EXECUTIVE SUMMARY

FY 19 Revenue

The Revenue Estimating Conference (REC) met on 4/12/2018 and increased overall state tax revenue forecasts for the ensuing fiscal year (FY 19) by $345.9 M relative to the forecast in place from 12/14/2017. The revenue forecast upgrade is largely attributable to greater than expected personal income tax collections resulting from recently enacted federal tax law changes that will reduce the state deduction for federal tax liabilities, as well as the state deduction for excess federal itemized deductions. A higher oil price projection also contributed to the forecast upgrade. However, a significant fall in forecasts from FY 18 to FY 19 of $641.2 M still exists, and largely reflects the expiration of a 1% sales tax rate and base broadening at the end of FY 18.

Largely due to two factors, the forecast for the current fiscal year (FY 18) was actually decreased by $6.5 M from the December forecast. First, an administrative decision to eliminate the advance payment of a hospital lease payment reduced receipts expected late in FY 18. This is a one-time adjustment, affecting FY 18 only. Second, an allocation to the New Opportunities Waiver program was approved at this latest REC meeting. Upgrades to expected income and severance tax receipts, as well as a substitution of funds for the Budget Stabilization Fund, were sufficient to make the net forecast decrease slightly. While the April forecast for FY 18 was decreased from the December forecast, the April forecast is still $146.4 M higher than the forecast utilized to fund the current year budget.

Out-year forecasts have to be taken with considerable caution. Oil and natural gas prices are now forecast to stay near the new higher current forecast but are highly uncertain and dependent on a producing country agreement to restrain production and a rare period of economic growth synchronization across major world economies. In addition, while the U.S. economy has continued to exhibit modest strength in metrics such as employment, growth in wages and inflation have only just started to exhibit upward movement above long running rates. State employment stopped declining in August 2016 but has exhibited negligible positive employment growth since then, with consequently only modest responsiveness of baseline state tax receipts.

FY 19 Expenditures

The FY 19 Executive Budget decreases $1,840,872,706 from the FY 18 Existing Operating Budget (EOB) as of 12/1/2017. The total decrease is comprised of $506,691,320 SGF; $48,127,954 IAT; $37,365,954 SGR; $101,398,622 Statutory Dedications; and $1,147,288,856 in Federal funds.

Pursuant to the LA Constitution, Article 7, Section 11.A, appropriations from the state general fund and dedicated funds shall not exceed the official forecast of the REC. The reduction in funds available for appropriation is due primarily to the expiration of temporary revenue generating measures expiring on 6/30/2018. Accordingly, HB 1 Engrossed contains significant reductions to the state's general operating budget, some of which were necessary to fund new or expanded expenditure obligations reflected in Table 1 below.

TABLE 1

New Major Expenditures (SGF Only)		
Agency	**Expenditure**	**Amount (in millions)**
Statewide	Civil Service Pay Plan	$36.1
Secretary of State	New election system equipment	$3.0
	Election expenses	$1.6
	Registrar of Voter personnel costs	$0.2
Corrections Services	Raymond Laborde Correctional Facility reception center	$0.7
Health	MCO adjustment (PMPM payment)	$156.5
	ELMHS Cooper Jackson settlement agreement	$10.1
Children & Family Services	Integrated Eligibility IT project	$4.9
	Child Welfare Reporting System IT project	$6.9
	State Central Registry (Act 348 of 2017)	$2.4
Economic Development	Debt Service	$16.3
TOTAL		**$238.7**

Per the revised revenue forecast of 4/12/2018, the House Appropriations Committee (HAC) restored $988.1 M to the operating budget including $343.9 M SGF, $120.8 M SGR, $69.9 M Statutory Dedications, and $455.8 M Federal Funds. HAC utilized $246.3 M SGF to restore funding to TOPS and GO Grants to FY 18 EOB levels. The remaining $97.6 M was allocated to other restorations including Elderly Affairs ($1.5 M), Corrections Services ($1.4 M), Office of Juvenile Justice ($10.7 M), Department of Health ($57.9), Workforce Commission ($1 M), Scholarship for Educational Excellence Program (vouchers $2.7 M), Non-public education support ($7.7 M), Board of Regents ($2 M), Local Housing of Adult Offenders ($14.6 M), and District Attorneys ($20.3 M). Further offsets to these increases included means of financing substitutions for the Minimum Foundation Program ($10.1 M) and reduction of excess budget authority for the Department Children & Family Services ($12.3 M).

