for the next three years.

Funding for 15 Full Time Equivalent (FTE) Transition Coordinators at 14 public and three private universities (3 at 1.5 FTE, 7 at 1 FTE and 7 at .5 FTE) assumes a base salary of approximately $50,000 and 30% related benefits for an average of $62,833 each; $1,000 mentor teacher stipend and $2,000 teacher resident stipend funding assumes 250 participants in Start up, 375 in Year 1 and 625 in Year 2; teacher training and provider support will be provided by national experts through contracts to be awarded by LDE (annual expenditure amounts are unknown at this time); funds from the high cost needs pool will be awarded via an application process to providers which meet self-established annual transition outcomes to be used for ancillary costs incurred by participants. Providers were asked to submit applications by November 18 for funds to be distributed January 2017. Applications for high costs needs funding are to be submitted by January 30.

Projected Revenues (Table 2)

Means of Finance	FY 2017	FY 2018	FY 2019	TOTAL
Title 1003A	$ 8,766	$ 293,567	$ 300,000	$ 602,333
Consolidated Administrative Funds	$ -	$ 180,000	$ 200,000	$ 380,000
IDEA	$ 883,333	$ 818,333	$1,316,499	$3,018,165
8g	$1,000,000	$1,000,000	$1,000,000	$3,000,000
Teacher Incentive Fund (TIF) Grant	$ -	$ -	$ 275,000	$ 275,000
Total	$1,892,099	$2,291,900	$3,091,499	$7,275,498

Proposed Expepenses (Table 3)

Expenditures	Start Up - FY 17	Year 1 - FY 18	Year 2 - FY 19	3 Year Total
Transition Coordinator	$ 942,500	$ 942,500	$ 942,500	$ 2,827,500
District Coordintator Stipend	$ -	$ -	$ -	$ -
University Coordinator Stipend[1]	$ -	$ -	$ -	$ -
Mentor Teacher Stipend	$ 249,866	$ 374,800	$ 624,666	$ 1,249,332
University Faculty Stipend	$ -	$ -	$ -	$ -
Coaches Stipends	$ -	$ -	$ -	$ -
Classroom Upgrade/Technology	$ -	$ -	$ -	$ -
Supplies	$ -	$ -	$ -	$ -
Training for Coaches	$ -	$ -	$ -	$ -
Training for Mentor Teachers	$ -	$ 200,000	$ -	$ 200,000
High cost needs pool	$ -	$ 400,000	$ -	$ 400,000
Provider Support	$ -	$ 100,000	$ -	$ 100,000
Resident Stipend	$ 499,733	$ 749,600	$ 1,249,333	$ 2,498,666
Total	$ 1,692,099	$ 2,766,900	$ 2,816,499	$ 7,275,498

1) See Transition Coordinator

In addition the department will use approximately $4 M annually from the Teacher Incentive Fund (TIF) grant award. Approximately $1.25 M will be allocated to six Providers (to be determined) and between $2.3 M and $3.3 M will be allocated to 16 participating rural school districts. Teacher training funded through this grant may also include mentor teachers outside of the grant participants. <u>*Note:* For more on the TIF grant award see the next article in this newsletter.</u>

In FY 19/20 and beyond, the LDE proposes utilizing the existing Title I and Title II state set-aside funding (5% of total award) up to $2.2 M for mentor stipends, university coordination costs, and statewide training. The amount of $1.25 M will be used for mentor teacher stipends for traditional teacher candidates only. (The LDOE proposal does not contemplate funding for mentor teachers for alternative certification candidates.) The remaining $950 K will be used to offset coordination costs and statewide training. The LDE anticipates these funds will be allocated annually based on actual expenditure needs. To the extent actual costs exceed this amount, and no state funding is provided, Districts and/or Providers will be responsible for providing additional funding. Additionally, the LDE proposes sustaining teacher resident stipends ($2.5 M) by requiring Districts' to utilize their existing federal Title II and other federal funds and/or by allowing teacher candidates to serve as substitute teachers up to 10 days each semester.

Historically, the LDE has used set aside funding to pay salaries, travel expenses, and other operating costs of the department. Districts have used these federal funds for a variety of initiatives and expenses. This will require both the LDE and Districts to either identify alternate funding sources for ongoing federal fund expenditures that will be reallocated, or to cease those activities. <u>*Note:* Under the recently reauthorized Every Student Succeeds Act (ESSA) the state may exercise the option to increase Title I 1003-A state set aside amounts up to 3% and an additional 3% set aside of Title II-A funds to be utilized for direct student services and teacher initiatives such as this. This would effectively redirect existing funding from all Districts to be redistributed based on individual Districts' participation in this initiative. However, the LDE has indicated it will not exercise this option to pay expenses of the teacher preparation program.</u>

EDUCATION

Department of Education - Teacher Incentive Grant Award
Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov

On September 30, 2016, the state Department of Education (LDE) announced the award of a federal

Teacher Incentive Fund (TIF) grant in the amount of $66.8 M. The award spans a period of five years and will be used for initiatives in 16 rural school systems (LEAs) with a total of 137 schools, including two charter schools. Participating districts include Allen, Assumption, Caldwell, Catahoula, Grant, Concordia, Lincoln, Morehouse, Red River, Richland, St. Helena, St. Landry, Tensas, W. Carroll, JS Clark Leadership Academy (St. Landry) and Tallulah Charter School (Madison). A portion of these funds will be used to support the Teacher Preparation Program initiative as discussed in the previous article.

Per the LDE application document, the project aims to expand equitable access to effective educators and increase student achievement in rural districts. The two primary objectives are to improve formative assessments and goal setting, and to develop a more robust talent development pipeline from pre-service educators through principals that is based on an improved Compass evaluation and support system. In order to achieve these objectives, LDE proposes the following activities and changes that will be implemented in order to achieve the stated objectives.

1) Build an aligned assessment and goal-setting system.
   Secure diagnostic and interim assessments which are aligned to the state standards including core content areas of English, math, social studies and science across all specter of learners (early, elementary, English Language, and special education). The LDE will engage a provider to work with each LEA to audit their assessment system, purchase or build new assessment systems, and ensure all instructional personnel are trained in the new system.

2) Improve and extend district/teacher preparation program partnerships.
   Align teacher preparation program curriculum to current expectations, including year long residencies for teacher undergraduate programs; strengthen the role of mentor teachers through support of partnerships which select more teachers with demonstrated success per Compass; develop additional training; as well as work to offer differentiated compensation to mentors and teacher residents.

3) Strengthen and expand a principal fellowship.
   Expand access to Principal Fellowships to ensure every rural district has at least one participant each year; align fellowship content to increase the focus on the new assessment system and prepare principals by projecting workforce needs, and enhance data reporting functions from CIS and other reports.

4) Design differentiated compensation plans based on demand for working in rural areas and on performance.
   Evaluate and improve incentive pay programs by offering differentiated compensation based on demand for working in rural areas and for performance using Compass goals.

As demonstrated in the Table 4 on the next page, a total of $18.2 M will be allocated to 16 LEAs and six Providers (to be determined) for implementation costs of the Teacher Preparation Program. Annual allocations will be based on the actual number of participants in each district. The proposal anticipates 20 participants at each district with decreasing stipend amounts over the 5 year period. This includes $2,000 for resident teachers in the first year and $1,000 for the third and fourth year and $4,000 for mentor teacher stipends in year one and tapering off to $1,000 in year five. Additionally, the LDE will expend $2.6 M on contracts with 3rd party contractors (to be determined) to provide support in curriculum redesign ($1.2 M) and mentor teacher training ($1.4 M). This combined total of $20.8 M represents 31% of the total grant award.

The LDE expenses total $35.7 or 54% of the grant award (does not include $2.6 M for teacher prep spending cited above). This includes spending on administrative staff and support, overhead, and indirect costs; travel and supplies; upgrades to the Compass Information System (CIS); the assessment contract with Data Recognition Corporation (DRC); audit and reporting contracts; and training sessions. The remaining $10.2 M (15%) will be allocated for performance based compensation stipends and Principal Fellowship activities.

The LDE states that TIF elements will be funded through existing LEA funding sources once the grant period ends.

Proposed Grant Spending (Table 4)						
Grant Allocation	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**	**5 Year Total**
Distributions to 6 Providers						
Teacher Prep Provider Grants	$ 1,250,000	$ 1,250,000	$ 1,250,000	$ 1,000,000	$ 500,000	$ 5,250,000
subtotal	$ 1,250,000	$ 1,250,000	$ 1,250,000	$ 1,000,000	$ 500,000	$ 5,250,000
Distribution to 16 LEAs						
Teacher Resident Coordinator (16*$65K)	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 6,000,000
(30%)	$ 315,000	$ 315,000	$ 236,250	$ 157,500	$ 78,750	$ 1,102,500
Mentor Teacher Stiped (16*20 @ $4k-$1K)	$ 1,280,000	$ 960,000	$ 640,000	$ 640,000	$ 320,000	$ 3,840,000
Mentor Teachers Related Benefits (30%)	$ 336,000	$ 252,000	$ 168,000	$ 84,000	$ -	$ 840,000
Teacher Resident Stipend (16*20 @ $2k-$1k)	$ -	$ 600,000	$ 300,000	$ 300,000	$ -	$ 1,200,000
subtotal	$ 3,131,000	$ 3,327,000	$ 2,544,250	$ 2,381,500	$ 1,598,750	$ 12,982,500
Total to LEAs and Providers	***$ 4,381,000***	***$ 4,577,000***	***$ 3,794,250***	***$ 3,381,500***	***$ 2,098,750***	***$ 18,232,500***
LDOE Expenses						
LDOE Personnel (6 @ 100%; 20 @ cost share)	$ 808,660	$ 808,660	$ 808,660	$ 808,660	$ 808,660	$ 4,043,300
Related Benefits (30%)	$ 312,865	$ 312,765	$ 312,765	$ 312,765	$ 312,765	$ 1,563,925
Travel	$ 87,534	$ 87,534	$ 87,534	$ 87,534	$ 87,534	$ 437,670
Supplies	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 50,000
Compass Equipment & IT	$ 1,181,068	$ 1,520,000	$ 270,000	$ 120,000	$ -	$ 3,091,068
Teacher Leader Collaboration/Summits	$ 700,000	$ 700,000	$ 700,000	$ 700,000	$ 700,000	$ 3,500,000
Overhead Costs	$ 55,000	$ 55,000	$ 55,000	$ 55,000	$ 55,000	$ 275,000
Indirect Costs	$ 1,219,107	$ 1,732,670	$ 1,296,645	$ 1,097,669	$ 833,004	$ 6,179,095
Contracts						
DRC to implement new formative assessment system	$ 2,000,000	$ 3,500,000	$ 2,350,000	$ 2,350,000	$ 2,350,000	$ 12,550,000
Vendor (TBD) to provide reporting options on student assessment and teacher performance	$ 800,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 1,600,000
Center for Assessment to support alignment of new formative system to standards and summative assessments	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 500,000
assist in implentation of the new formative assessment system	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 1,000,000
Teacher Leader Advisors (TBD) to create Compass tools and lead training	$ 91,000	$ 91,000	$ 91,000	$ 91,000	$ 91,000	$ 455,000
partner LEAs to determine necessary adjustments	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 375,000
Vendor (TBD) for Workforce Projections to project short and long term hiring needs	$ 50,000	$ 10,000	$ 10,000	$ -	$ -	$ 70,000
Vendor (TBD) to support University Curriculum Redesign	$ 400,000	$ 400,000	$ 400,000	$ -	$ -	$ 1,200,000
Vendor (TBD) to provide Mentor Training	$ 400,000	$ 400,000	$ 400,000	$ 150,000	$ 50,000	$ 1,400,000
Total to LDOE	***$ 8,490,234***	***$ 10,202,629***	***$ 7,366,604***	***$ 6,357,628***	***$ 5,872,963***	***$ 38,290,058***
Other Inititives						
Performance Based Compensation Stipends	$ -	$ 2,800,000	$ 1,960,000	$ 1,400,000	$ 560,000	$ 6,720,000
PBCS Related Benefits (30%)	$ -	$ 840,000	$ 588,000	$ 420,000	$ 168,000	$ 2,016,000
LEA Principal Fellowship (20@$15k)	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 1,500,000
TOTAL Other Initiative	***$ 300,000***	***$ 3,940,000***	***$ 2,848,000***	***$ 2,120,000***	***$ 1,028,000***	***$ 10,236,000***
Grand Total Grant Expenditures	**$ 13,171,234**	**$ 18,719,629**	**$ 14,008,854**	**$ 11,859,128**	**$ 8,999,713**	**$ 66,758,558**

Board of Regents Funding Formula for Higher Education

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

Formula Description

Act 462 of 2014 required the Board of Regents (BOR) to develop an outcomes based funding formula for implementation beginning in FY 17. The formula developed and utilized for FY 17 allocates SGF for each institution/system based on a 70% pro-rata share (base funding), 15% cost calculation share, and a 15% outcomes share. The base funding is based on the 7/1/2015 appropriation levels and provides safeguards to prevent sudden, dramatic changes in the funding level of any postsecondary institution as required in Act 462. The cost calculation is based on weighted factors including Southern Regional Educational Board (SREB) peer group salary data, course offerings, degree level, space utilization, and support services. The performance metrics are based on student retention and progression, completer degree levels, transfers, completers in high demand fields (4 & 5 star jobs), time-to-award, and students receiving the Pell grant.

This article provides details on the FY 17 Funding Formula Allocations (Part I), the Formula Design (Part II), and Formula Implementation (Part III).

Part I: FY 17 Funding Formula Allocations

The FY 17 distribution methodology was based on a 70/15/15 split of available state general fund. This includes 70% of the FY 16 base funding, 15% of the cost calculation share, and of the 15% outcomes share. The FY 16 base funding was $478.2 M, approximately $850,000 more than available FY 17 SGF. As a result of the different amounts, the base funding was distributed pro-rata to match the available SGF for FY 17.

Table 5 represents how institutions would receive available funds for FY 17 based solely on one factor e.g. if the pro-rata distribution utilized in FY 16 was used again (Base Total column); if institutions received funds solely from the cost formula (Cost Total column); if allocation was solely from the performance formula (Performance Total column).

Comparing institutional funding under each total, the differences in funding are more drastic for some institutions than others. Most notably in the 2-year institutions are LA Technical College (LTC) and Northshore Technical Community College; at the 4-year level are UL-Monroe (ULM) and Southeastern Louisiana University (SLU). It should be noted that the pro-rata distribution (Base) is $15.6 M lower for 2-year institutions compared to the cost and performance totals and $15.6 higher for 4-year institutions compared to cost and performance totals. <u>The $15.6 M difference between the Base Total and Cost and Performance Totals is based on the realignment of actual costs. In previous fiscal years, the formula was not executed and funding was distributed on a pro-rata basis.</u>

Table 5			
2-Year Allocations			
	Base Total	Cost Total	Performance Total
L.S.U. at Eunice	$ 4,551,689	$ 4,421,053	$ 4,164,026
Southern University in Shreveport	$ 4,602,961	$ 5,523,082	$ 4,909,101
Baton Rouge Community College	$ 14,366,389	$ 16,146,224	$ 16,894,498
Bossier Parish Community College	$ 7,956,122	$ 12,010,107	$ 12,332,572
Delgado Community College	$ 24,862,134	$ 29,176,787	$ 25,897,612
Elaine P. Nunez Community Coll.	$ 3,056,094	$ 4,103,642	$ 4,353,618
River Parishes Community Coll.	$ 2,981,548	$ 3,186,364	$ 3,600,816
South Louisiana Community Coll.	$ 12,297,525	$ 13,141,498	$ 13,606,000
Louisiana Delta Community Coll.	$ 7,750,571	$ 7,666,630	$ 6,929,508
L.E. Fletcher Tech. Comm. Coll.	$ 2,627,361	$ 3,956,902	$ 4,545,179
Sowela Tech. Comm. Coll.	$ 5,508,823	$ 7,688,435	$ 9,840,990
LA Technical College	$ 10,659,356	$ 8,975,357	$ 9,887,222
Central LA Tech. Comm. Coll.	$ 5,570,604	$ 5,736,908	$ 3,738,275
Northshore Tech. Comm. Coll.	$ 4,828,035	$ 5,459,551	$ 6,493,123
Total	$ 111,619,212	$ 127,192,541	$ 127,192,541
4-Year Allocations			
	Base Total	Cost Total	Performance Total
Grambling State University	$ 12,342,555	$ 10,724,188	$ 10,521,375
Louisiana Tech University	$ 26,396,823	$ 25,544,454	$ 28,270,414
McNeese State University	$ 16,948,965	$ 17,432,265	$ 14,931,884
Nicholls State University	$ 14,401,573	$ 13,245,639	$ 12,999,139
University of Louisiana at Monroe	$ 23,537,462	$ 28,488,485	$ 16,778,800
Northwestern State University	$ 19,767,856	$ 19,560,819	$ 17,336,945
Southeastern Louisiana University	$ 28,513,649	$ 23,200,448	$ 25,979,045
University of Louisiana-Lafayette	$ 43,546,375	$ 44,118,978	$ 45,207,105
University of New Orleans	$ 28,642,627	$ 21,801,393	$ 29,727,295
L.S.U. at Alexandria	$ 5,100,653	$ 4,001,080	$ 3,542,166
L.S.U. and A&M College	$ 113,706,474	$ 114,470,572	$ 115,355,821
L.S.U. in Shreveport	$ 6,949,878	$ 8,639,367	$ 7,817,196
Southern University and A&M Coll.	$ 20,115,220	$ 15,339,848	$ 15,869,651
Southern University in New Orleans	$ 5,719,939	$ 3,549,186	$ 5,779,885
Total	$ 365,690,050	$ 350,116,721	$ 350,116,721
2-Year and 4-Year Total	$ 477,309,262	$ 477,309,262	$ 477,309,262

Table 6 on the next page displays the 70/15/15 formula allocation for each institution. The allocation is based on 70% of the Base Total, 15% of the Cost Total, and 15% of the Performance Total as noted in Tables 14 and 15 above. The 70% Base is utilized to prevent dramatic swings in formula funding.

