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To: The Honorable John Alario, President of the Senate
Honorable Members of the Senate
The Honorable Taylor Barras, Speaker of the House
Honorable Members of the House of Representatives

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

Date: June 7, 2018

Subject: A summary of HB 1 Enrolled of the 2018 2nd E.S.

The Legislative Fiscal Office has prepared an executive summary that details FY 19 funding shortfalls and unfunded spending priorities which are contained in the supplemental appropriation section of HB 1 Enrolled, contingent on the enactment of revenue raising measures and recognition by the Revenue Estimating Conference.

Please contact us if you have questions or need additional information.

EXECUTIVE SUMMARY

FY 19 Revenue

The Revenue Estimating Conference (REC) met on 5/22/18 and affirmed the forecast adopted at the 4/12/18 meeting. That April forecast increased overall state tax revenue forecasts for the ensuing fiscal year (FY 19) by $345.9 M relative to the forecast in place from 12/14/17. 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 fifth percent of 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 acknowledged 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 as small as it was. It should be noted that excess expected revenue in FY 18 is still $146.4 M from the revenue 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 only barely positive employment growth since then, with consequently only modest responsiveness of baseline state tax receipts.

Funding Instruments

Two alternative sales tax instruments, providing additional funding for the FY 19 general fund budget, were considered near the end of the session. First considered was HB 12, which continued 1/2 of the new fifth penny of sales tax (a 4.5% rate) through FY 25, generating some $507 M of general fund revenue. Next considered was HB 27, which continued 1/3 of the new fifth penny of sales tax (a 4.33% rate) through FY 25, generating approximately $400 M of general fund revenue. Both bills were similar, but not identical, in that they also subjected various traditionally exempt transactions to their respective full 4.33% or 4.5% proposed state tax rates. Each bill's estimated revenue was inclusive of taxation of all these transactions. Both of these bills failed to pass.

An individual income tax instrument, HB 18, was also considered. This bill continues a limitation of a credit against individual income taxes for taxes paid to other states through FY 23 and is expected to generate some $33.6 M of revenue in FY 19 and each subsequent year during this period. The bill was amended in Conference Committee to include an increase in the state earned income tax credit from the current 3.5% of the federal credit amount to 5%, beginning in FY 20 through FY 26. This provision will result in a $21 M per year increase in the credit. The net effect of the two provisions is a $33.6 M increase in expected revenue in FY 19, and $12.6 M in FY 20 through FY 23. This bill has been enrolled.

A third general fund resource is contained in SB 2 where Deepwater Horizon settlement funds to be received in FY 19 are redirected to the state general fund and away from their current statutorily dedicated allocations: the Medicaid Trust Fund for the Elderly (45%), the Budget Stabilization Fund (45%), and the Health Trust Fund (10%). This reallocation transfers $53.3 M to the state general fund. This bill has been enrolled.

FY 19 Expenditures

HB 1 Enrolled of the 2nd E.S. of 2018 (herein after referred to as HB 1) <u>inclusive of supplemental appropriations</u>, increases $423,714,359 from the FY 18 EOB as of 12/1/17. The total increase is comprised of $65,001,192 SGF, $88,545,485 SGR, $13,153,813 Statutory Dedications, and $289,220,466 Federal funds; while being partially offset by a decrease of $32,606,597 IAT.

HB 1 Enrolled contains appropriations in the base in an amount commensurate with the current revenue estimates. Additionally, SGF supplemental appropriations totaling $526.3 M were contemplated based on anticipated revenues from legislation discussed above. To the extent sufficient revenues are not enacted, these supplemental appropriations will be funded on a pro-rata basis. Since the legislature did not approve measures that raised significant revenue, a lesser amount of approximately $79.7 M will actually be available. However, prioritized funding for the Legislative and Judicial budgets will require $59.8 M to fund those supplemental appropriations, leaving a balance of $19.9 M available for the pro-rata distribution. As a result, there are significant funding shortfalls included in HB 1, which are discussed below. See Table 1 on page 4 for a detailed summary of restorations, reductions, and other spending priorities.