FY 19 Departmental Overviews

Civil Service Pay Raise - In June 2017, the State Civil Service Commission adopted and the Governor approved a "Compensation Redesign" package regarding pay and pay schedules. The major components of the plan consisted of a 2% increase for eligible employees, pay increases for employees below new minimums, market rate adjustments and performance pay. Finally, the plan abolished the existing annual performance/merit adjustment rule. Portions of the plan were implemented in FY 18 (effective January 2018), with full implementation to take effect in FY 19. Funding in HB 1 Engrossed for the plan totals $85.4 M; $36.1 M or 42.2% of which is SGF. The SGF adjustments include $13.5 M ($30.7 total MOF) to annualize 2% pay raises given in January 2018 and reclassification expenditures from FY 18 and $22.6 M ($54.7 M total MOF) for market rate adjustments effective 7/15/2018.

GENERAL GOVERNMENT OVERVIEW

Governor's Office of Homeland Security & Emergency Preparedness – HB 1 Engrossed appropriates a total budget of $983.5 M, reflecting a total decrease of $23.7 M (including reductions of $20.6 M SGF and $5.1 M IAT and offset by increases of $1.5 M Statutory Dedications – State Emergency Response Fund and LA Interoperability Communication Fund and $526,567 Federal funds). Significant adjustments include non-recurring one-time or expiring expenditures totaling $8.68 M ($3.54 M SGF, and $5.14 M IAT) related to restocking disaster emergency supplies, interoperability build out of the National Public Safety Broadband Network, FEMA debt payments and state cost share of Public Assistance expenditures related to the 2016 flood events; providing $4.7 M SGF for replacement of communications hardware, conversion of deployable trailers to repeater packages, purchase of software and mobile device licenses and acquisition of one server; providing $1.025 M ($25,000 SGF and $1 M Statutory Dedications – State Emergency Response Fund) to support potential non-federally declared disasters and emergency response efforts; providing $3.45 M for the 4th FEMA debt repayment related to multiple disasters and hazard mitigation audits; reducing $4 M SGF for the 2nd of 5 installment payments to FEMA for the state's cost share of the August 2016 flood event; and, elimination of $21.2 M in outstanding FEMA debt payments for FY 19 (see below).

The Commissioner of Administration testified before the Joint Legislative Committee on the Budget (JLCB) at its meeting on 1/22/2018, that the governor will seek to utilize approximately $46 M of excess funds recognized for FY 18 by the REC in December 2017 to prepay FEMA debt payments for FY 19 and FY 20. If the legislature agrees to this plan, debt payments from the SGF in those fiscal years will decrease accordingly and offset the need to make additional SGF reductions in other areas of state government. To the extent this use of excess funds is not approved, the legislature will have to restore $21.2 M SGF to GOHSEP's FY 19 operating budget for FEMA debt payments.

LA Public Defender Board (LPDB) – LPDB realizes a 3.7% net increase of $1.29 M from the EOB, including an increase of $1.3 M in Statutory Dedications and offsetting decreases in IAT ($25 K) and SGR ($25 K). The most significant adjustment is an increase of $1.34 M in the LA Public Defender Fund for representation of those inmates sentenced to life without parole as a juvenile that may now be eligible for parole as a result of the U.S. Supreme Court decision in *Miller v Alabama*.

Department of Veterans Affairs – Realizes a 3.8% overall increase of $2.6 M and 1 position from the EOB, of which $2.5 M is federal funds associated with increased direct care staffing costs and the decentralization of pharmacy operations. The net increase of 1 position is a result of 11 new direct care positions at the homes in Jennings (5), Bossier City (2), and Reserve (4), as well as the elimination of 10 positions at the LA War Veterans Home in Jackson corresponding with the elimination of 32 beds to align with new utilization projections. Also included in HB 1 Engrossed is an overall net federal funds increase for the decentralization of pharmacy operations in the veteran's homes. Pharmacy operations will be decentralized from the home in Reserve and the homes in Monroe, Jennings, and Bossier City will bring pharmacy services in-house.