Part II: Formula Design

The funding formula is comprised of two distinct parts: the cost calculation (A) and the performance metrics (B). The cost calculation is determined first to provide a dollar amount for the performance metric to utilize. Together, these mechanisms determine how to allocate funds to public higher education institutions based on the cost of programs and performance of institutions. In addition the funding formula includes multiple data sources that are discussed in the article below as follows:

Texas Higher Education Coordinating Board – data for the cost weights

Southern Regional Educational Board – institutional categories for Four-Year 1 (LSU) to Four-Year 6 (LSU-Alexandria), Two-Year institutions, Technical institutions
Integrated Postsecondary Education Data System (IPEDS) – national data used in cost calculation
Board of Regents – self reported data from institutions

(A) - Cost Calculation
The cost calculation is utilized to determine the total cost to fund public higher education institutions in the state. The total cost is determined by adding the Core Cost, the Operation of Plant and Maintenance costs, and General Support costs as noted in the Graph 1 below. The total cost is then applied to a state share percentage based on SREB categories to determine the state share of funding higher education.

Core Cost
The Core Cost is the product of weighted student credit hours (SCHs) and the base SCH value to determine the instructional related costs. The SREB average faculty salary is used to calculate the cost per student per credit hour for a freshman Liberal Arts class for each SREB institution category. SCHs are multiplied by the SCH cost and a cost matrix that awards a value for each discipline. The value is used to account for the cost associated with each discipline. The total amount per student, per hour is achieved as shown in Table 7 on the next page.

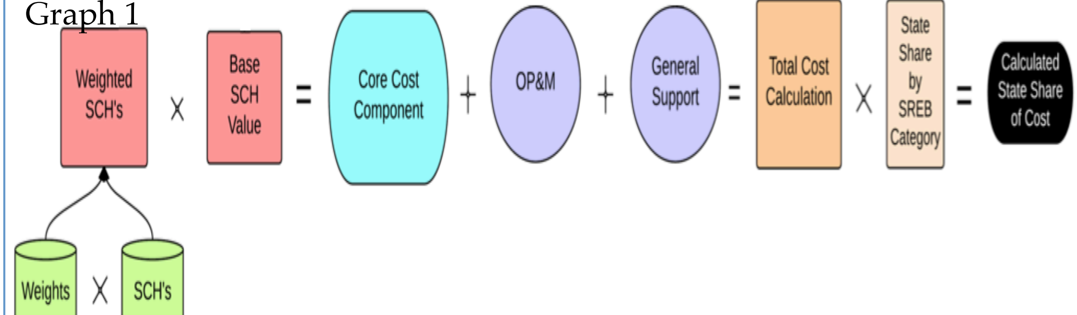
Operation of Plant and Maintenance
The operation of plant and maintenance (OPM) cost is based on assignable square footage at each institution and a per square footage amount for research and non-research square footage. Assignable square footage for non-

Table 6

2-Year FY 17 Funding Formula	70% Base	15% Cost	15% Performance	Total
L.S.U. at Eunice	$ 3,186,183	$ 663,158	$ 624,604	$ 4,473,944
Southern University in Shreveport	$ 3,222,073	$ 828,462	$ 736,365	$ 4,786,900
Baton Rouge Community College	$ 10,056,472	$ 2,421,934	$ 2,534,175	$ 15,012,580
Bossier Parish Community College	$ 5,569,286	$ 1,801,516	$ 1,849,886	$ 9,220,688
Delgado Community College	$ 17,403,494	$ 4,376,518	$ 3,884,642	$ 25,664,654
Elaine P. Nunez Community Coll.	$ 2,139,266	$ 615,546	$ 653,043	$ 3,407,855
River Parishes Community Coll.	$ 2,087,084	$ 477,955	$ 540,122	$ 3,105,161
South Louisiana Community Coll.	$ 8,608,267	$ 1,971,225	$ 2,040,900	$ 12,620,392
Louisiana Delta Community Coll.	$ 5,425,400	$ 1,149,994	$ 1,039,426	$ 7,614,820
L.E. Fletcher Tech. Comm. Coll.	$ 1,839,153	$ 593,535	$ 681,777	$ 3,114,465
Sowela Tech. Comm. Coll.	$ 3,856,176	$ 1,153,265	$ 1,476,149	$ 6,485,590
LA Technical College	$ 7,461,549	$ 1,346,304	$ 1,483,083	$ 10,290,936
Central LA Tech. Comm. Coll.	$ 3,899,423	$ 860,536	$ 560,741	$ 5,320,700
Northshore Tech. Comm. Coll.	$ 3,379,624	$ 818,933	$ 973,969	$ 5,172,525
Total	$ 78,133,448	$ 19,078,881	$ 19,078,881	$ 116,291,211
4-Year FY 17 Funding Formula	**70% Base**	**15% Cost**	**15% Performance**	**Total**
Grambling State University	$ 8,639,789	$ 1,608,628	$ 1,578,206	$ 11,826,623
Louisiana Tech University	$ 18,477,776	$ 3,831,668	$ 4,240,562	$ 26,550,006
McNeese State University	$ 11,864,276	$ 2,614,840	$ 2,239,783	$ 16,718,898
Nicholls State University	$ 10,081,101	$ 1,986,846	$ 1,949,871	$ 14,017,818
University of Louisiana at Monroe	$ 16,476,224	$ 4,273,273	$ 2,516,820	$ 23,266,317
Northwestern State University	$ 13,837,500	$ 2,934,123	$ 2,600,542	$ 19,372,164
Southeastern Louisiana University	$ 19,959,554	$ 3,480,067	$ 3,896,857	$ 27,336,478
University of Louisiana-Lafayette	$ 30,482,463	$ 6,617,847	$ 6,781,066	$ 43,881,375
University of New Orleans	$ 20,049,839	$ 3,270,209	$ 4,459,094	$ 27,779,142
L.S.U. at Alexandria	$ 3,570,457	$ 600,162	$ 531,325	$ 4,701,944
L.S.U. and A&M College	$ 79,594,532	$ 17,170,586	$ 17,303,373	$ 114,068,491
L.S.U. in Shreveport	$ 4,864,914	$ 1,295,905	$ 1,172,579	$ 7,333,399
Southern University and A&M Coll.	$ 14,080,654	$ 2,300,977	$ 2,380,448	$ 18,762,079
Southern University in New Orleans	$ 4,003,957	$ 532,378	$ 866,983	$ 5,403,318
Total	$ 255,983,035	$ 52,517,508	$ 52,517,508	$ 361,018,051
2-Year and 4-Year Total	$ 334,116,483	$ 71,596,389	$ 71,596,389	$ 477,309,262

Note: The institution allocation displayed in Table 6 is different from the FY 17 appropriation institutions received. The amounts are based on funding totals from Act 14 of the 2nd Extraordinary Session and do not include special legislative projects, and Act 454 adjustments (5% reallocation by management board).

Graph 1



Source: LA Board of Regents

research includes academic support, institutional support, instruction, public service, student services, and plant operations and maintenance.

General Support

General support is the cost that is associated with day-to-day operational support, general administrative, fiscal, and executive level services of the institution. The cost is determined by a ratio of the total budget dollars spent on general services as reported by the Integrated Postsecondary Education Data System (IPEDS) based on each SREB category.

Table 7

Basic Factor Chart

Derivation of Lower Level Undergraduate Liberal Arts Student Credit Hour Value

Avg Class Size: LA Undergraduate Liberal Arts Average Class Size, 4 Yr & 2 Yr Avg (Weighted)

By SREB Category	**4 Yr-1**	**4 Yr-2**	**4 Yr-3**	**4 Yr-4**	**4 Yr-5**	**4 Yr-6**	**2-Yr (Grp7)**	**Tech (Grp8)**	**Vet (Grp9)**
Metric/Calculation	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
SREB Avg Faculty Salary [1]	$88,729	79,116	65,709	63,879	61,690	59,150	$49,190	$41,868	$88,729
Benefits Avg.	**40.2%**	**40.2%**	**40.2%**	**40.2%**	**40.2%**	**40.2%**	**40.2%**	**40.2%**	**40.2%**
Liberal Arts Salary % [3]	88%	88%	88%	88%	88%	88%	100%	100%	88%
Average Faculty Salaries + Benefits *	$109,470	$97,610	$81,069	$78,811	$76,111	$72,977	$68,964	$58,699	$109,470
LA Undergraduate Avg Class Size [4]	**26**	**26**	**26**	**26**	**26**	**26**	**22**	**22**	**26**
Full-Time Student Workloads [5]	30	30	30	30	30	30	30	30	30
Instruction/Departmental Research Value									
Academic Support/Services [6]	36.0%	36.4%	41.4%	41.0%	44.0%	41.4%	44.0%	41.5%	36.0%
General Support/Services [7]	17.9%	21.5%	22.9%	28.0%	23.5%	22.9%	24.9%	28.2%	17.9%
Instruction/Dept Research Amount *	140.35	125.14	103.93	101.04	97.58	93.56	104.49	88.94	140.35
Academic Support/Services Amount *	50.52	45.55	43.03	41.43	42.93	38.73	45.98	36.91	50.52
Total Amount *	190.87	170.69	146.96	142.47	140.51	132.29	150.47	125.85	190.87
State Share	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Base SCH Value *	190.87	170.69	146.96	142.47	140.51	132.29	150.47	125.85	190.87
SREB State Share	38.3%	38.8%	40.4%	44.3%	42.4%	45.4%	60.2%	56.2%	38.3%
Calculated $ - State Share per SCH	$73.02	$66.15	$59.42	$63.07	$59.53	$60.00	$90.63	$70.72	$73.02

1- SREB All Ranks Average Salary 2014-15; Table 141 SREB State Data Exchange, updated Feb 2016
2 - Division of Administration Teachers Retirements System of Louisisana (TRSL) Benefits Rate + Group Benefits. Updated 10/2015
3 - College and University Professional Association (CUPA) Faculty Salary Study by Discipline
4 - LA Public Institution Avg. Liberal Arts Class Size, Undergraduate Only, 2-Year Avg. (No Tech.) & 4-Year Avg; *Board of Regents' Student Credit Hour (SCH) Data System*
5 - SREB Undergraduate Full-Time Workload - 30 annual credit hours
6 - IPEDS Data Analysis FY 2013 - Updated 10/2015
7 - IPEDS Data Analysis FY 2013 - Updated 10/2015
** - Calculated Field*
Source: Louisiana Board of Regents

The results of the factors above are found in Part III: Formula Implementation in Table 12 on Page 11.

(B) - Performance Metrics

The outcomes based funding formula utilized by BOR includes a series of metrics that measure student success, articulation and transfer, workforce, and efficiency and accountability. The performance criteria are based on two sets of objectives: access and outcomes. The access factors include student retention and progression along with Pell Grant students, adult students and cross-enrollment students. The outcomes factors are based on completions, which is determined using time-to-degree (baccalaureate and associate degrees), graduate level degree (4-year) or certificate/diploma (2-year), transfers from 2-year to 4-year, Pell grant completers, adult completers, and workforce. Whatever funds are available for the Performance Metrics are split evenly between the access factors and the outcome factors.

Access Factors

The access factors of the Performance Metrics awards institutions for retaining students and advancing students to the next student level. This applies to both the 2-year and 4-year institutions as noted in Table 8 on the next page. As students progress through student levels the weight associated with the level increases. For the 2-year institutions it starts with a 0.5 weight for the preparatory student level and increases to 1.0 for sophomores and up to 1.1 for other undergraduates. At the 4-year institutions, the weight begins at 0.5 for the preparatory student level and increases to 1.1 for seniors and 1.2 for graduate students.

In addition to progressing students to subsequent levels, weights are used for adult students (those 25 years old and older), Pell grant students, and either cross-enrollment or research depending on if the institution is a 2-year or 4-year institution. Adult students that are freshman, sophomore, or other undergraduates receive a weight of 0.1 regardless of institution. Adult students enrolled at 4-year institutions who are juniors and seniors receive a weight of 0.2. Pell grant students receive the same weight if enrolled at a 2-year or 4-year institution. Two-year institutions that have students cross-enrolled at a 4-year institution receive a weight of 0.2. Four-year institutions do not receive a weight for accepting cross-enrolled students. However, the 4-year institutions receive weight for the amount of research funding received.

Table 8
Access Model Weights

Student Level	4-Year Enrl Weights	2-Year Enrl Weights	4 & 2-Yr Weighted for Adults Enrl	4 & 2-Yr Weighted for PELL Enrl	2-Year Cross Enrolled	4-Year Research
Preparatory	0.5	0.5	0			
Freshman	0.5	0.75	0.1			
Sophomore	0.75	1	0.1			
Other Undergraduate	0.75	1.1	0.1			
Junior	1		0.2			
Senior	1.1		0.2			
Graduate	1.2					1.5
Undergraduate				0.2	0.1	

Once the weight of each category is added up for each institution, the institution's total weight is compared to the total weight of all the 2-year or 4-year institutions to determine a pro-rata share. The pro-rata share is applied to the amount of funds available for the access model and the institution's amount is determined.

Outcomes Factors

The outcomes factors of the Performance Metrics awards institutions for students completing their programs of study, which include degrees, certificates, and diplomas. Weights are based on the time-to-degree for both 2-year and 4-year institutions, awarding of certificate/diploma for 2-year institutions and graduate level degrees for 4-year institutions, and transfer students, Pell grant student completers, adult student completers, as well as programs that lead to 4 and 5 star jobs at 2-year and 4-year institutions. The time-to-degree weights start at 1.5 for finishing the associate's or baccalaureate degree early to 1 (lowest) for any completion after 4 years or 8 years as noted in Tables 9 and 10 for 2-year and 4-year institutions.

Table 9
Outcome Model Weights for 2-year Institutions

TTD Assoc	Weight	< 2-Yr Degree	Weight	2 to 4-Yr Transfer (2-yr)	2-Yr Weighted for Adult Cmpl
<2 yrs	1.5	Cert	0.25		
2.0 - 2.3	1.4	Diploma	0.5		
2.3-2.7	1.3				
2.7-3.0	1.2				
3.0-4.0	1.1				
>4 yrs	1			1	0.25

Two-year institutions receive a weight of 0.25 for a certificate completer and 0.50 for a diploma completer. The institutions also receive a weight of 1.0 if the 2-year student transfers to a 4-year institution.

Table 10
Outcome Model Weights for 4-year Institutions

FTF TTD Bacc	Weight	Transfer TTD Bacc	Weight	Grad Level Degree	Degree Level	Weight	2 to 4-Yr Transfer (4-yr)	4-Yr Weighted for PELL Cmpl	4-Yr Weighted for Adult Cmpl
<4 yrs	1.5	<3 yrs	1.5	Masters	30	1			
4.0-4.5	1.4	3.0-3.5	1.4	Post-Master	31	0.5			
4.5-5.0	1.3	3.5-4.0	1.3	Doctoral	40	1.5			
5.0-6.0	1.2	4.0-4.5	1.2	Professional	50	2			
6.0-8.0	1.1	4.5-6.0	1.1	Post-Professional	51	0.5			
>8 yrs	1	>6 yrs	1	Education Spc.	60	0.5			
				Graduate Cert.	70	0.5	0.5	0.25	0.25

Four-year institutions receive varying weights from 0.5 to 2 for graduate level completers. Graduate certificates, education specialists, and post- master and post-professional completers receive a weight of 0.5. Masters degrees receive a weight of 1, doctoral degrees receive a weight of 1.5, and professional degrees receive a weight of 2. These institutions receive a weight of 0.5 if a student from a 2-year institution transfers into a 4-year institution. Both types of institutions receive a weight of 0.25 for a Pell grant completer and 0.25 for an adult student completer.

Table 11
4 & 5 Star Job Completer Weights

Tiers	Weight
1	1.5
2	2.5
3	3.0
4	3.5

The final outcome factor is completers in programs that lead to 4 and 5 star jobs. The weights are based on 4 and 5 star jobs that meet the criteria for each tier determined by the Louisiana Economic Development (LED) in conjunction with the Louisiana Workforce Commission (LWC). Tiers are determined by gap analysis, which is the annual job openings minus the annual completers. Based on the size of the gap in openings compared to completers, the jobs are tiered from 1 to 4 with the 1st tier receiving a weight of 1.5 and the 4th tier receiving the highest weight at 3.5 as noted in Table 11 above. Tier 4 consists of 4 and 5 star jobs that are undersupplied jobs that require credentials (degree, certificate, diploma) in computer science, chemical engineering, and welding. Tiers 2 and 3, which have weights of 2.5 and 3.0 respectively, are determined based on the size of the job gap. Credentials that fit these tiers include engineering, accounting, physician's assistants, electricians, heating and air-conditioning repair, educators, nursing, and network administrators. Tier 1 includes all other 4 and 5 star jobs.

Just like the access factor, once the weight of each category is added up for each institution, the institution's total weight is compared to the total weight of all the 2-year or 4-year institutions to determine a pro-rata share. The pro-rata share is applied to the amount of funds available for the outcome factor and the institution's amount is determined.

In conclusion, the Cost Calculation and Performance Metrics explained above accounted for a total of 30% of the funding formula with 15% dedicated to the Cost Calculation and 15% dedicated to the Performance Metrics. The remaining 70% of the funding formula was the base funding from FY 16. It was mentioned at the December 2015 meeting of the Board of Regents that in subsequent years, the goal is to increase the proportion of total funding allocated to institutions utilizing the outcomes metrics for each institution type. At this time it is unknown how the percentages associated with cost, performance, and base funding will change for FY 18. The article below illustrates how the funding amount is determined and allocated based on this formula.

Table 12
Cost Calculation Formula

Institution Name	Core Component	General Support	OP&M Component	Total Dollars Generated	State Share	Formula Request, State Share
L.S.U. and A&M College *	497,756,818	95,970,102	38,389,000	632,115,920	38.25%	241,808,282
Four-Year 1 Total	497,756,818	95,970,102	38,389,000	632,115,920		241,808,282
Louisiana Tech University	103,625,018	24,640,327	10,981,155	139,246,501	38.75%	53,960,248
University of Louisiana-Lafayette	176,222,884	42,557,420	21,718,606	240,498,910	38.75%	93,197,177
University of New Orleans	87,357,243	21,029,749	10,455,545	118,842,537	38.75%	46,053,385
Four-Year 2 Total	367,205,145	88,227,497	43,155,306	498,587,948		193,210,810
Southeastern Louisiana University	89,846,109	22,584,682	8,776,956	121,207,747	40.43%	49,008,757
Southern University and A&M Coll. **	55,105,741	14,932,711	10,102,603	80,141,054	40.43%	32,403,981
University of Louisiana at Monroe	112,111,219	27,732,368	8,990,827	148,834,414	40.43%	60,179,236
Four-Year 3 Total	257,063,068	65,249,761	27,870,386	350,183,215		141,591,974
Grambling State University	32,921,034	11,193,130	7,054,431	51,168,595	44.27%	22,653,836
L.S.U. in Shreveport	28,964,518	9,017,145	3,239,572	41,221,235	44.27%	18,249,848
McNeese State University	59,604,579	18,194,534	5,375,901	83,175,014	44.27%	36,824,015
Nicholls State University	43,402,837	13,824,838	5,971,583	63,199,258	44.27%	27,980,162
Northwestern State University	63,994,600	20,416,164	8,920,273	93,331,037	44.27%	41,320,383
Four-Year 4 Total	228,887,567	72,645,812	30,561,760	332,095,139		147,028,244
Southern University in New Orleans	12,877,823	3,367,201	1,450,694	17,695,718	42.37%	7,497,320
	12,877,823	3,367,201	1,450,694	17,695,718		7,497,320
L.S.U. at Alexandria	13,341,505	3,472,506	1,822,279	18,636,290	45.35%	8,451,904
Four-Year 6 Total	13,341,505	3,472,506	1,822,279	18,636,290		8,451,904
Four Year Total	1,377,131,926	328,932,879	143,249,425	1,849,314,230		739,588,534
Baton Rouge Community College	42,644,966	11,037,998	2,943,119	56,626,083	60.23%	34,107,374
Bossier Parish Community College	31,727,835	8,397,101	1,995,461	42,120,396	60.23%	25,370,219
Delgado Community College	76,108,564	20,399,519	5,817,215	102,325,298	60.23%	61,633,209
Elaine P. Nunez Community Coll.	10,683,479	2,869,142	839,178	14,391,798	60.23%	8,668,557
L.E. Fletcher Tech. Comm. Coll.	9,833,796	2,766,545	1,276,827	13,877,168	60.23%	8,358,582
L.S.U. at Eunice	10,995,024	3,091,066	1,418,893	15,504,983	60.23%	9,339,058
Louisiana Delta Community Coll.	19,133,584	5,360,274	2,393,619	26,887,477	60.23%	16,195,032
River Parishes Community Coll.	8,264,627	2,227,808	682,394	11,174,829	60.23%	6,730,893
South Louisiana Community Coll.	32,496,078	9,188,134	4,404,061	46,088,273	60.23%	27,760,175
Southern University in Shreveport	14,232,366	3,861,571	1,275,950	19,369,886	60.23%	11,666,990
Sowela Tech. Comm. Coll.	19,347,384	5,375,519	2,241,048	26,963,951	60.23%	16,241,094
Northshore Tech. Comm. Coll.	14,054,532	3,817,152	1,275,394	19,147,078	60.23%	11,532,787
Central LA Tech. Comm. Coll.	14,463,063	4,011,071	1,645,656	20,119,790	60.23%	12,118,677
Two-Year Total	303,985,296	82,402,899	28,208,815	414,597,011		249,722,645
Louisiana Technical College	23,246,027	7,421,943	3,072,921	33,740,891	56.19%	18,959,595
Technical College Total	23,246,027	7,421,943	3,072,921	33,740,891		18,959,595
Base Formula Totals	1,704,363,249	418,757,721	174,531,162	2,297,652,132		1,008,270,775

* Inlcudes LSU Baton Rouge, Vet and Law
** Excludes Southern Law

Part III: Formula Implementation

Table 12 on the previous page displays the amounts generated by the Cost Calculation (cost to fund institutions) described in Table 7 on page 8. The total dollars generated is the sum of the Core Cost, Operation and Plant Maintenance, and General Support costs. The total for each institution is multiplied by the state share amount based on Southern Regional Educational Board (SREB) data to determine the formula request. Based on the formula, $1.008 B was needed to fund higher education in FY 17. It should be noted that the $1.008 B is for institutions only and does not include the following: LSU Medical Schools, LSU and SU Agricultural Centers, Pennington Biomedical Research Center, Board of Regents (BOR), Louisiana Office of Student Financial Assistance (LOSFA), Taylor Opportunity Program for Students (TOPS), and Louisiana Universities Marine Consortium (LUMCON).

While the cost to fund the institutions for FY 17 is $1.008 B, the SGF appropriated during the 2016 Regular Legislative Session and the 2nd Extraordinary Session was $477,309,262. This is the amount of SGF that was applied to the formula to determine institution allocations. Based on the State Share amount of $477.3 M, 2-year institutions account for $127.2 M (26.6%) of the request and 4-year institutions account for $350.1 M (73.4%) of the request. The percentage share is determined by adding the amounts for two-year and four-year institutions as determined by the cost formula in Table 12 on the next page. The access factors and outcomes factors will split the amount available for 2-year and 4-institutions evenly as shown in Table 13.

Table 13
Access and Outcomes Model Funding

Institutions	State Share	Access (50%)	Outcomes (50%)
2-year	$ 127,192,541	$ 63,596,270	$ 63,596,270
4-year	$ 350,116,721	$ 175,058,361	$ 175,058,361
Total	$ 477,309,262	$ 238,654,631	$ 238,654,631

Access Factors Funding

Tables 14 and 15 below show the totals for each 2-year and 4-year institution and the amount each would receive based on the access factors formula referenced in Table 8 on page 9. The total is the sum of Student Level Weight, Age Weight, Pell Weight, and Cross-Enrollment Weight or Research Weight.

Table 14
Access Model for 2-year Instituions of Outcomes Funding Formula

Institution Name	Sum of Enrollment	Student Level Weight	Age Weight	Sum of Level + Age	Pell Weight	Cross-Enrollement Weight	Total	Pro-Rata	Pro-Rata Amount
L.S.U. at Eunice	2,524	2,084	55	2,139	213	5	2,356	3%	$ 2,186,422
Southern University in Shreveport	3,222	2,451	95	2,546	354	3	2,903	4%	$ 2,693,875
Baton Rouge Community College	9,273	8,019	347	8,366	808	16	9,190	13%	$ 8,526,934
Bossier Parish Community College	7,039	6,231	285	6,515	737	23	7,275	11%	$ 6,750,395
Delgado Community College	16,520	15,103	851	15,954	1,873	10	17,837	26%	$ 16,550,625
Elaine P. Nunez Community Coll.	2,629	2,011	88	2,098	227	6	2,331	3%	$ 2,162,993
River Parishes Community Coll.	1,957	1,587	41	1,628	119	5	1,752	3%	$ 1,625,757
South Louisiana Community Coll.	6,958	5,608	174	5,782	602	24	6,408	9%	$ 5,945,552
Louisiana Delta Community Coll.	3,894	3,186	124	3,310	338	28	3,675	5%	$ 3,410,237
L.E. Fletcher Technical Comm. Coll.	2,146	1,837	66	1,904	110	12	2,025	3%	$ 1,879,311
Sowela Technical Community Coll.	3,722	2,967	88	3,056	288	21	3,365	5%	$ 3,122,358
South Central LA Technical College	2,674	1,948	89	2,037	58	1	2,097	3%	$ 1,945,396
Central LA Tech Community College	2,445	1,723	77	1,801	131	6	1,937	3%	$ 1,797,148
Northwest LA Technical College	3,081	2,161	86	2,247	149	5	2,401	4%	$ 2,227,972
Northshore Technical Community Co	3,692	2,634	76	2,709	241	37	2,987	4%	$ 2,771,295
Total	71,776	59,551	2,541	62,091	6,248	200	68,539	100%	$ 63,596,270

Table 15
Access Model for 4-year Institutions of Outcomes Funding Formula

Institution Name	Sum of Enrollment	Student Level Weight	Age Weight	Sum of Level + Age	Pell Weight	Research Weight	Total	Pro-Rata	Pro-Rata Amount
Grambling State University	4,553	4,054	105	4,159	556	1,804.50	6,519	2%	$ 4,114,920
Louisiana Tech University	12,335	9,958	191	10,149	442	13,229	23,820	9%	$ 15,036,019
McNeese State University	8,170	7,052	249	7,301	513	356	8,170	3%	$ 5,156,925
Nicholls State University	6,215	5,248	171	5,419	401	1,070	6,889	2%	$ 4,348,809
University of Louisiana at Monroe	9,024	7,850	197	8,047	517	1,589	10,153	4%	$ 6,408,734
Northwestern State University	9,324	7,930	396	8,327	631	852	9,809	4%	$ 6,191,708
Southeastern Louisiana University	14,602	11,536	305	11,841	857	1,358	14,055	5%	$ 8,872,390
University of Louisiana-Lafayette	17,837	15,554	540	16,094	1,020	17,797	34,911	13%	$ 22,037,225
University of New Orleans	8,423	7,856	365	8,221	418	17,531	26,170	9%	$ 16,519,725
L.S.U. at Alexandria	3,081	2,088	117	2,205	249	-	2,454	1%	$ 1,549,007
L.S.U. and A&M College	31,911	28,470	257	28,727	1,078	82,567	112,372	41%	$ 70,933,392
L.S.U. in Shreveport	4,428	4,344	149	4,493	182	586	5,261	2%	$ 3,320,891
Southern University and A&M Coll.	6,510	5,863	172	6,035	722	7,118	13,875	5%	$ 8,758,151
Southern University in New Orleans	2,709	2,445	185	2,630	238	-	2,868	1%	$ 1,810,465
Total	139,122	120,249	3,399	123,648	7,822	145,855	277,325	100.0%	$ 175,058,361

Outcomes Factors Funding

Table 16 below shows the totals for each 2-year institution and the amount each would receive based on the outcomes factors formula referenced in Table 9 on page 9. The Workforce weight is based on the weights from Table 11 on page 9. The total is the sum of Associate's Time-to Degree (TTD), Certificate/Diploma Awards, Transfer Student Weight, Pell Weight, Age Weight, and Workforce Weight.

Table 16
Outcomes Model for 2-year Instituions of Outcomes Funding Formula

Institution Name	Assoc Count	Assoc TTD Calc	Cert/Diploma Awards	Transfers 2 to 4-Yr	Pell Cmpl	25+ Cmpl	Workforce	Total	Pro-Rata	Pro-Rata Amount
L.S.U. at Eunice	211	308	7	364	39	32	300	1,049	3%	1,977,604
Southern University in Shreveport	206	270	26	239	71	60	510	1,175	3%	2,215,226
Baton Rouge Community College	285	375	423	477	255	299	2,611	4,439	13%	8,367,563
Bossier Parish Community College	518	758	106	468	164	148	1,316	2,961	9%	5,582,177
Delgado Community College	791	980	271	436	401	384	2,487	4,958	15%	9,346,987
Elaine P. Nunez Community Coll.	153	243	55	49	78	73	665	1,162	3%	2,190,625
River Parishes Community Coll.	124	200	83	55	54	54	603	1,048	3%	1,975,059
South Louisiana Community Coll.	248	369	410	241	217	147	2,681	4,064	12%	7,660,448
Louisiana Delta Community Coll.	152	211	185	116	140	103	1,113	1,867	6%	3,519,270
L.E. Fletcher Technical Comm. Coll.	127	182	102	53	77	61	939	1,414	4%	2,665,868
Sowela Technical Community Coll.	282	453	216	33	154	138	2,571	3,564	11%	6,718,633
South Central LA Technical College	115	195	92	-	62	52	1,085	1,485	4%	2,799,619
Central LA Tech Community College	21	30	150	5	64	64	717	1,030	3%	1,941,127
Northwest LA Technical College	7	12	202	-	90	72	1,170	1,546	5%	2,914,235
Northshore Technical Comm. Coll.	70	115	192	43	111	110	1,404	1,974	6%	3,721,828
Total	3,310	4,701	2,518	2,579	1,975	1,795	20,169	33,736	100%	63,596,270

Table 17 below shows the totals for each 4-year institution and the amount each would receive based on the outcomes factors formula referenced in Table 10 on page 9. The Workforce weight is based on the weights from Table 11 on page 9. The total is the sum of Baccalaureate TTD (Native students and Transfer students), Graduate Level Awards, Transfer Students Weight, Pell Weight, Age Weight, and Workforce Weight.

Table 17
Outcomes Model for 4-year Instituions of Outcomes Funding Formula

Institution Name	FTF TTD Calc	XFR TTD Calc	Grad Level Awards	Transfers 2 to 4-Yr	Pell Cmpl	25+ Cmpl	Workforce	Total	Pro-Rata	Pro-Rata Amount
Grambling State University	631	304	252	90	160	47	1,550	3,033	4%	6,406,455
Louisiana Tech University	1,566	599	518	43	134	69	3,337	6,266	8%	13,234,395
McNeese State University	1,216	531	246	44	158	112	2,321	4,628	6%	9,774,960
Nicholls State University	1,153	407	206	45	147	82	2,057	4,095	5%	8,650,329
University of Louisiana at Monroe	980	692	484	59	166	84	2,447	4,910	6%	10,370,067
Northwestern State University	959	824	260	84	204	172	2,775	5,277	6%	11,145,237
Southeastern Louisiana University	2,077	1,089	387	123	244	142	4,038	8,099	10%	17,106,655
University of Louisiana-Lafayette	2,566	1,678	532	170	280	217	5,529	10,970	13%	23,169,880
University of New Orleans	797	1,236	682	112	173	134	3,119	6,253	8%	13,207,570
L.S.U. at Alexandria	163	178	-	10	48	37	509	944	1%	1,993,159
L.S.U. and A&M College	6,609	1,596	1,798	166	324	126	9,717	20,334	25%	42,948,127
L.S.U. in Shreveport	265	482	169	69	74	50	1,021	2,129	3%	4,496,304
L.S.U. Law School	-	-	386	-	7	-	306	698	1%	1,474,302
Southern University and A&M Coll.	642	340	321	135	164	63	1,702	3,367	4%	7,111,500
Southern University in New Orleans	134	327	163	52	101	64	1,039	1,879	2%	3,969,421
Total	19,758	10,281	6,401	1,199	2,383	1,397	41,462	82,880	100%	175,058,361

Once the access and outcomes factors are calculated for each institution, the pro-rata amount for each institution is added together to determine a total for each institution. These amounts are reflected in Table 18 on the next page. (See Table 13 on page 11 for a summary of the FY 17 appropriation.)