DOTD – HB 1 Engrossed appropriates a total budget of $636.4 M, reflecting a total decrease of $4.7 M (including reductions of $490,000 SGR, $2.74 M Statutory Dedications and $7.79 M Federal while offset by an increase of $6.33 M IAT). Significant adjustments include an increase of $2.04 M ($2.02 M IAT and $0.25 M Statutory Dedications) for Topographic Mapping (see below); and elimination of a $300,000 appropriation from the statutorily dedicated Geaux Pass Transition Fund as the balance is depleted - these funds were used to provide for enhanced grass cutting and maintenance around the Crescent City Connection Bridge.

Topographic Mapping: The FY 19 budget consolidates statewide topographic mapping functions and governmental services under DOTD operations. The budget recommends a total increase of $4.1 M (including $1.1 SGF, $2.02 M IAT, $39,746 SGR, $795,599 Statutory Dedications and $111,687 Federal) and 2 positions. Removing the double-counted IAT from the overall increase, participating agencies were provided with approximately $2 M to transfer to DOTD for statewide topographic mapping expenditures. DOTD's total projected expenditures for topographic mapping services in FY 19 are approximately $3.3 M. The positions added are a pilot and IT GIS Support Analyst. Agencies utilizing the consolidated mapping services include: Division of Administration, Office of Community Development, Coastal Protection & Restoration Authority, Governor's Office of Homeland Security & Emergency Preparedness, Military Affairs, Agriculture & Forestry, Economic Development, Culture Recreation & Tourism, Office of State Police, Department of Health, Children & Family Services, Natural Resources, Environmental Quality, Wildlife & Fisheries, and Education.

DPS&C - Corrections Services – Corrections Services realizes a 0.6% increase of $3 M SGF in HB 1 Engrossed above the EOB SGF base of $490.9 M. The department realizes a net total funds increase of $5.9 M, or 1.1%, above the base of $554.4 M, including the aforementioned SGF increase. Significant adjustments include: $2.6 M for a pay increase for Probation & Parole Agents ($885,093 SGF, $750,000 SGR, and $960,000 Statutory Dedication – Adult Probation & Parole Officer Retirement Fund); a $1.3 M SGF decrease to Winn Correctional Center, which will likely result in a lowering of the per diem paid to the private operator from the current rate of $24.83; and a $966,702 total increase for Allen Correctional Center to operate as a state facility (including an increase of $1.06 M SGR offset by a decrease of $94,891 SGF) along with a corresponding net increase of 139 positions. HB 1 Engrossed also converts 20 job appointments to classified positions for medical/case management purposes associated with the timely release of offenders and eliminates 29 positions department wide for a total net increase of 141 positions.

DPS&C - Public Safety Services – Public Safety Services realizes a 1.1% net decrease of $5.1 M from the EOB, including decreases of $19.4 M SGF, $6.1 M Statutory Dedications, and $602,731 Federal along with an offsetting increase of $21.1 M SGR. HB 1 Engrossed includes elimination of all SGF in DPS. Of the $19.4 M SGF reduction, $14.4 M is a MOF substitution for SGR mostly derived from certificate of title fees. The remaining $5 M reduction non-recurs funding for the state police training academy required by R.S. 47:1676E(1) through FY 18. Significant adjustments include a reduction of overtime expenditures in the Office of State Police ($7.1 M SGR) and a 3% pay increase for state troopers ($3.7 M SGR). The Office of State Fire Marshal is provided with an increase of 8 authorized T.O. positions associated with converting 8 existing job appointments.