The totals that are determined based on the Cost Calculation and Performance Metrics are then used along with the Base Total based to allocated state general fund to the institutions based on the 70/15/15 split as displayed in Tables 5 and 6 at the beginning of this article.

Table 18			
2-year Institutions Total Outcomes Funding			
	Access Model	**Outcomes Model**	**Total**
L.S.U. at Eunice	$ 2,186,422	$ 1,977,604	$ 4,164,026
Southern University in Shreveport	$ 2,693,875	$ 2,215,226	$ 4,909,101
Baton Rouge Community College	$ 8,526,934	$ 8,367,563	$ 16,894,498
Bossier Parish Community College	$ 6,750,395	$ 5,582,177	$ 12,332,572
Delgado Community College	$ 16,550,625	$ 9,346,987	$ 25,897,612
Elaine P. Nunez Community Coll.	$ 2,162,993	$ 2,190,625	$ 4,353,618
River Parishes Community Coll.	$ 1,625,757	$ 1,975,059	$ 3,600,816
South Louisiana Community Coll.	$ 5,945,552	$ 7,660,448	$ 13,606,000
Louisiana Delta Community Coll.	$ 3,410,237	$ 3,519,270	$ 6,929,508
L.E. Fletcher Technical Comm. Coll.	$ 1,879,311	$ 2,665,868	$ 4,545,179
Sowela Technical Community Coll.	$ 3,122,358	$ 6,718,633	$ 9,840,990
South Central LA Technical College	$ 1,945,396	$ 2,799,619	$ 4,745,015
Central LA Tech Community College	$ 1,797,148	$ 1,941,127	$ 3,738,275
Northwest LA Technical College	$ 2,227,972	$ 2,914,235	$ 5,142,207
Northshore Technical Comm. Coll.	$ 2,771,295	$ 3,721,828	$ 6,493,123
Total	$ 63,596,270	$ 63,596,270	$ 127,192,541
4-year Institutions Total Outcomes Funding			
	Access Model	**Outcomes Model**	**Total**
Grambling State University	$ 4,114,920	$ 6,406,455	$ 10,521,375
Louisiana Tech University	$ 15,036,019	$ 13,234,395	$ 28,270,414
McNeese State University	$ 5,156,925	$ 9,774,960	$ 14,931,884
Nicholls State University	$ 4,348,809	$ 8,650,329	$ 12,999,139
University of Louisiana at Monroe	$ 6,408,734	$ 10,370,067	$ 16,778,800
Northwestern State University	$ 6,191,708	$ 11,145,237	$ 17,336,945
Southeastern Louisiana University	$ 8,872,390	$ 17,106,655	$ 25,979,045
University of Louisiana-Lafayette	$ 22,037,225	$ 23,169,880	$ 45,207,105
University of New Orleans	$ 16,519,725	$ 13,207,570	$ 29,727,295
L.S.U. at Alexandria	$ 1,549,007	$ 1,993,159	$ 3,542,166
L.S.U. and A&M College	$ 70,933,392	$ 42,948,127	$ 113,881,519
L.S.U. in Shreveport	$ 3,320,891	$ 4,496,304	$ 7,817,196
Paul M. Hebert Law Center	$ -	$ 1,474,302	$ 1,474,302
Southern University and A&M Coll.	$ 8,758,151	$ 7,111,500	$ 15,869,651
Southern University in New Orleans	$ 1,810,465	$ 3,969,421	$ 5,779,885
Total	$ 175,058,361	$ 175,058,361	$ 350,116,721
2-Year and 4-Year Total	**$ 238,654,631**	**$ 238,654,631**	**$ 477,309,262**

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

DECEMBER 2016

Volume 5, Issue 2

INSIDE THIS ISSUE

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

Economic Section
Greg Albrecht, Chief Economist

Education Section
Jodi Mauroner, Section Director
Matthew LaBruyere, Fiscal Analyst
Colleen McCrory - Intern

Health & Hospitals Section
Shawn Hotstream, Section Director
Patrice Thomas, Fiscal Analyst
Willis Brewer, Fiscal Analyst

General Government Section
Alan Boxberger, Section Director
Zachary Rau, Fiscal Analyst
Monique Appeaning, Fiscal Analyst/Special Projects Coordinator

Information Services Section
Willie Marie Scott, Section Director

Support Staff
Debbie Roussel, Rachael Feigley

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

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

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the first edition of Focus on the Fisc after the session break. We hope you enjoy it and encourage feedback. This issue contains a comparison of FY 16 revenue collections to the FY 16 revenue forecast and details regarding the public-private partnership agreements for LSU hospitals. In addition, this issue contains articles about funding the disaster recovery from the August 2016 flooding event and other recent events, an update on the collections of fines by the Office of Motor Vehicles, and a comparison of revenues generated by Prison Enterprises in other Southern states.

The next issue will contain articles related to the higher education funding formula, the teacher preparation program, and the Teacher Incentive Fund grant award. As 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

FY 16 Actual Revenue Collections Relative to Forecast

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

State general fund tax collections in FY 16 were some $315.4 M less than expected. The official forecast in place at the end of the fiscal year, adopted on February 16, 2016 and inclusive of the 2016 1st Extraordinary Session actions anticipated $8.212 B of revenues available to support state general fund-direct appropriations. Actual general fund revenue collections were $7.897 B. Total state tax revenue collections were $288.4 M less than expected; $10.689 B anticipated versus $10.400 B collected, leaving $27 M of the general fund over-forecast attributable to higher than anticipated dedications of receipts. Chart 1 and Table 1 below combines nearly forty major

Chart 1

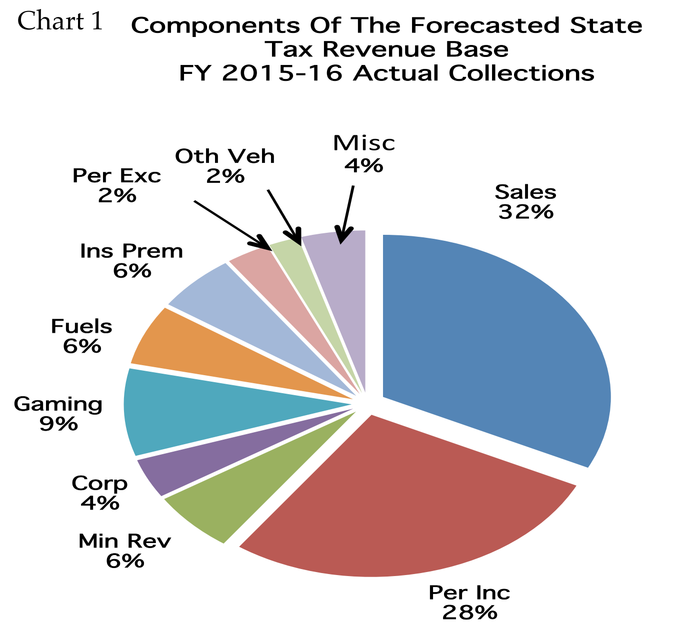


Table 1

	FY16 Actual	Forecast	% Over / -Under	$ Over / -Unde
Sales (w/ MV)	$3.348	$3.397	-1.4%	-$0.049
Per Income	$2.878	$2.983	-3.5%	-$0.105
Mineral Rev	$0.631	$0.612	3.1%	$0.019
Corp/Oth. Busi	$0.408	$0.500	-18.4%	-$0.092
Gaming	$0.906	$0.922	-1.7%	-$0.016
Motor Fuels	$0.622	$0.617	0.9%	$0.005
Ins Premiums	$0.596	$0.594	0.2%	$0.001
Per Excise	$0.318	$0.318	-0.1%	$0.000
Other Vehicle	$0.222	$0.218	1.9%	$0.004
Misc	$0.472	$0.528	-10.6%	-$0.056
Total {$Bils}	$10.400	$10.689	-2.70%	-$0.288
Dedications	-$2.504	-$2.477	1.1%	-$0.027
General Fund	$7.897	$8.212	-3.8%	-$0.315

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.

This was not a particularly good forecast. Total tax collections were $288 M less than forecast, a 2.7% forecast error, while general fund collections were $315 M less than forecast, 3.8% error. Percentage errors such as these are relatively small, but are made on large bases where only a 1% error amounts to $82 M to $106 M in absolute dollars, and all of those dollars are budgeted. Revenue forecasters typically target a maximum error of 2%, and these errors are outside that range. They are also significant because they reflect over-forecasts that make material negative contributions to the ending-balance of the state general fund, on both a budget basis and GAAP accounting basis.

The different results for total tax collections and general fund collections are largely explained by two dedications that received materially greater allocations than were anticipated in the forecast, although the forecasts of the respective total collections of these two taxes were very good; especially in light of the fact that both of these taxes were materially increased by legislative actions (tobacco tax in both the 2015 RS and the 2016 ES1 sessions, and premium tax in the 2016 ES1 session). Tobacco tax revenue allocated by the Department of Revenue to the Tobacco Tax Medicaid Match Fund, resulting from increases in tobacco tax on cigarettes was $16.2 M greater than anticipated. The total collections forecast of tobacco tax was in error by only 0.7% or $1.878 M. The second case was the Department of Insurance allocation of $12.4 M more premium tax collections than anticipated from Medicaid managed care premiums to the Medical Assistance Trust Fund. The total collections forecast of premium tax was in error by only 0.1% or $0.637 M. These two dedications in excess of expectation combined to $28.6 M; essentially all of the difference between the total tax and the general fund forecast errors.

Material forecast errors by dollar amount included corporate collections, which were $110.5 M less than anticipated, or a 44% error. Forecasts of this tax began the fiscal year at nearly $790 M, with over half of that forecast based on tax changes enacted in the 2015 RS session. That forecast was downgraded to $588 M in November 2015, and then to $359 M in February 2016 as monthly collections persistently trailed necessary levels. By the end of FY 16 total corporate income and franchise tax collections were only $248.8 M. This was particularly disappointing in light of a number of tax law changes enacted in the 2015 RS session that explicitly intended to increase corporate tax net receipts during FY16. Explanations for this poor performance are uncertain but likely include a weakening underlying tax base associated with continuing weakness of oil & gas prices, the lethargic U.S. economic recovery, slowing international economic growth, the third phase of state tax amnesty diverting what would otherwise be normal base collections, and greater use of tax deductions and credits suggested by the issuance of 44% more refunds in FY 16 relative to FY 15. This refund step-up is particularly note-worthy in that it occurred even as 2015 legislation, among other changes, generally imposed a 28% reduction in the value of numerous deductions and credits, effective for returns filed after June 30, 2015.

Personal income tax collections also came in under forecast by some $105 M or 3.7%. This is directly the result of job losses occurring every month since August 2015. Those losses looked to be dampening in the early months of 2016, but that improvement did not continue as the fiscal year closed out, resulting in lower collections than anticipated. Exacerbating the picture has been the fact that much of the employment losses have been in relatively high wage sectors such as oil & gas mining and support, manufacturing, professional and technical services, and all three government levels (local, state, federal).

Both general and vehicle sales taxes came in under forecast by $27.6 M (0.9%) and $21.2 M (5.2%), respectively. This is also a direct effect of job losses over the past year and half, again, with many of those losses in the highest wage sectors of the economy. The forecast of these revenues was complicated not only by economic contraction, but also by the fact that the sales tax rate was raised for transactions occurring from April 1, 2016, and the tax base was expanded by subjecting formerly exempt and excluded transactions to tax. In light of these complications and the uncertain data available to assess the likely revenue effects of these tax rate and base changes, expected increases in revenue were fairly conservative. However, total collections, inclusive of the effects of the tax rate and base expansions, were less than expected.

Severance tax and royalty receipt errors were partially offsetting, with severance tax collections $9.4 M or

2.2% more than expected, while royalty receipts $32.1 M or 21.3% less than expected. Combined, these two major mineral revenue sources came in $22.7 M or 3.8% less than expected. Severance tax held up relatively close to expectations during the year, reflecting a steady decline in total in-state production volumes and a natural gas severance tax rate fixed by prior year prices. Royalty receipts came in materially lower than expected as royalty production volumes fell off faster than total production volumes.

Persistent general economic weakness was also exhibited in the gaming sector, where riverboat, racetrack slots, and video draw poker all came in under forecast by a combined $16.1 M or 2.4%. Lottery and land-based casino receipts for the fiscal year become known at the first of the calendar year and by spring of the year, and forecast adjustments are made accordingly. However, both have exhibited stable activity with aberrations due to legislatively mandated transfers of reserve funds from the Lottery Corporation, and the step-down in land-based casino activity resulting from the local smoking ban implemented in April of 2015.

FY 16 Collections Relative To FY 15 Collections

Regardless of collections performance relative to forecast, the year-over-year growth performance was weak. However, material one-time items in both the total revenues for FY15 and the dedications for FY 16 distort the year-over-year picture. Unadjusted total tax collections declined by 0.6% in FY 16 from FY 15, while dedications jumped up by 21.6%, resulting in a state general fund decline of 6.1%. Two significant one-time items that need to be accounted for include $74 M transferred in FY 15 from the Louisiana Insurance Guaranty Association, and a $350 M dedication in FY 16 of state funds to the Higher Education Initiatives Fund. The first item overstates normal FY 15 total receipts, making both FY 16 total receipts and general fund receipts look worse than their true performance. The second item overstates normal FY 16 dedications, making FY 16 general fund receipts look worse than the true performance. Removing both of those items results in a truer picture of year-over-year performance, but that adjusted performance is not encouraging. Total tax revenue grew by only 0.1%, essentially no growth at all, and that meager growth occurred with a number of tax rate increases and base expansions enacted in the 2015 regular and 2016 first extraordinary legislative sessions and effective during FY 16. After remaining increases in dedications, general fund receipts actually fell in FY 16 from FY 15 by 1.1%.

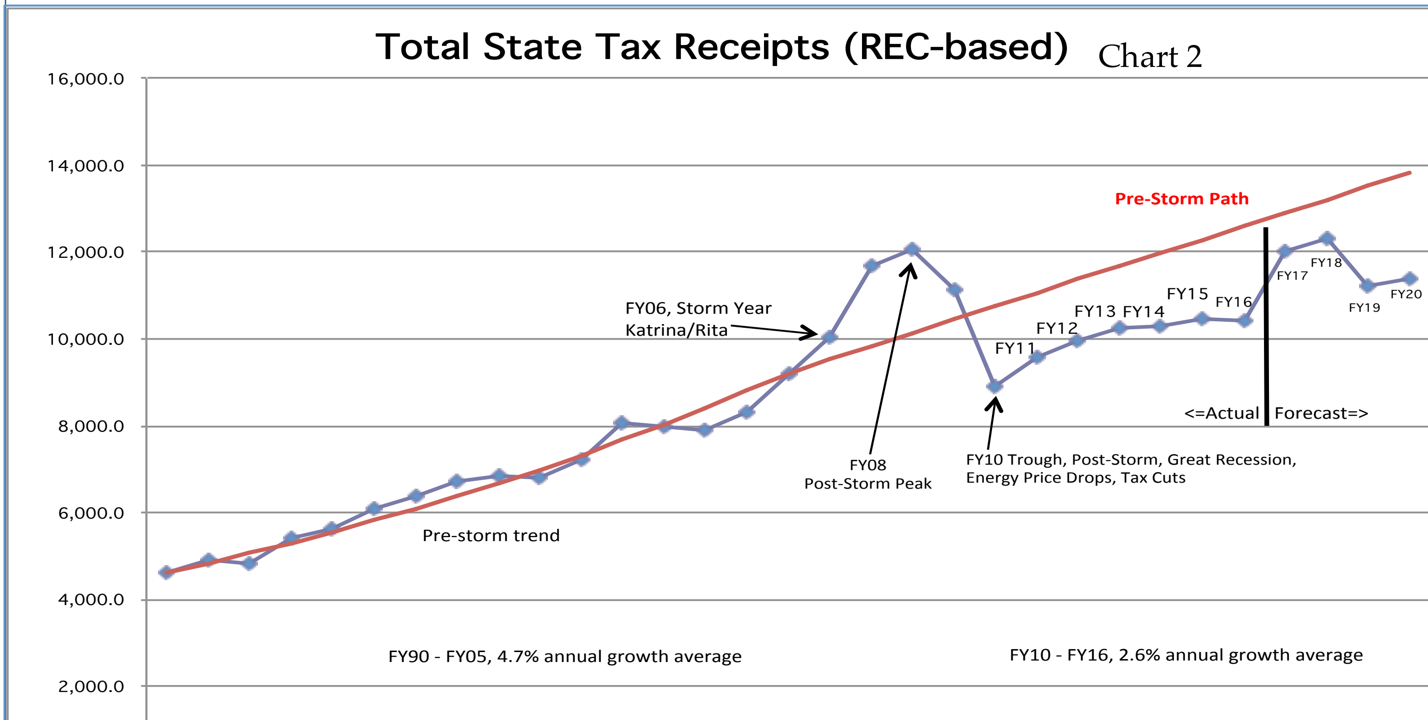
Table 2	FY15 Actual	FY16 Actual	% Growth
Sales (w/ MV)	$3,097.0	$3,348.4	8.1%
Personal Income	$2,886.1	$2,877.8	-0.3%
Mineral Revenue	$1,056.8	$631.1	-40.3%
Corp/Oth Busi	$455.5	$407.6	-10.5%
Gaming	$886.8	$906.1	2.2%
Motor Fuels	$606.4	$622.2	2.6%
Ins Premiums	$517.1	$595.5	15.2%
Personal Excise	$211.5	$317.9	50.3%
Other Vehicle	$154.8	$221.7	43.3%
Misc.	$596.4	$472.0	-20.9%
Total (millions $)	$10,468.4	$10,400.4	-0.6%
less dedications	($2,059.2)	($2,503.7)	21.6%
SGF-direct	$8,409.2	$7,896.8	-6.1%
Adjusted For One-Time Items			
Total (millions $)	$10,394.4	$10,400.4	0.1%
less dedications	($2,059.2)	($2,153.7)	4.6%
SGF-direct	$8,335.2	$8,246.8	-1.1%

Table 2 above evidences various tax increases effective for FY 16 in the revenue totals for sales tax (rate increase and base expansion), premium tax (rate and base expansion for Medicaid premiums), personal excise (tobacco, beer, alcohol), and vehicle (title tax). These legislative revenue step-ups were essentially offset by the sharp downturn in mineral revenue largely associated with lower oil prices (~$73/bbl in FY15 versus ~$44/bbl in FY 16), and the drop in corporate income & franchise collections exclusive of the amnesty programs in both years. In addition, the sales tax increase would have been larger in the absence of the persistent job losses occurring in the state, and personal income tax growth would have occurred, as well. Miscellaneous receipts also dropped over the two years, although over half of this drop is due to the one-time Insurance Guaranty Association transfer included in FY 15 but not in FY 16. Dedications increased, as well, across the two years as much of the premium tax rate and base expansions were associated with Medicaid premiums, the tax receipts from which were directed to the Medical Assistance Trust Fund. In addition, a substantial amount of higher education funding was appropriated through statutory dedication in FY 16 rather than direct general fund. That redirection has been returned to general fund in FY 17.

Adjusted for the various one-time items, total major tax receipts barely grew at all in FY 16, up only 0.1% from FY 15. After accounting for changes to dedications, available direct general fund receipts actually declined by 1.1%, or $88.4 M.

FY 16 Collections In Long-Run Context

Chart 2 below places the FY 16 actual collections in the context of historical collections. 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. Over that period, compound annual average tax revenue growth was 4.7% per year, and that path has been extended from FY 05 through the forecast horizon for reference. 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, picking up a bit in FY 15, and then declining modestly in FY 16. This latest actual year decline is largely the result of a one-time $74 M receipt in FY 15 from the Louisiana Insurance Guaranty Association that is not part of FY 16 receipts. Removing that item from FY 15 receipts results in only $6 M or 0.06% revenue growth in FY 16; positive performance, but just barely.



Over the six-year period from FY 10 – FY 16, the compound annual average growth rate of state tax revenue has been 2.6%, substantially less than in the pre-storm era. The period of recovery and expansion after the 08/09 recession has been one of an absolute lower level of revenue baseline, and a slower growing revenue base. Aside from that reality, the most obvious characteristic of the forecast revenue baseline is the sharp step-up during FY 17 and FY 18 followed by a sharp down-turn in FY 19 and FY 20. That pattern is entirely related to the temporary nature of various revenue measures enacted in the 2015 Regular Session, and especially the sales tax rate and base expansions enacted in the 2016 1st Extraordinary Session. To the extent employment growth returns, the step-up could be larger and the step-down ameliorated somewhat. However, substantial tax deductions, credits, exemptions, and rates return to their FY 15 levels after FY 18, and a large drop-off in tax receipts is assured.

HEALTH & HOSPITALS

LSU Public-Private Partnerships

Willis Brewer, Fiscal Analyst, brewerw@legis.la.gov

Shawn Hotstream, Health Section Director, hostreas@legis.la.gov

The state has signed Memorandums of Understanding (MOU) with all of the public private partnerships. Information provided in the MOUs indicates that the MOUs will expire on June 30, 2017. These MOUs state a maximum payment amount to each of the hospital partners for the current fiscal year (FY 2016-2017). The Legislative Fiscal Office (LFO) assumes the MOUs will take precedence over the current Cooperative Endeavor Agreements (CEAs) where there are any conflicts between the two documents, however, the

MOUs explicitly states the CEAs provisions remain in effect when the MOU does not expressly contradict the CEA and its provisions.

Based on information provided by the Commissioner's office, revised Cooperative Endeavor Agreements (CEAs) are still being negotiated with all parties and the current plan is to have a revised CEA for July 1, 2017 (FY 2017-2018). In addition, the decision to amend the Medicaid State Plan relative to the Public-Private Partnerships (PPP) is still pending. The Medicaid State Plan is an agreement between the state and Federal government that dictates how Louisiana administers its Medicaid and Children's Health Insurance Program (CHIP) programs. The state plan amendments (SPAs) represent the states authority to make payment to the seven public private partnership hospitals.

It is unclear whether a MOU can set a maximum payment to a partner for services provided by the partner without first amending the current PPP hospital SPA. Based on conversations with the Commissioner's office and LDH, reimbursements to the partners have to comply with the SPA, therefore payments to the PPP's may exceed the MOU amounts.

Public Private Partnership UPL & DSH Funding History

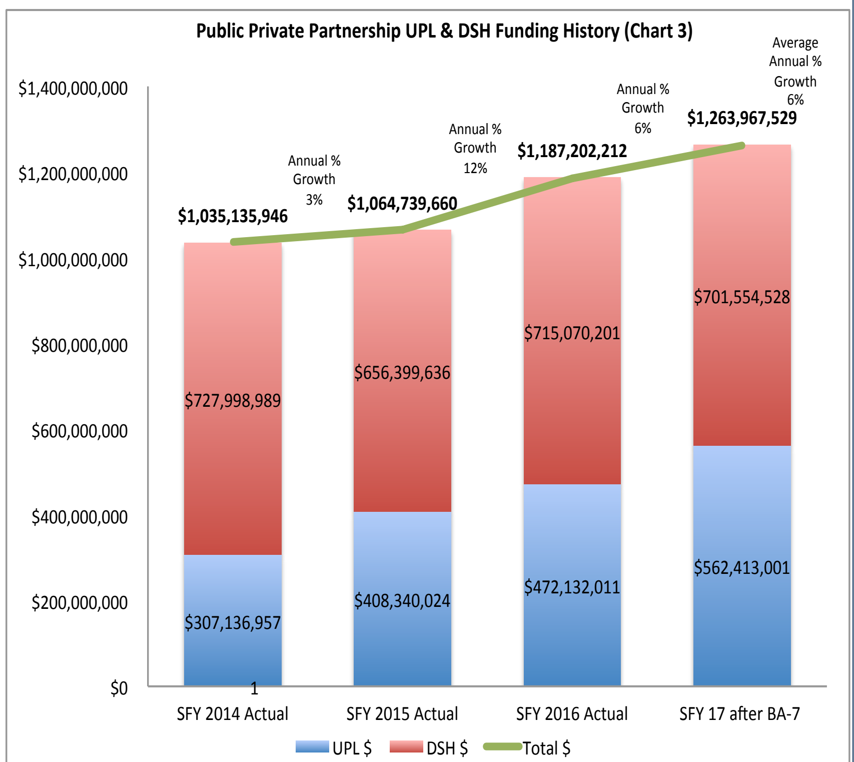
Overall, the Public Private Partnership funding has increased by 22% since FY 14 (annual average growth rate of 5.5%). Upper Payment Limit (UPL) payments for Medicaid fee-for-service (FFS) and full-Medicaid pricing (FMP) have increased by 83% since FY 14 (annual average growth rate of 20.8%). Medicaid Disproportionate Share Hospital (DSH) payments have decreased by 4% since FY 14 (annual average growth rate of -0.9%). This decline is partly a result of the DSH program refinancing from the Affordable Care Act. See Tables 3 and 4 and Chart 3 to the right for details.

Total Public-Private Partnership Funding History (Table 3)

	SFY 2014 Actual	SFY 2015 Actual	SFY 2016 Actual	SFY 17 after BA-7	$ Change from FY14
UPL	$307,136,957	$408,340,024	$472,132,011	$562,413,001	$255,276,044
DSH	$727,998,989	$656,399,636	$715,070,201	$701,554,528	($26,444,461)
Total	**$1,035,135,946**	**$1,064,739,660**	**$1,187,202,212**	**$1,263,967,529**	**$228,831,583**

Percent Change in Public-Private Partnership Funding (Table 4)

	% Change from FY 14 to FY 15	% Change from FY 15 to FY 16	% Change from FY 16 to FY 17	% Change from FY 14 to FY 17	Annual Average
UPL	33%	16%	19%	83%	21%
DSH	-10%	9%	-2%	-4%	-1%
Total	**3%**	**12%**	**6%**	**22%**	**6%**



Note: For consistency, figures include Lallie Kemp Medical Center which does not have a private partner.

Medicaid Disproportionate Share Hospital (DSH) payments

A significant portion of payments made to the Public Private Partnerships is Medicaid Disproportionate Share Hospital (DSH) payments for uncompensated care costs. DSH is reimbursed to cover the costs of providing care to the uninsured and underinsured. DSH reimbursements are made up of both federal funds and state match (non-federal share). For FY 17, the federal share of Medicaid DSH payments, or the federal medical assistance percentage (FMAP), is 62.28%. DSH funding in Medical Vendor Payments represents one of the largest discretionary programs in the Louisiana Department of Health, Medical Vendor Payments. To the extent the LDH is allocated a significant portion of mid-year cuts related to either the FY 16 prior year shortfall or current year (FY 17) revenue shortfall, DSH funding could be reduced.

GENERAL GOVERNMENT

Funding Disaster Recovery: Long-term Implications for Louisiana's Budget
Alan Boxberger, Gen. Gov't Section Director, boxbergera@legis.la.gov

In mid-August 2016, prolonged heavy rainfall in southern Louisiana caused expansive flooding that directly impacted tens of thousands of residential, commercial and governmental properties. The event was called a 500 or 1,000-year flooding event by various sources. This event followed a similar torrential rain event in March of 2016 that impacted the majority of the northern and western parishes in the state, causing damages to approximately 1,000 homes and businesses. These flooding events caused massive property and economic damages, and subsequent federal recovery assistance creates both immediate and future budget obligations for the state.

August 2016 Flood Event

The August flood event caused damages in excess of $8.7 B and some media outlets have reported the total economic impact of the flooding event on the wider U.S. economy could range between $10 and $11 B. The Federal Emergency Management Agency (FEMA) provided direct disaster and short-term recovery relief efforts in excess of $660 M to state and local agencies as well as to individuals.

In the event of a declared disaster, FEMA provides payments of not less than 75% of eligible costs for debris removal, emergency protective measures taken to save lives and to protect property and public health, transitional sheltering, and for hazard mitigation projects undertaken by state, tribal and local governments to prevent or reduce long-term risk to life and property resulting from declared disasters. Because the dramatic extent of this flooding event caused recovery costs exceeding $621 M, the state automatically qualified for a reduced match rate of 10% for qualified expenditures rather than the standard 25% rate.

State Agency Costs – FEMA Related

The Division of Administration and the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) closely monitor state flood-related expenditures and those are reflected in Table 5 (as of 11/10/16). Current estimates place FEMA related state agency expenditures at approximately $386.2 M. The largest components of the total state projected expenditure is related to a cost of approximately $284 M by GOHSEP for the shelter at home program and $45 M by the Department of Transportation and Development for debris removal activities in DOTD Districts 3, 61 and 62 ($15 M each). Given the 10% match rate required by federal rule, Louisiana will be responsible for approximately $38.6 M of the total projected costs incurred by state agencies in FY 17. FEMA will reimburse 90% of total flood related expenditures incurred by state agencies, while the agencies will be responsible for absorbing the remaining 10% unless the state provides additional funding to the agencies as an offset.

State Agency FEMA Related Expenditures (Table 5)

Department	Totals	10% State Responsibility
LA - Attorney General	$ 196,576	$ 19,658
LA - Board of Regents	$ 2,206,500	$ 220,650
LA - Department of Agriculture and Forestry	$ 1,608,691	$ 160,869
LA - Department of Corrections	$ 2,923,192	$ 292,319
LA - Department of Culture Recreation and Tourism	$ 123,546	$ 12,355
LA - Department of Environmental Quality	$ 257,257	$ 25,726
LA - Department of Health and Hospitals	$ 11,729,253	$ 1,172,925
LA - Department of Natural Resources	$ 17,599	$ 1,760
LA - Department of Public Safety	$ 8,146,822	$ 814,682
LA - Department of Revenue	$ 139,832	$ 13,983
LA - Department of Children and Family Services	$ 4,027,474	$ 402,747
LA - Department of Transportation and Development	$ 53,163,864	$ 5,316,386
LA - Deparment of Veteran Affairs	$ 224,152	$ 22,415
LA - Department of Wildlife and Fisheries	$ 1,026,148	$ 102,615
LA - Division of Administration	$ 1,424,000	$ 142,400
LA - Office of Juvenile Justice	$ 21,259	$ 2,126
LA - GOHSEP	$ 288,103,529	$ 28,810,353
LA - State Military Department	$ 9,882,921	$ 988,292
LA - Workforce Commission	$ 1,025,759	$ 102,576
Total	**$ 386,248,374**	**$ 38,624,837**

State Agency Costs – Non-FEMA Related

Additionally, there are non-FEMA related expenditures made by state agencies primarily associated with the Disaster

Supplemental Nutritional Assistance Program (DSNAP) and costs reimbursable by the Federal Highway Administration (FHWA). These programs are eligible for federal participation and will be either partially or fully reimbursed by federal partners (see Table 6 to the right).

State Agency Information - Non-FEMA Expenditures (Table 6)		
Department	**Totals**	**State Share Responsibility**
LA - Department of Public Safety **DSNAP (50%/50% Cost Share)**	$ 386,000	$ 193,000
LA - Department of Children and Family Services **DSNAP (50%/50% Cost Share)**	$ 4,566,074	$ 2,283,037
LA - Department of Transportation and Development **DSNAP (50%/50% Cost Share)**	$ 5,217	$ 2,609
LA - Department of Transportation and Development **FHWA (100% Cost Share)**	$ 1,360,917	$ -
Total	**$ 6,318,208**	**$ 2,478,646**

DSNAP provides eligible households which do not currently receive regular Supplemental Nutritional Assistance Program (SNAP) benefits with assistance buying groceries due to lost income or damages following a disaster. DSNAP is only administered after a federally declared disaster and requires approval from the U.S. Department of Agriculture, Food and Nutrition Services. Families that already receive services through SNAP may automatically receive supplemental SNAP benefits. The Louisiana Department of Children and Family Services administers DSNAP benefits. DOTD and the Department of Public Safety incurred minor costs for traffic control and signage related to DSNAP distribution activities. Expenditures under DSNAP require a 50% cost share by the state. Estimated total costs for DSNAP benefits related to the August 2016 flooding event were approximately $5 M and the state's estimated match cost will be $2.5 M. Additionally, DOTD incurred costs of approximately $1.36 M for labor, equipment usage, and materials on interstates and U.S. highways that are typically fully reimbursable by the FHWA. Assuming approval of DOTD's application to be reimbursed for these costs by the FHWA, the state should not have an associated match requirement. If the authorization were denied for some reason, these costs would revert to FEMA related expenditures and be reimbursable at the 90% level.

Future Budget Considerations

In addition to liabilities incurred by state agency expenditures, the state will also realize costs associated with services provided in the state directly by FEMA. These costs in some cases also require a state participation match but fall outside of the state agency expenditure framework and are thus not currently assigned as an agency specific responsibility. Some of these expenditures require a 25% state match, others coincide with the 10% reduced match requirement and an additional component requires 0% state participation. The current estimated cost projections for this category of expenditures result in a state obligation estimated at approximately $43.3 M (see Table 7 to the right).