DPS&C - Youth Services, Office of Juvenile Justice (OJJ) – OJJ realizes a 2.9% decrease of $3.1 M SGF in HB 1 Engrossed below the EOB SGF base of $109.6 M. The department realizes a net total funds decrease of $3.1 M, or 2.5%, below the total funding base of $123.4 M, including the aforementioned SGF decrease. HB 1 Engrossed non-recurs $4.9 M SGF intended to equip and open the new Acadiana Center for Youth. ***Note*:** HB 1 Engrossed does not provide funds to open the new Acadiana Center for Youth. OJJ 's FY 19 budget request included $14.3 M SGF assuming the facility opens April 2018.

Department of Revenue – The Department of Revenue will realize a net funds decrease of $2.9 M, or a 2.9% reduction from EOB, including a reduction of $3.2 M SGF while being partially offset by increases of $0.3 M SGR and $6,400 Statutory Dedications. The SGF appropriation represents a 9.51% reduction to the EOB SGF base of $33.9 M. Significant adjustments include: a reduction of $1.8 M SGR and 22 positions, 4 of which are filled; and a $2.3 M SGF reduction, comprised of a reduction of WAE or temporary personnel (up to 50 during annual peak between March and May), a reduction in State Reciprocal Program participation ($204,000), a reduction of audit consulting services utilized ($198,000), and a reduction of legal representation services utilized ($202,000).

The department reports that the proposed reductions are not likely to be absorbed, and to an unknown extent will result in reduced speed of assistance with payments of taxpayer debt, answering technical questions, payment of refunds, processing of payments and returns, and in reduced collections from delinquent taxpayers. The reduction to State Reciprocal Program participation will result in no operational impact, as this debt recovery functionality is being folded into the integrated tax system, the costs of which will be offset by IAT charges from the Office of Technology Services.

Local Housing of Adult Offenders (LHOA) – LHOA realizes a 13.5% decrease of $23.6 M SGF in HB 1 Engrossed below the EOB SGF base of $175.2 M. HB 1 Engrossed includes $3.7 M additional SGF expenditure authority to provide for additional offenders participating in transitional work programs based on current projects. Corrections Services indicates that the $23.6 M SGF decrease will be absorbed through a combination of lowering the per diem rate paid to sheriffs and operators of transitional work programs, potentially eliminating payments to local sheriffs for parole holds and lowering the per diem rate paid to sheriffs and operators and work release/transitional housing programs. ***Note:*** The per diem rate is currently set in statute.

District Attorneys and Assistant District Attorneys – The District Attorneys and Assistant District Attorneys realize an 18.9% decrease of total appropriation authority, including a reduction of $6 M SGF support. HB 1 Engrossed retains $5.45 M in statutorily dedicated funding from the Video Draw Poker Device Fund ($5.4 M) and the Pari-mutuel Live Racing Facility Gaming Control Fund ($50,000). At this funding level each district attorney will receive the full annual base pay ($50,000) as required by the constitution for elected officials, with the remaining funds used to make payments to the assistant district attorneys and possibly victim assistance coordinators. The recommended funding level is not sufficient to pay personal services costs for the full year at current staffing levels. The funding level provided would be sufficient to pay assistant district attorneys through 23 of 26 pay periods. To the extent that victim assistance coordinators are funded, funding available for assistant district attorneys would be reduced by an equal amount.

ELECTED OFFICIALS

Agriculture & Forestry (LDAF) – LDAF realizes a 7.2% net decrease of $5.6 M from the EOB, including a decrease of $6.1 M SGF and $575 K Federal and partially offset by an increase of $1 M Statutory Dedications. In FY 18, LDAF will make the final payments on existing debt service bonds, freeing up $7.8 M of LA Agriculture & Finance Authority (LAFA) funds. These LAFA funds will offset the reduction in SGF by a means of financing substitution.

Justice – HB 1 Engrossed budgets $70.3 M, reflecting a total decrease of $5.2 M ($3.2 M SGF, $2.6 M IAT, $50,000 SGR, $440,409 Federal funds and an increase of $1.1 M in Statutory Dedications). Significant adjustments include a 5% SGF reduction ($869,649) and the elimination of excess budget authority in IAT revenues ($2 M). Additionally, there is a reduction of $2.6 M SGF, which was a one time funding offset to the transfer of fund balances from off-budget escrow accounts to the state general fund approved as part of the FY 18 budget. HAC amendments increased funding out of the Louisiana Fund by $1.6 M for hardware and software associated with the tobacco tax stamp data collections.