LA Estimated Cost Share Report Based on Cost Shared Obligations to Date (Table 7)	
Individual Assistance Program	
Other Needs Assistance	
Amount Obligated	$ 149,230,000
State Cost Share - 25%	**$ 37,307,500**
Immediate Needs Assistance	
Amount Obligated	$ 5,067,421
State Cost Share - 25%	**$ 1,266,855**
Transitional Sheltering Assistance	
Auto Dialer 2552	$ 11,500
Contract Obligations	$ 20,860,750
Total Obligated	$ 20,872,250
State Cost Share - 10%	**$ 2,087,225**
TOTAL IA COST SHARE	**$ 40,661,580**
Mission Assignments (2508)	
Amount Obligated	$ 89,362,500
MA at State Cost Share 0%	$ 78,892,500
MA at State Cost Share 25%	$ 10,470,000
TOTAL MA COST SHARE	**$ 2,617,500**
TOTAL STATE COST SHARE (IA + MA)	**$ 43,279,080**

Costs incurred directly by FEMA fall into two broad categories, the Individual Assistance Program and Mission Assignments. Within the Individual Assistance Program there are three subcategories: Other Needs Assistance (25% match), Immediate Needs Assistance (25% match) and Transitional Sheltering Assistance (10% match). Other Needs Assistance provides individuals with grants for uninsured, disaster‐related necessary expenses and serious needs. These costs may include medical and dental, repair, cleaning or replacement of clothing and household items, or moving and storage expenses among other items. Immediate Needs Assistance is designed to provide applicants with funding for urgent needs, without burdening them with extensive paperwork during peak crisis operations. These costs may include items such as immediate debris removal, emergency protective measures, and removal of health and safety hazards. Transitional Sheltering Assistance is intended to provide short-term lodging for eligible disaster survivors whose communities are either uninhabitable or inaccessible due to disaster-related damages.

Under the authority of the Stafford Act, FEMA may issue work orders known as Mission Assignments to other Federal agencies in order to provide State, Tribal or local governments with resources to save lives, protect property, or preserve public health or safety. In response to the August 2016 declaration, FEMA issued mission assignments creating cost obligations of approximately $89.4 M, of which $78.9 M requires no state match and $10.47 M requires a 25% state match.

GOHSEP submitted a repayment proposal to FEMA on September 15, 2016 and has received approval for a five-year repayment plan for the state match associated with these FEMA direct expenditures. The initial plan authorization was for a total estimate of $40 M payable in five annual installments with an interest rate of 1%. The first payment will be $11.4 M due August 1, 2017, including a $4 M initial payment. The projected out-year costs due on August 1 of fiscal years 2018 through 2021 will be approximately $7.4 M annually. The pay plan is to be adjusted once actual costs are determined (current projections exceed the initial estimate by $3.3 M = $43,279,080 - $40,000,000).

Other Outstanding Disaster Obligations

As mentioned previously, the August flooding event was the second Louisiana experienced during the year 2016. The first flooding event created expenditure obligations for the state estimated at $10 M total for match requirements. GOHSEP negotiated a three-year repayment plan for this obligation and received a FY 17 appropriation of $4.4 M to make the first payment on August 1, 2016. Two subsequent payments of approximately $2.85 M will be due on August 1 of 2017 and 2018. Because the August 2017 payment due is less than that in the current fiscal year, GOHSEP will be able to non-recur approximately $1.55 M of its existing budget authority related to this expenditure during FY 18 budget preparation.

In addition to the two 2016 flood events, the state still owes three installment payments to FEMA for previous disaster declarations. At the end of FY 17, the aggregate balance due for previous disaster events will total approximately $41.05 M. GOHSEP is currently budgeted $6.9 M for these payments in FY 17, but will require budget growth to make payments of $10.4 M in FY 18, $13.8 M in FY 19 and $17.7 M in FY 20. These debts are associated with paybacks for specific federal programs (Other Needs Assistance, Mission Assignments, Hazard and Flood Mitigation). The outstanding debts are tied to disallowances and match requirements associated with the following Disaster Related (DR) events: Flooding event, DR #1049; Hurricane Gustav, DR #1786; Hurricane Ike, DR #1972; Hurricane Isaac, DR #4080; and 4 DRs identified by Office of Inspector General Audit, DD-02-05 (Tropical Storm Alice, DR #1380; Winter Storm, DR #1314; Severe Storms, Tornadoes and Flooding, DR #1269; and Freezing Rain and Ice Storm, DR #1264).

Table 8 below provides an illustration of upcoming fiscal year obligations related to all outstanding disaster events along with a net impact on the state budget picture. The final column, Budget Need Compared to Prior Fiscal Year, reflects the budget adjustment that will be required in each year's appropriation compared to that needed in the previous fiscal year. For example, during budget development for FY 18 an additional appropriation of approximately $13.3 M will be necessary to provide for anticipated debt payments to FEMA as per negotiated repayment schedules. However, the FY 19 appropriation will decrease by $570,566 compared to FY 18. The required appropriation varies by year going forward until all existing outstanding debts have been repaid in FY 22.

Future Fiscal Year Disaster Payments and Budget Impacts (Table 8)

			Required Payments				
Payments by FY	Total Beginning Balance	Total Estimated Interest	August 2016 Flood	March 2016 Flood	Prior Year Disasters	Total End Balance	Budget Need Compared to Prior Fiscal Year
FY 2018	$ 86,659,960	$ 808,082	$11,400,000	$ 2,860,000	$ 10,365,449	$ 62,842,593	$ 13,315,150
FY 2019	$ 62,842,593	$ 610,053	$ 7,400,000	$ 2,834,284	$ 13,820,599	$ 39,397,763	$ (570,566)
FY 2020	$ 39,397,763	$ 384,791	$ 7,400,000	$ -	$ 17,705,234	$ 14,677,320	$ 1,050,351
FY 2021	$ 14,677,320	$ 146,773	$ 7,400,000	$ -	$ -	$ 7,424,093	$ (17,705,234)
FY 2022	$ 7,424,093	$ 74,241	$ 7,498,334	$ -	$ -	$ -	$ 98,334

Update on Installment Agreements for Fines Owed to the Office of Motor Vehicles

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

Persons owing fines to the Department of Public Safety, Office of Motor Vehicles (OMV) will soon have another way of paying the aforementioned fines and returning to full compliance. Act 397 of the 2016 Regular Session allows for motorists owing lapsed motor vehicle insurance fines to the OMV to enter into payment installment agreements with the office prior to the debts being declared final debt and referred to the Department of Revenue, Office of Debt Recovery (ODR).

Previously persons owing fines would have to pay the entire amount in one sum to achieve compliance, and the new arrangement allows motorists flexibility in paying fees over time in order to become fully compliant. If persons owing fines did not pay the entire sum at once, the fine would be increased to the maximum amount of $525, regardless of the original fine owed, and referred to the ODR, who could levy an additional fee of 25% of the referred amount, potentially increasing the penalty up to $656.25 ($525 OMV fee + $131.25 ODR fee). There is no maximum with respect to the amount of penalties a person may accrue; therefore debtors may hold multiple penalties of $525.

Entering into an installment agreement with OMV allows motorists to return to compliance provided they meet all other requirements. For example, if a motorist owes fines associated with having a lapse in automobile insurance, a condition of their compliance would be activating and maintaining an automobile insurance policy. Both the debtor and the OMV must agree to and sign an official document stating the terms of the installment agreement.

Payment amounts are based upon the total a motorist may owe in fines to the OMV. Per Act 397, motorists must owe a minimum of $250 in fines if they wish to enter into an installment agreement. The payment schedules outlined in Act 397 are in the Table 9 to the right.

Payment Schedules (Table 9)

Amount Owed	Term (months)	Monthly Payment Range
$250	6	$41.67
$251 - $750	12	$20.92 - $62.50
$751 - $1,500	24	$31.29 - $62.50
$1,501 - $2,500	36	$41.69 - $69.44
$2,501 - $4,999	48	$52.10 - $104.15
$5,000+*	60*	$83.33+*

**The Commissioner of Motor Vehicles has the ability to set payment schedules and terms for persons owing more than $5,000 in fines. Terms may be more than 60 months, which may result in lower monthly payment amounts.*

Debtors must make payments through an electronic automated transaction initiated by the OMV or by a third-party on behalf of the OMV. As a result of all payments being made electronically, only bank drafts, electronic funds transfers, and credit or debit cards are acceptable means of payment. Debtors may also prepay sums due on an installment agreement without receiving penalty. Agreements may be suspended for up to 60 days if the debtor provides good cause as determined by the Commissioner of Motor Vehicles. Furthermore, in the event a debtor fails to make a scheduled payment and defaults on the agreement, they may enter into a new installment agreement as early as the next day. If the debtor enters into the new installment agreement prior within 60 days of defaulting on the prior agreement, the debtor will not owe a $60 driver's license reinstatement fee. However, the debtor will be required to make the initial payment to enter the new agreement. In the event the debtor does not renew the installment agreement, the OMV will declare the debt final and refer to the Dept. of Revenue, Office of Debt Recovery.

OMV conducted a pilot program in its Baton Rouge office before offering installment agreements statewide on October 31, 2016. Presently installment agreements can only be entered into at OMV's offices in Metairie, Slidell, Harvey, Baton Rouge, Shreveport, Bossier City, Monroe, Lake Charles, Leesville, Lafayette, Alexandria, Livingston, and Thibodaux. OMV indicates that offering agreements at the major regional offices allowed for quicker statewide implementation of the program. For reference, the pilot program in Baton Rouge had 5,017 active enrollees as of the launch date for the statewide program.

The installment payment programs are contracted through Louisiana Interactive, LLC, which is a subsidiary of NIC, Inc. Each payment made pursuant to the installment agreement will carry a $3 fee. Furthermore, depending upon the payment method, a fee equal to 2.5% of the sum of the total installment payment plus the $3 fee may be levied on credit or debit card payments. These fees are in addition to and separate from the payment made in accordance with the installment agreement.

The installment program will likely decrease self-generated revenues by an indeterminable amount for the OMV, as persons owing more than $250 in fines may not have their penalties increase to the maximum amount of $525 and referred to the ODR if they enter into an installment agreement. The decrease is indeterminable because the number of persons who may enter into installment agreements and their associated penalties is unknown.

Furthermore, as a result of the ODR likely receiving fewer referred debts from the OMV, the office will not have as many debts to levy the additional 25% surcharge on referred debts that ODR can retain. Therefore the ODR may also realize an indeterminable decrease in self-generated revenues due to the OMV referring fewer debts associated with motor vehicle penalties.

Overview of Prison Industries in the Fifteen Southern Legislative Conference States

Monique Appeaning, Fiscal Analyst/Special Projects Coordinator, appeaningm@legis.la.gov

Overview

Prison Industries (PI), often referenced as Prison Enterprises (PE) in Louisiana, benefit public safety by keeping inmates active and engaged while incarcerated. PE provides opportunities to learn life and job skills and to develop a work ethic.

Historically, the Southern Legislative Conference (SLC) reports, PI sales across its fifteen states (including top four product lines by sales total but excluding agricultural related products). Table 10 below compares total prison sales and net profits across the fifteen SLC states. Total sales equates to the total dollar amount collected for goods and services provided. Net profit is often described as the bottom-line and is calculated by subtracting total expenses from total revenue. Net profit reflects an entity's earnings (or losses) for a defined period of time. In Louisiana, PEs generally operate as a business type activity but are nonetheless governmental entities accountable to the state.

From 2012 to 2015, the total prison sales across the fifteen SLC states increased by $25,623,044 or 5.4%. During the same period, net profit across the fifteen SLC states increased by $8,178,656 or 508% (a growth from $1.6 M to $9.8 M). In the case of Louisiana, from 2012 to 2015, total prison sales increased by $3,773,396 or 21.0%. During the same period, Louisiana's net profit increased by $475,883 or 37.3%.

In 2015, North Carolina reported the highest total sales ($94.5 M), while Mississippi reported the lowest total sales ($6.7 M). During the same period, North Carolina reported the highest net profit ($2.3 M, while Tennessee reported the highest net loss ($4.7 M). In 2015, Louisiana's reported total sales of $21.7 M and net profit of $1.75 M, placing Louisiana in the top half of SLC states for total sales and in the top third of SLC states for net profits.

SLC States Total Prison Sales and Net Profit (2012-2015) (Table 10)

	2012		2013		2014		2015	
States	**Total Sales**	**Net Profit**	**Total Sales**	**Net Profit**	**Total Sales**	**Net Profit**	**Total Sales**	**Net Profit**
Alabama	$14,210,000	$282,000	$14,630,000	$644,000	$14,880,000	$1,400,000	$15,800,000	$280,000
Arkansas	$6,699,843	$829,221	$7,171,076	$1,172,173	$8,131,118	$1,274,221	$7,705,552	$1,418,180
Florida	$63,108,336	$25,095	$64,392,112	$4,076,027	$64,105,046	$1,000,892	$67,820,189	$1,980,914
Georgia	$26,322,892	$834,785	$30,188,745	$1,317,103	$27,561,828	($61,813)	$26,584,255	$1,052,900
Kentucky	$10,928,100	($1,141,400)	$9,822,316	$483,890	$10,800,000	$186,000	$9,681,662	$238,754
Louisiana	$17,926,299	$1,275,432	$18,553,690	$1,218,479	$17,348,743	$505,937	$21,699,695	$1,751,315
Mississippi	$6,503,320	$1,770	$6,503,320	$1,770	$6,374,623	($165,244)	$6,705,277	($57,704)
Missouri	$29,375,040	($3,478,282)	$28,078,843	($2,331,549)	$28,022,482	($642,616)	$29,413,541	$1,541,900
North Carolina	$95,234,428	($1,497,636)	$90,316,511	($2,545,800)	$91,370,000	($781,137)	$94,490,158	$2,266,067
Oklahoma	$15,191,881	$1,721,486	$15,862,962	$1,886,127	$16,552,384	$1,374,864	$16,762,824	$2,197,316
South Carolina	$21,396,819	$5,800	$20,938,721	($412,467)	$19,164,785	$28,619	$19,319,981	$217,193
Tennessee	$36,046,808	$1,653,876	$39,075,657	$515,172	$45,175,652	$606,782	$48,365,112	($4,671,011)
Texas	$73,300,000	$1,100,000	$80,200,000	$2,900,000	$88,700,000	$3,600,000	$84,600,000	$1,900,000
Virginia	$49,656,699	($540,715)	$53,601,429	$834,648	$48,991,574	($1,627,262)	$42,585,998	($665,432)
West Virginia	$7,886,397	$537,218	$8,294,991	$814,788	$7,800,275	($145,054)	$7,875,662	$336,914
Total	**$473,786,862**	**$1,608,650**	**$487,630,373**	**$10,574,361**	**$494,978,510**	**$6,554,189**	**$499,409,906**	**$9,787,306**

Source: Southern Legislative Conference Annual Survey 2012, 2013, 2014 and 2015 (Note: Data reported only includes that top 4 product lines and excludes agricultural related products.)

Prison Industry in Louisiana

Louisiana PE serves as an ancillary agency under the purview of the Department of Public Safety and Corrections. State offenders learn skills like sewing, carpentry, welding, printing, embroidery, silk screening and farming. PE in Louisiana provides products and services to customers at competitive prices. This agency generates its revenue primarily through sales to other state agencies, other governmental entities or to non-profits. PE does not receive state general fund for its operating budget. PE operates agriculture and service programs located at eight correctional facilities throughout the state.

Offenders who meet certain eligibility requirements may participate in the PE program. On average, 1,700 offenders participate annually. Offenders who meet certain requirements may earn incentive pay ranging from $0.00 to $0.20 per hour or good-time credit. The money earned by offenders is deposited into their individual offender banking accounts. Offenders selecting incentive pay cannot earn money until completing their third year of incarceration. Monies can be saved for use upon release or it can be used at the canteen based on established guidelines. The total number of hours worked (FY 16) was 1,583,776, averaging 931 hours per offender per year.

Table 11 to the right provides information on the top four product lines by Louisiana PE from 2012 to 2015. During this period, canteen sales consistently remained as the top line item in total sales. Canteen sales were followed by garments, license plates and cleaning supplies, respectively.

Louisiana's Top Four Product Lines in Total Sales (Table 11)

Product Lines	2012 Total Sales	2013 Total Sales	2014 Total Sales	2015 Total Sales
Canteen Sales	$9,888,290	$10,091,176	$10,636,495	$10,632,580
Garments	$2,282,393	$3,102,186	$2,245,417	$2,975,348
License Plates	$1,525,236	$1,645,459	$1,539,210	$2,116,618
Cleaning Supplies	$1,139,585	$1,284,330	$810,395	$1,298,336
Total	**$14,835,504**	**$16,123,151**	**$15,231,517**	**$17,022,882**

Source: Southern Legislative Conference Annual Survey 2012 - 2015 (excludes agricultural related product lines)

For FY 15, a synopsis of Table 11 is as follows:

- Canteen sales totaled $10.6 M or 62.46% of total sales. According to PE, the canteen sales product line has a distribution center that supplies items for sale to offender canteens within the correctional facilities across the state. Personal property items are purchased by offenders throughout the Louisiana Department of Public Safety and Corrections through canteens. PE reports that bulk purchasing saves the state money. Since FY 12, annual sales have grown from $9.9 M to $10.6 M in FY 15.
- Garment sales totaled $3.0 M or 17.48% of total sales. This product line includes certain clothing and bedding as well as custom garment screening. There are three (3) state correctional facilities with garment factories: Elayn Hunt Correctional Center, Louisiana Correctional Institute for Women and Winn Correctional Center. These garment factories provide work opportunities for certain offenders in the textile industry. By producing the garments in-house the state saves money as offender clothing is produced using offender labor. Since FY 12, the annual sales have grown from $2.3 M to $3.0 M in FY 15.
- License Plates sales totaled $2.1 M or 12.43% of total sales. Embossed vehicle license tags are produced and distributed for the Louisiana Office of Motor Vehicles. Offender labor generates cost savings and allows offenders to obtain skills in manufacturing. Since FY 12, the annual sales have grown from $1.5 M to $2.1 M in FY 15.
- Cleaning Supplies sales totaled $1.3 M or 7.62% of total sales. The product line produces and packages a range of soaps and cleaning products. These items include bar soap, antibacterial hand soap and household cleaning products that are used in state correctional facilities, state office buildings in the Baton Rouge area and local and parish jails. This operation also provides work opportunities for offenders in chemical manufacturing. Since FY 12, the annual sales have grown from $1.1 M to $1.3 M in FY 15.

FY 2016 Outlook

The FY 16 total sales for Louisiana's PE were $18,160,398 for the top four product lines and the net profit was $1,041,177, excluding agricultural product lines. However, the agency reports total sales of $28,609,340 for all product lines including agricultural for FY 16 and a net loss of $1,915,747. This loss was the result of budget reductions from other agencies, namely the DOC who experienced budget cuts that impacted the sales provided to them via PE. Also, PE experienced other budget changes that increased its expenditures and decreased its available revenue. For example, a portion of the agency's accumulated fund balance ($331,106) was transferred to the State General Fund per Act 27 of the 2016 First Extraordinary Session of the Legislature. Then, the agency incurred additional expenditures associated with the Office of State Procurement as part of expenditures associated with the consolidation efforts that increased its expenditures by $187,000. Also, while the agricultural product line is not a top four product line, market prices had a negative impact on PE's overall net position. The agency reported to LFO that for the year ending June 30, 2016 its PE cash balance was $1,645,471.

FOCUS ON THE FISC

A Publication for the Louisiana Legislature by the Legislative Fiscal Office

August 2016

Volume 5, Issue 1

INSIDE THIS ISSUE

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

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

FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. This issue is focused on the FY 17 major budget actions and revenue measures enacted from the 2016 Legislative Sessions.

This marks the beginning of the regular publication of Focus on the Fisc and the next publication will highlight departmental and agency-level issues. We welcome your feedback to help the Fiscal Office more useful to you.

I would like to recognize two members of our staff, Monique Appeaning and Patrice Thomas who presented two of the five comparative data reports at the 70th Annual Southern Legislative Conference (SLC) recently held in Lexington, KY. Pictures from the presentations are of Monique presenting the Corrections Report and of Patrice presenting the Medicaid Report.

John D. Carpenter

FOCUS POINTS

Revenue Overview, 2016 Sessions
Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

A number of bills affecting state revenue collections were enacted in the latest legislative sessions. As a whole, these bills are estimated to generate some $1.634 B of additional revenue in FY 17 and $1.750 B in FY 18. Portions of the additional revenue are budgeted through various statutory dedications, resulting in somewhat smaller amounts available for the state general fund. Table 1 and Table 2 on the next page list the major revenue generating bills in the three sessions held during 2016, especially the first and second extraordinary sessions (ES1 and ES2), with the annual revenue estimate associated with each major measure for FY 17 – FY 21. Most of the revenue anticipated flows to the state general fund with the exception of certain revenues dedicated to health care programs, but these dedications have the effect of freeing up a portion of what would otherwise be a general fund allocation to those health care programs. Of particular note is the significant drop-off in revenue in FY 19 and beyond, especially with regard to the sales tax increases enacted in ES1. Expirations of certain measures significantly reduce the expected revenue by over $1 B in FY 19.

The largest of these measures are Acts 26 and 25 of ES1 that increased the state sales tax rate by 1% and applies various tax rates to previously exempt transactions. These two measures combined make up 70% of the total revenue increase for FY 17 and comprise virtually all of the revenue fall off in FY 19 and beyond. Both of these measures became effective for transactions made on April 1, 2016 and result in a fairly complex change in the state's sales tax rate and base structure through June 30, 2018 for most affected transactions, and through March 30, 2019 for business utility purchases. The website of the Department of Revenue provides a twenty-five page table detailing the rate of tax applicable for each previously exempt transaction over the periods encompassing April 1, 2016 through March 31, 2019.

Table 1						
Summary of Major Revenue Bills 2016 ES1 Session (in millions)						
		FY 17	**FY 18**	**FY 19**	**FY 20**	**FY 21**
Act 13 / HB 27	Beer and Alcoholic Beverage Tax Increases	$19.2	$19.3	$19.5	$19.6	$19.8
Act 14 / HB 39	Auto Rental Excise Tax Reinstated	$5.0	$5.0	$5.0	$5.0	$5.0
Act 12 /HB 19	Corporate Franchise Tax Extended to Other Business Forms	$10.3	$89.3	$94.0	$94.0	$94.0
Act 18 / HB 71	Limitations Imposed On Enterprise Zone Program	$0.0	$2.0	$9.0	$26.0	$50.0
Act 26/ HB62	Increases Sales Rate By 1% and Extend To Exempt Transactions	$880.6	$880.6	$0.0	$0.0	$0.0
Act 25 / HB 61	Subject Exempt Transactions to Sales Tax	$272.3	$272.3	$45.0	$0.0	$0.0
Act 9 / HB 72	1% Sales Tax On Telecommunications Services Renewed	$3.4	$3.4	$3.4	$3.4	$3.4
Act 4 / HB 14	Tobacco Tax On Cigarettes Increased	$46.0	$46.0	$46.0	$46.0	$46.0
Act 10 / HB 87	Reduce Premium Tax Investment Credit By 5%	$8.3	$8.6	$0.0	$0.0	$0.0
	Various Miscellaneous Tax Changes	$17.2	$17.2	$9.0	$9.0	$9.0
	Total Additional Revenue Generated	$1,262.3	$1,343.7	$230.9	$203.0	$227.2
	Various Dedications Affected By Tax Changes	($3.2)	($3.2)	($2.3)	($2.3)	($2.3)
	Net Additional General Fund Revenue	$1,259.1	$1,340.5	$228.6	$200.7	$224.4

Table 2						
Summary of Major Revenue Bills 2016 Regular and ES2 Sessions (in millions)						
		FY 17	**FY 18**	**FY 19**	**FY 20**	**FY 21**
Act 4 / SB 6	Limit Inventory Tax Credit - All Firms	$17.3	$17.3	$17.3	$17.3	$17.3
Act 5 / SB 10	Limit Inventory Tax Credit - Manufacturing Firms	$57.0	$57.0	$57.0	$57.0	$57.0
Act 9 / HB 25	Reduce Citizens Assessment Tax Credit	$17.0	$21.2	$33.8	$33.8	$33.8
Act 675 / HB 922	DHH Provider Fees	$16.9	$16.9	$16.9	$16.9	$16.9
Act 305 / HB 662	DHH Provider Fees	$2.5	$2.5	$2.5	$2.5	$2.5
Act 1 / HB 35	Premium Tax Increase on HMOs - 3.25%	$187.0	$124.0	$124.0	$124.0	$124.0
Act 7 / HB 24	Premium Tax Credit for HMOs	($1.3)	($1.3)	$0.0	$0.0	$0.0
	Medicaid Expansion - 2.25% Premium Tax	$23.8	$59.6	$54.5	$60.8	$60.8
	Medicaid Expansion - 3.25% Premium Tax Increase	$34.5	$86.1	$78.8	$87.8	$87.8
Act 10 / HB 29	Reduce Interest on Overpayments of Tax	$16.7	$20.0	$20.0	$20.0	$20.0
	Total Additional Revenue Generated	$371.4	$403.3	$404.8	$420.1	$420.1
	Reduced Interest Costs Affects Certain Dedications	($0.4)	($0.5)	($0.5)	($0.5)	($0.5)
	Dedications of Most of Premium Tax Increases To Health	($244.8)	($275.5)	($264.3)	($279.6)	($279.6)
	Net Additional General Fund Revenue	$126.2	$127.3	$140.0	$140.0	$140.0

The next largest revenue generating measure is Act 1 of ES2, which increases the tax imposed on premiums collected by health maintenance organizations. Roughly 90% of these revenues will come from the premium base associated with Medicaid patients receiving health care services through the state's Medicaid managed care program. These revenues will provide state match for federal support of the Medicaid program through the Medical Assistance Trust Fund dedication, thereby reducing the need for state general fund resources to support the program. The balance of these revenues is expected to come from HMO premiums associated with non-Medicaid patients, and will flow to the state general fund. In conjunction with the tax rate increase of Act 1, the state's participation in the federal Affordable Care Act will expand the Medicaid premium base and result in additional revenue to provide state match for the program. In addition, Acts 675 and 305 of the 2016 Regular Session authorize fee increases on health care providers that will provide additional revenue for support of the program. As a group, these measures are expected to provide some $245 M in FY 17 to support the Medicaid program. In addition, HCR 51 of the 2016 Regular Session established a broad-based health care provider fee that is expected to generate $22 M in FY 17 for support of the Medicaid program through the Hospital Stabilization Fund.

The state tax credit for local ad valorem taxes paid on inventory property was effectively reduced by two measures, Acts 4 and 5 of ES2. Act 4 modifies the portion of the credit available in excess of state tax liability by allowing certain amounts of excess credit to be refunded based on the total amount of local ad valorem tax paid on inventory property. Excess credit not allowed to be refunded is allowed to be carried forward for use against future tax liabilities for five years. Since, in the aggregate of all affected taxpayers, liabilities are consistently and materially lower than available credit amounts, this effectively captures in state revenue receipts the amount of credit required to be carried forward. Act 5 modifies the portion of the credit available in excess of state tax liability for manufacturers claiming the ad valorem industrial tax exemption. For these firms, all of the credit available in excess of liability is not to be refunded but is allowed a five-year carry-forward. This also effectively captures in state revenue receipts the amount of credit required to be carried forward. These changes to the inventory credit follow significant changes made in the 2015 regular session that also limited the credit.

The corporate franchise tax was extended to business organizations other than traditional C-corporations by Act 12 of ES1, and is expected to generate material additional revenue, especially in FY 19 and beyond. Corporate tax receipts are also expected to be enhanced over the next few years by the provisions of Act 16 of ES1 that requires firms to add back certain formerly deductible expenses when computing net taxable income. Revenue gains are unknown and will be realized over time as compliance and enforcement step-up the tax base, but the effect can only work to expand the tax base and collections. In addition, Act 8 of ES2 changed the apportionment calculation for firms in industries other than oil & gas to a single sales factor, and provided for market-based sourcing of sales. Both of these changes are anticipated by advocates to enhance the state's corporate tax base. However, such changes will also redistribute the tax burden among corporations and no evidence of the likely effect on aggregate state tax base was available to support the expectation of greater overall revenue receipts. Net effects of these changes will be realized over time as compliance and enforcement occur.

The tobacco excise tax on cigarettes was raised by 22¢/pack by Act 4 of ES1. This change was effective April 1, 2016 and follows a tax rate increase of 50¢/pack made in the 2015 Regular session. The latest increase brings the total state tax on cigarettes to $1.08/pack. The excise taxes on alcoholic beverages (liquor, wine, and beer) were modestly raised by Act 13 of ES1, as well. These were the first excise tax rate increases imposed on alcoholic beverages in several decades. Two other taxes were reinstated or renewed. A 3% tax on short-term auto rentals was reinstated by Act 14 of ES1, with 83% of the proceeds retained by the state (a 2.5% tax rate equivalent), and 17% distributed to the locale of rental (0.5% tax rate equivalent). This tax had been in effect for twenty-two years since 1991 until it was allowed to lapse in FY 13. In addition, Act 9 of ES1 renewed a 1% tax on interstate telecommunications services that was scheduled to expire on April 1, 2016.

The refundable income tax credit provided to reimburse policyholders for the assessment they are charged on their property insurance by the state-sponsored Citizens Insurance Company was reduced to 25% of the assessment paid by Act 9 of ES2. This reduction in the credit follows a reduction to 72% of the assessment paid that was imposed in 2015 Regular Session. That earlier credit reduction was to last only until June 30, 2018, with the credit returning to 100% after that. This latest change not only reduced the credit even more, but also made the latest reduction permanent.

Various other measures affecting net revenue receipts were also passed, including further limitations on the Enterprise Zone Program and its eventual phasing out as a stand-alone program beginning in FY 18 implemented by Act 18 of ES1. State revenue benefits occur over time as participating firms complete the program while new entrants taper off. Interest paid on overpayments of tax is effectively reduced by Act 10 of ES2 by establishing a 90-day period before interest begins to be due for various taxes. This allows the Revenue Department time to process complicated returns that generate refunds but without interest due during the processing period. Various bills of ES1 reduced tax remittance discounts, as well as two-year reduction in a major premium tax credit provided by Act 10 of that session.

Finally, Acts 31, 30, and 8 of ES1 are a package of bills that propose a constitutional amendment for the November 8, 2016 ballot, and enabling legislation, that eliminates the deductibility of federal income taxes paid from state corporate income tax in conjunction with replacing the current five-tier progressive tax rate structure with a single 6.5% tax rate on corporate net taxable income. Such a change to the tax structure will definitely result in a redistribution of the tax burden among corporations, and an analysis of a single tax year's returns by the Department of Revenue suggested relatively modest net aggregate revenue gains, as well.

GENERAL GOVERNMENT

Overview of FY 17 Legislative Budget Actions
Alan Boxberger, General Government Section Director, boxbergera@legis.la.gov

The Louisiana Legislature in 2016 convened in three separate sessions to address looming budget deficits through a series of revenue measures, budget maneuvers and structural changes. A historical reliance on one-time monies to balance the state's fiscal position ($826.4 M in FY 16), projected FY 17 utilization increases in Medicaid ($190 M) and growth of the public school student count (Minimum Foundation Program - $20 M), rebasing FY 17 debt payments to account for a one-time debt defeasance prepayment, use of bond premiums and refunding which reduced the FY 16 payments due ($190 M), delaying a FY 16 Medical Vendor Payment until FY 17 ($262 M), and continued weakening of the underlying economy ($743 M REC FY 17 SGF decrease between 11/16/15 and 2/10/16) left the Louisiana Legislature with sizable budgetary and fiscal issues to address during its Regular and two Special Sessions.

At the time the executive budget was presented to the legislature, Governor Edwards identified approximately $2 B in revenues needed to fully fund identified needs and agency budget requests for FY 17. The legislature passed a series of instruments that resulted in an increase of the SGF appropriation by $1.07 B above the Existing Operating Budget as of 12/1/15. Other instruments provided for increases in Statutory Dedication revenues, which in turn allowed the legislature to fund health related expenses and to free up SGF for use in other parts of the budget (i.e. HMO premium tax – Act 1 of the 2016 Second Extraordinary Session).

Table 3
State General Fund Status

	Existing Operating Budget as of 12/1/15 REC 11/16/15	Initial Appropriation FY 2017 REC 6/30/16	Initial Appropatiaion FY 2017 Compared to EOB (Difference)
GENERAL FUND REVENUE			
Revenue Estimating Conference	$8,481,600,000	$9,624,600,000	$1,143,000,000
Total Available General Fund Revenue	**$8,481,600,000**	**$9,624,600,000**	**$1,143,000,000**
SGF APPROPRIATIONS AND REQUIREMENTS			
Non-Appropriated Constitutional Requirements			
Debt Service(1)	$193,397,230	$404,806,802	$211,409,572
Interim Emergency Board	$1,758,021	$1,720,862	($37,159)
Revenue Sharing	$90,000,000	$90,000,000	$0
Total Non-Appropriated Constitutional Requirements	**$285,155,251**	**$496,527,664**	**$211,372,413**
Appropriations			
General	$8,041,802,994	$8,909,423,862	$867,620,868
Ancillary	$0	$0	$0
Judicial	$159,838,908	$151,530,944	($8,307,964)
Legislative	$73,352,811	$66,017,530	($7,335,281)
Capital Outlay	$0	$0	$0
Total Appropriations	**$8,274,994,713**	**$9,126,972,336**	**$851,977,623**
Total Appropriations and Requirements	**$8,560,149,964**	**$9,623,500,000**	**$1,063,350,036**
General Fund Revenue Less Appropriations and Requirements	**($78,549,964)**	**$1,100,000**	

Table 3 on the previous page depicts the FY 17 SGF status as of the initial appropriation in comparison to the FY 16 Existing Operating Budget as of 12/1/15 (EOB freeze date). The source of the net SGF growth is a projected revenue increase of $1.385 B associated with additional revenues from the 2016 legislative sessions. The difference between the $1.385 B SGF revenue increase and the $1.07 B appropriation increase is due to declines in the underlying revenue projections and mid-year budget reductions subsequent to the EOB freeze date.