State – HB 1 Engrossed totals $84.1 M ($56.2 M SGF, $227 K IAT, $27.6 M SGR, and $113 K Statutory Dedications) reflecting a net increase of $3.2 M. The majority of the increase is associated with elections expenses. This includes $3 M for the department's initiative to replace outdated voting system equipment and $1.6 M to fund increased election expenses associated with the Open Primary/Congressional, Open General/Congressional, and Municipal Primary and General elections.

Treasury – HB 1 Engrossed appropriates a total of $11.6 M ($1.68 M IAT, $9.1 M SGR, and $811,455 Statutory Dedications) reflecting a net increase of $240,021. The Executive Budget recommendation included a 5% reduction to expenditures paid from SGR. Unexpended SGR by the Treasury reverts to the SGF at the close of the fiscal year. The Treasury has indicated that it intends to eliminate overtime payments during FY 19 as well as enacting other contract reductions and efficiency measures to absorb the proposed reduction. A HAC amendment restored $300,000 SGR authority to provide for additional outreach and marketing efforts to return unclaimed property to rightful owners.

HEALTH

HB 1 Engrossed reduces overall funding in Medicaid by $1.63 B (13.7%) in FY 19, from the EOB baseline of $11.95 B to a recommended appropriation of $10.3 B. The reduction in funding is largely the result of program reductions and eliminations, including a 45% cut in Disproportionate Share Hospital (DSH) payments for uncompensated care costs (UCC) from FY 18 base funding. DSH payments are largely paid to the partner hospitals.

Significant reductions reflected in the Medicaid budget with HAC amendments are a result of the Private Provider Program and eligibility group reductions/eliminations, and reductions in DSH funding (UCC Program). HAC amendments provided partial restorations for various programs and services. Two notable partial restorations include $201 M ($66.8 M Fees, $135 M federal) in federal DSH cap reductions that is no longer projected to be reduced in FY 19, and $290 M in total funding for various program restorations (Children's Choice waiver, Supports waiver, NOW waiver, Long Term Personal Care Services, and substance abuse treatment services).

Although the FY 19 budget reflects a significant net reduction in overall Medicaid funding, the budget includes various funding increases, including an adjustment that provides $249 M in additional premium payments paid to Managed Care Organizations (MCO's). HAC amendments appropriated an additional $14.4 M in funding for new waiver slots in FY 19 (LDH anticipates funding will provide home and community based services for an additional 650 new waiver slots). State match used for funding the new slots is revenue from the New Opportunities Waiver Fund. Additionally, HAC amendments provided $13.12 M in funding for outpatient hospital rate increases, funded with state match from revenues in the Hospital Stabilization Fund.

Public/Private Partnership

HB 1 Engrossed almost entirely reduces supplemental funding for the partnership hospitals for FY 19. Approximately $1.15 B in supplemental payments are budgeted for the partnerships in the current year (FY 18). Although the Executive Budget eliminated all supplemental funding for FY 19, HAC amendments partially restore $5.7 M ($2 M SGF) in DSH funding for the public partnership in Alexandria. The $5.7 M partial restoration comprises approximately 12.3% of the Alexandria partnership hospital's FY 18 budget of $46.1 M. The impact on specific services is not determinable at this time, however assumed to be significantly reduced.

In addition to Title 19 Medicaid claims payments, the Public Private Partnerships have been historically funded with both DSH and Upper Payment Limit (UPL) supplemental payments. Consequences of leaving the partnership hospitals unfunded for FY 19 are uncertain, although reducing almost all supplemental payments is anticipated to trigger clauses within cooperative endeavor agreements (CEAs) that may lead to termination of the partnerships. A notable effect of termination of the partnerships is a reduction in SGF revenues to the state, as a result of private partners no longer leasing public hospital facilities or equipment. Although HB 1 Engrossed ***contemplates elimination of the majority of supplemental payments to the partnerships, SGF lease revenue from this source is still included in the REC forecast for FY 19***. Based on these assumptions, the REC would have to decrease forecasted revenues to account for any lost lease payments in FY 19 (current REC estimate totals $160.5 M).