Notes:
1) Total projected Debt Service expenditures (non-appropriated Constitutional requirements) will be updated to $401,452,087 upon publication of the next Fiscal Status Statement by the Division of Administration.
While the SGF appropriation increased in FY 17, there are still significant activities and initiatives that are either not fully funded or that realized reductions in funding in comparison to FY 16. For example, two of the items that were heavily debated during the legislative sessions that were not fully funded include TOPS with an approximate $88 M shortfall and the Minimum Foundation Program at approximately $25 M. The Legislative Fiscal Office will publish its Fiscal Highlights document in September. This document and future editions of Focus on the Fisc will provide additional information and detail regarding department and agency level impacts of the FY 17 budget as adopted.

EDUCATION

Elementary and Secondary Education - Minimum Foundation Program (MFP)
Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov

The FY 17 Appropriation includes an adjustment of $14.8 M for an anticipated increase of 2,298 students and total funding of $3,649 M; $3,356.6 M SGF, $181.1 M Lottery Proceeds Fund and $111.2 M SELF Fund. Total student enrollment is projected at 692,280. It does not include funding for an inflation adjustment.

The FY 16 MFP included $44.2 M, which was funded in a supplemental appropriation outside of the formula: a 1.375% inflation adjustment ($36.2 M); an increase for the Supplemental Course Allocation ($2.6 M); and an increase for the High Cost Services Allocation ($5.4 M). HR 231 of 2015 urged and requested BESE to incorporate the supplemental funding into the FY 17 formula. As such, the proposed MFP for FY 17 approved by BESE on March 4th incorporated this adjustment into the formula. This represented standstill funding for the MFP. However, in light of the state fisc, the MFP resolution (SCR 44) was rejected by the Senate Education Committee and pursuant to the Constitution, the MFP is funded in accordance with the last approved resolution (SCR 55 of 2014); accordingly, HB 1 as enacted eliminates this supplemental MFP funding of $44.2 M.

Act 14 (HB 69) of the 2nd Extraordinary Session appropriates supplemental funding for state agencies to the extent the Revenue Estimating Conference (REC) recognizes and incorporates into the official forecast any additional revenues generated as a result of enactment of certain instruments from that session. The bill includes an appropriation of $20 M for the MFP, which is anticipated to be funded from these additional revenues. The Department of Education has indicated there is no one specific required use of this allocation and has advised districts that they have flexibility to dedicate funding among the four purposes cited in the appropriation (high cost special needs, Supplemental Course Allocation, teacher pay raises, or other operational or educational expenses). Districts are encouraged but not required to continue to budget for program expenses similar to those for the previous year.

The MFP provides for a base per pupil amount of $3,961 and maintains the weights for students with special characteristics. Due to the reduction of the $44.2 M supplemental funding, the Supplementary Allocations in Level 4 have been revised and are projected as follows: *1) Career Development Allocation* ($5.9 M) to support the development of technical courses required for statewide credentials in city and parish school systems and other public schools in the amount of 6% of the base per pupil cost for each qualifying student course enrollment; *2) High Cost Services Allocation* ($4 M) to provide additional funds to public school systems and schools which substantiate that the prior year cost of services for students with disabilities exceeds three times the most recent state average total expenditure per pupil amount; and *3) Supplemental Course Allocation* ($7.8 M) to provide for the cost of secondary course choices specifically approved by BESE in the amount of $26 for each student enrolled in grades 7-12 as of February 1.

Higher Education Overview

Jodi Mauroner, Education Section Director, maueronerj@legis.la.gov
Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

The Existing Operating Budget as of 12/1/2015 (without TOPS) totals $2.37 B (including $418.9 M SGF and $350 M SAVE). FY 17 appropriates a total budget of $2.38 B, reflecting a net increase of $12.4 M; a $29.6 M reduction in SGF, a $17.7 M decrease in IAT and Statutory Dedications, a $3.2 M decrease in Federal, and a $62.9 M increase in SGR from fees associated with Act 377 of 2015 and tuition authority associated with the GRAD Act.

The first column in Table 4 shows the FY 16 SGF equivalent (SGF + Higher Education Initiatives Fund) budget by system and budget unit. The second column entitled "FY 17 Appropriated" shows the $919.3 M SGF allocation to higher education including $149.1 M for TOPS. Act 17 of the 2016 Regular Session and Act 14 of the 2016 2nd Extraordinary Legislative Session do not allocate specific amounts of SGF to individual institutions. Instead, the Acts assign SGF to the Board of Regents (BOR), LA Office of Student Financial Assistance (LOSFA), LA Universities Marine Consortium (LUMCON) and the management boards. The management boards allocated funding to institutions after passage of the appropriations bill.

Higher Education State General Fund Equivalent (FY 16 Existing Budget to FY 17 Appropriated) based on Formula Funding by Regents (Table 4)

Institution/System	FY 16 Existing Operating Budget (EOB)	FY 17 Appropriated	% Change FY 16 EOB to FY 17 Appropriated
LSU System Total	$371,709,494	$348,303,880	-6%
SU System Total	$44,474,795	$43,695,878	-2%
UL System Total	$217,495,183	$213,024,999	-2%
LCTCS System Total	$115,508,742	$115,721,328	0%
LOSFA Total	$233,194,783	$182,208,084	-22%
Board of Regents	$15,213,434	$14,046,612	-8%
LUMCON	2,283,493	$2,279,428	0%
Statewide Total	$999,879,924	$919,280,209	-8%

Act 462 of 2014 required the BOR to develop an outcomes based funding formula for implementation beginning in FY 17. The formula allocates SGF for each institution/system based on a 70% pro-rata share (base funding), 15% cost calculation share and a 15% outcomes share. The pro-rata calculation is based on the 7/1/2015 appropriation levels and provides safeguards to prevent sudden, dramatic changes in the funding level of any postsecondary institution as required in Act 462. The cost calculation is based on weighted factors including SREB peer group salary data, course offerings, enrollment of Pell grant students, research, degree level, space utilization, and support services. The outcomes metrics are based on completer degree levels, transfers, completers in high demand fields (4 & 5 star jobs), time-to-award, and completion of students receiving the Pell grant.

Taylor Opportunity Program for Students (TOPS)

The FY 16 funding total for TOPS was $265.2 M ($200.1 M SGF and $65.1 M Statutory Dedications). The FY 17 appropriated amount for TOPS is $209.4 M ($149.1 M SGF and $60.3 Statutory Dedications). FY 17 current projected need for TOPS is $297.1 M. As a result, TOPS is funded at approximately 70% of the total program cost.

Act 17 (HB 1) funded TOPS at $141.5 M ($81.2 M SGF + $60.3 M Stat Ded), which was only 48% of the projected need. Act 14 (HB 69) of the 2016 2nd Extraordinary Legislative Session increased TOPS funding by $67.9 M and contains language requiring that awards for the 2016 Fall semester be fully funded. However, this level of funding was insufficient to fund the Fall award amount at 100%, thereby increasing the funded percentage from 48% to only 93%. The remaining TOPS funds will be allocated on a pro-rata basis for the Spring semester.

Additionally, Act 503 of the 2016 Regular Legislative changes the mechanism for the distribution of awards in the event insufficient funds are available. The Act requires that all students that receive an award receive an equitably reduced award amount. Based on the average award amount of $5,718, each semester award would be $2,859. However, based on the language contained in Act 14, the Office of Student Financial Assistance (OSFA) estimates recipients would receive 93% of the award total ($2,659 based on average award) for the Fall semester and recipients would receive 48% of the award amount ($1,372 based on average award) for the Spring. It should be noted that the $297.1 M program cost and average award amounts cited above do not include tuition increases which will become effective Fall 2016. This is the final year of GRAD Act tuition authority increases at five institutions ranging from 2.5% to 7%, as well as certain programs at LSU Health Sciences Center New Orleans (10%). The impact of these increases on the total cost of the program will not be available until after the October student count. OSFA is expected to issue revised projections in November.

HEALTH & HOSPITALS

FY 17 Medicaid Overview

Shawn Hotstream, Health and Hospitals Section Director, hotstreas@legis.la.gov
Willis Brewer, Fiscal Analyst, brewerw@legis.la.gov

FY 17 Appropriated (including supplemental funding from Act 14 of the 2016 Second Extraordinary Session) provides an additional $473.6 M in SGF ($2.6 B total increase in funding) for Medicaid in FY 17 from FY 16 Operating Budget at 12/1/15. Total Medicaid funding for FY 17 represents a 33% increase from the FY 16 (25% increase in State General Fund). The majority of the federal fund increase reflected in Table 5 is the result of projected federal matching funds for covering Medicaid expansion enrollees in FY 17. Total funding for Medicaid Medical Vendor Payments is $10.7 B in FY 17.

FY 17 Medical Vendor Payments (Table 5)				
	FY 16 EOB	FY 17 Appropriated	Difference	% change
SGF	$1,873,639,008	$2,347,201,044	$473,562,036	25.27%
IAT	$165,168,290	$35,573,960	($129,594,330)	-78.46%
FSG	$118,958,518	$225,840,025	$106,881,507	89.85%
Stat Ded	$576,449,759	$690,684,380	$114,234,621	19.82%
Fed	$5,312,498,471	$7,404,282,437	$2,091,783,966	39.37%
Total	$8,046,714,046	$10,703,581,846	$2,656,867,800	33.02%

The Medicaid budget contains certain significant increases/enhancements in FY 17, including funding projected growth in Bayou Health (Medicaid Managed Care), funding for an FY 16 Bayou Health payment obligation pushed into FY 17 (1 additional Bayou Health checkwrite added in FY 17), MCO payments for Medicaid expansion for individuals to 138% of the FPL, annualized costs of certain home and community based waivers, increases in projected pharmacy costs and provider rate increases, and funding the backfill of revenues reduced in FY 16 as part of the FY 16 mid-year deficit elimination plan. Significant FY 17 SGF and Statutory Dedication increases are reflected below:

$278.4 M - Medicaid managed care capitation rate payments (includes Act 14 funding)
$167.0 M - Swap non-recurring one-time revenues for SGF
$109.2 M - FY 16 pushed checkwrite (June 2016) into FY 17 *
$24.3 M - Fee for Service increases (including Pharmacy, PACE, and LT-PCS)
$21.3 M - Rate increases (FQHC's, RHC's, Hospice, Buy-in, Rural H's, Nursing F's)
$10.8 M - Coordinated System of Care (CSoC) increase

*The $109.2 M enhancement reflected above does not include $17 M in SGF required state match to make a portion of the projected 13th managed care payment. This contingent amount of revenue will only be available for expenditure when the Department of Revenue prevails in any suit, appeal, or petition associated with an amount paid under protest and held in escrow in accordance with R.S. 47:1576. Such monies will be transferred to the SGF to be utilized to fund a portion of the 13th managed care payment. The total SGF need is $126.2 M to draw down $208.2 M in federal funding for $334.4 M in total payments.

Public Private Partnerships (PPP) Funding

The total funding allocated to the Public Private Partnership (PPP) hospitals for FY 17 is $1,140,348,311. Funding will be used to make both supplemental Medicaid payments (UPL) and Disproportionate Share Hospital (DSH) payments for uncompensated care costs (UCC). This allocation includes $247 M of State General Fund (SGF), $50.5 M of Statutory Dedications from the Medical Assistance Trust Fund, $43.5 M of Fees and Self-generated Revenues, and $799.5 M of Federal Funds. This allocation represents a $96 M reduction (8%) compared to the FY 16 Existing Operating Budget (as of 12/01/16) as shown in Table 6 below.

In May 2016, information provided by the Louisiana Department of Health (LDH) indicated a FY 17 expenditure projection of $1.3 B was anticipated for the PPP's in FY 17. However, this original projection is anticipated to change as the LDH applies a 25% ($249,541,305) Disproportionate Share Hospital (DSH) reduction to the partnerships as a result of Medicaid Expansion.

Public Private Partnership Funding (Table 6)				
	FY 16 EOB	FY 17 Budget	$ Change	% Change
State Funds*	$467,421,634	$297,408,276	($170,013,358)	-36%
Fees and Self-Generated Revenue**	$0	$43,469,442	$43,469,442	-
Federal Funds	$769,013,864	$799,470,593	$30,456,729	4%
Total Means of Financing	$1,236,435,498	$1,140,348,311	($96,087,187)	-8%

Source: HB 1 and LDH projections.

**Includes $50,511,446 from the Medical Assistance Trust Fund used as a state match allocated in Act 14 of the 2016 Second Extraordinary Legislative Session. The amount excludes $3.8 M of SGF appropriated to Lallie Kemp hospital. Lallie Kemp remains a public hospital managed by LSU Health Care Services Division.*

***Based on previous testimony, Houma has been refinanced and will no longer be financed with state general fund. Houma will be financed with $43.5 M of SGR from local funds matched with an estimated $77 M of federal funds.*

Note: HB 1 does not directly appropriate funding to the individual PPP hospitals. Partner hospital reimbursements are paid from the Medicaid Private Providers and Uncompensated Care Costs programs. Therefore, the exact budget by hospital is not known. In addition, the majority of the partnership agreements provide for a finance formula that requires payments to reimburse the hospital providers at 100% of allowable UCC costs. The LDH has not yet provided the projected preliminary individual hospital funding allocation based on the available revenues. The Commissioner's Office has indicated to the LFO that negotiations with the private partners to refinance the partnerships are still ongoing and no new agreements have been finalized. The FY 17 payment exposure will ultimately be based on the new partner financing agreements.

Based on information the LFO has received from LSU and the Commissioner's Office, the partners have not indicated any reduction or elimination of services provided by their hospitals as a result of the FY 17 level of funding.

Medicaid Expansion

The Medicaid budget and the Department of Corrections budget for FY 17 assumes a total of approximately $160 M in net SGF savings associated with the implementation of Medicaid expansion for certain individuals up to 138% of the Federal Poverty Level (FPL). Projected SGF savings are largely based on a $249 M total reduction in Disproportionate Share Hospital (DSH) payments to hospitals based on projected reductions in hospital provider uncompensated care costs. These savings are implemented in the FY 17 budget.

Medicaid Expansion projected SGF impact built into FY 17 budget:

SGF	Total (includes federal matching funds)	
$39,733,074	$1,728,196,336	- Managed Care payments for projected expansion population*
$11,624,300	$39,781,755	- Administrative funding for Medicaid expansion**
($94,129,451)	($249,541,305)	- Reduction in Disproportionate Share Hospital payments***
($89,331,263)	($236,827,314)	- Refinance of Disproportionate Share Hospital payments
($24,804,223)	($77,670,837)	- Savings for certain individuals enrolled in Medicaid****
($3,500,000)	($3,500,000)	- Refinance DOC certain inpatient hospitalization costs
($160,407,563)	$1,200,438,635	- Total projected fiscal impact of Medicaid expansion

*MCO payments assume reimbursement to the health plans for covering the costs associated with the phase in of approximately 375,000 new expansion population eligible enrollees. Total payments represent payments for projected member months (cost of the eligible enrolled paid to the health plans (per member per month). **Note:** The projected MCO payments reflected above do not include any additional payments to the health plans to reimburse for the cost of the premium tax increase as a result of HB 35 of 2016 (HMO premium tax increase from 2.25% to 5.5%).

**The majority of funding for administrative functions associated with expansion are related to a staff augmentation contract with the University of New Orleans for positions to support the eligibility determination function, costs associated with the Fiscal Intermediary (Molina) for paying capitation rates to the health plans, and contract costs for an enrollment broker to link the members to the health plans.

***FY 17 DSH funding to the Public Private Partner hospitals assumes a reduction in hospital uncompensated care costs (UCC) for indigent care based on 375 K newly insured individuals in Medicaid.

****Certain individuals enrolled in Medicaid at a non-Medicaid expansion match rate are projected to qualify under expansion, therefore receiving a higher federal match. The higher match rate would require less SGF used as a match source than utilized in FY 16 for this population.

Note: Any changes from the initial Medicaid expansion assumptions could have a material fiscal impact to the Medicaid budget in FY 17.