Medicaid Payment Liabilities

13th Checkwrite: HB 1 Engrossed does not provide funding for a Medicaid managed care checkwrite payment liability. Only 12 MCO checkwrites are provided in the budget for FY 19. The unfunded payment liability in FY 18 is approximately $683 M total funding ($146.5 M SGF). The cost of the 13th checkwrite if paid in future fiscal years depends on multiple factors, however the payment could be more than projected in FY 18 due to projected trend growth in Medicaid Managed Care for FY 19

Payment Reform: Information provided by the LDH indicates several payment reform initiatives within Medical Vendor Payments are anticipated to be implemented for FY 19. One initiative implements a pool payment methodology for both DSH payments and Supplemental UPL payments. The LFO has not received any additional information indicating the qualifying criteria for hospitals, nor the level of payments that an individual hospital provider may qualify to receive. ***Note:*** It is not anticipated that this initiative can fully be implemented in FY 19 based on the level of DSH funding allocated in the Executive Budget.

EDUCATION

Minimum Foundation Program (MFP) / Department of Education (DOE)

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 18, the MFP is funded at $3.717 B; $3.458 B in SGF and $258.6 M in Statutory Dedications from the Support Education in LA First Fund ($104.1 M) and Lottery Proceeds Fund ($154.5 M). The FY 19 Executive Budget includes an adjustment of $9.8 M for an anticipated increase of 2,786 students. This is offset by a reduction of $7.4 M in one time expenses associated with the assistance provided to school districts impacted by the floods of August 2016 in the current year. <u>The net increase for the FY 19 MFP is $2.3 M</u>. Additionally, there is a $13.1 M MOF swap replacing SGF with Statutory Dedications due to an increase in SELF funds ($3 M) and Lottery Proceeds Fund ($10.1 M) based on the most recent REC forecast. The FY 19 recommended funding totals $3.720 B; $3,448.2 M SGF, $164.6 M Lottery Proceeds Fund and $107.2 M SELF Fund.

Department of Education: FY 19 funding totals $1.603 B ($137.1 M SGF, $253.6 M IAT, $51.1 M SGR, $15.1 M Statutory Dedications and $1,146.1 B Federal funds). This represents a total reduction of $23.8 M. HAC amendments restored 50% of funding for non-public schools which had been eliminated in the executive budget; including $4.1 M for reimbursement of administrative expenses through the Required Services Program and $3.5 M for supplemental payments for school lunch personnel through the School Lunch Salary Program. Funding for constitutionally mandated Textbook supplements remains funded at $2.7 M. Additionally, HAC amendments added $2.7 M for vouchers through the Scholarship for Educational Excellence Program (SSEP); FY 19 funding is $42.6 M, a 7% increase over EOB. Finally, funding for the Recovery School District Instructional Program is being reduced $10 M ($6.9 M IAT and $3.1 M SGR) pursuant to Act 91 which transfers 38 charter schools back to the authority of the Orleans Parish School Board effective 7/1/2018.

Higher Education

Higher Education: FY 19 funding is recommended at $2.695 B, reflecting a net decrease of $21.9 M. Reductions include $23.9 M SGF, $3.6 M Statutory Dedications, and $886 K IAT; other means of financing was increased by $6.5 M ($6.3 M SGR and $201,800 Federal funds).

HAC amendments restored SGF in the amount of $233.3 M for the TOPS Program which had been funded solely with the statutorily dedicated TOPS Fund ($58 M); this provides full funding for the program at the FY 18 EOB level ($291.3 M). The additional restoration of $13 M to GO Grants brings funding back to the $26.4 M funding level in EOB. Additionally, HAC provided $2 M to the Board of Regents for distribution to institutions for STEM programs. A $25.7 M SGF reduction represents an average 3.5% prorated cut for institutions under the Higher Ed funding formula. Statutory dedication reductions ($3.6 M) are based on the most recent REC forecasts.