Funding Shortfalls and Unfunded Spending Priorities

- **$264.5 M** – (See breakdown by department in Table 1 on page 4) In addition to reductions contained in the Executive Budget recommendation, an across-the-board reduction of 24.2% to discretionary SGF totaling $264.5 M is contained in the operating budget of all agencies, excluding the Department of Health, the Health Care Services Division and Higher Education. Higher Education is directed to reduce expenditures by 10.8%, while excluding LSUHSC-New Orleans and LSUHSC-Shreveport and certain other programs and activities from these reductions. This reduction language was inserted at the beginning of each Schedule and does not identify specific reduction amounts at the agency level. The LFO assumes the reductions will be applied uniformly to all agencies receiving a discretionary SGF appropriation. However, the authority to allocate the reduction within the agencies of each budget schedule is given to the commissioner of administration.
- **$4.5 M** – LaGov balance of first year of phased implementation to bring Executive branch agencies onto new system ($4 M SGF contained in the FY 18 Supplemental Bill)
- **$1.3 M** – Elected Officials, restoration of 5% reduction contained in the Executive Budget recommendation
    - $480K for the Secretary of State
    - $896 K for the Attorney General
- **$1.4 M** – Economic Development restoration to the Matching Grants Program
- **$1.7** – CRT restoration of 5% reduction contained in the Executive Budget recommendation; further provides approximately $500K enhanced funding
- **$25.4 M** – Corrections Services
    - $21. 7 M for restoration of personal services, replacement acquisitions and major repairs, and CSO salary pay raises
    - $2.7 M for Winn Correctional restoration of contract funding
    - $1 M for Allen Correctional acquisitions and major repairs
- **$25.5 M** – Youth Services
    - $12 M for operating expenses of the Acadiana Center for Youth
    - $10.7 M for Regional Programming
    - $2 M for the Raise the Age initiative
    - $800K for statewide facility repairs and maintenance
- **$1 M** – DCFS for Youth aging out of Foster Care (SB 129 of 2018 RS)
- **$1 M** – Workforce Commission for the LA Rehabilitation Services
- **$101.7 M** – Higher Education formula funding reduction equates to approximately 18% reduction to all institutions of higher education (excludes Medical Schools, Pennington Biomedical Research Center, and the Ag Centers)
    - $70.4 M is the 10.8% reduction included in the $264.5 M in bullet 1 above
    - $25.6 M restoration of reductions included in the Executive Budget recommendation
    - $3.2 M for Southern University System Accreditation
    - $1.5 M for Grambling State University
    - $1 M GO Grants
- **$88.4 M** – TOPS represents 30% of total FY 19 need

- **$2.7 M** – Special Schools and Commissions
    - $1 M for LSDVI acquisitions and major repairs
    - $200 K for LSMSA for one vacant position and maintenance
    - $860 K for THRIVE Academy for an additional grade level
    - $270 K for LETA for hardware repairs and maintenance
    - $290 K for NOCCA for operating service and building maintenance
    - $50 K for BESE for one vacant position
- **$2.1 M** – Student Scholarship for Educational Excellence Program vouchers
- **$14.6 M** – Non-Public Educational Assistance
    - $7.6 M for Required Services
    - $7.0 M for School Lunch Salary Supplements
- **$70.9 M** – Other Requirements including
    - $44.2 M for Local Housing of State Inmates
    - $25.8 M for District Attorney
    - $980 K for Justice of the Peace Supplemental Pay

Note: The Legislative and Judicial appropriation bills contain supplemental funding in the amount of $17.4 M and $42.4 M respectively. Language included in the Legislative Appropriation Act (HB 751 of the 2018 RS) and the Judicial Appropriation Act (HB 698 of 2018 RS) establish funding priorities for these appropriations over all others with the exception of the salaries of the constitutional officers of the state.

Furthermore, preamble language included in Section 13A of HB 1 Enrolled provides that appropriations for the payment of judgments against the state, legal expenses, back supplemental pay, <u>the appropriation act for the expenses of the Department of Justice</u>, the appropriation act for the expenses of the judiciary and the legislature shall have preference and priority over any of the items in the General Appropriation Act or the Capital Outlay Act for any fiscal year.

As a result of this language, the Legislative and Judicial FY 19 budgets are fully funded. However, it is unclear to the LFO whether the expenses of the Department of Justice will also take priority over all other appropriations, including those contained in the supplemental appropriation section.

TABLE 1

Department Name	24.2% Reduction	Restoration in Supplemental	2% Reduction Supplemental	Prioritized Spending Supplemental*	TOTAL Supplemental	Net Impact Supplemental
Executive Department	$ (27,175,091)	$ 27,175,091	$ -	$ 4,900,000	$ 32,075,091	$ 4,900,000
Department of Veterans Affairs	$ (1,203,093)	$ 1,203,093	$ -	$ -	$ 1,203,093	$ -
Secretary of State	$ (6,484,890)	$ 6,484,890	$ (534,262)	$ 480,000	$ 6,430,628	$ (54,262)
Office of the Attorney General	$ (3,600,506)	$ 3,600,506	$ (296,630)	$ 869,649	$ 4,173,525	$ 573,019
Lieutenant Governor	$ (186,259)	$ 186,259	$ (15,345)	$ -	$ 170,914	$ (15,345)
State Treasurer	$ -	$ -	$ -	$ -	$ -	$ -
Public Service Commission	$ -	$ -	$ -	$ -	$ -	$ -
Agriculture and Forestry	$ (3,223,154)	$ 3,223,154	$ (265,542)	$ -	$ 2,957,612	$ (265,542)
Commissioner of Insurance	$ -	$ -	$ -	$ -	$ -	$ -
Economic Development	$ (4,327,135)	$ 4,327,135	$ (356,494)	$ 1,360,000	$ 5,330,641	$ 1,003,506
Culture Recreation and Tourism	$ (6,737,022)	$ 6,737,022	$ (555,034)	$ 1,650,000	$ 7,831,988	$ 1,094,966
Transportation & Development	$ -		$ -	$ -	$ -	$ -
Corrections Services	$ (19,544,822)	$ 19,544,822	$ (1,610,213)	$ 25,452,000	$ 43,386,609	$ 23,841,787
Public Safety Services	$ -		$ -	$ -	$ -	$ -
Youth Services	$ (22,030,081)	$ 22,030,081	$ (1,814,963)	$ 25,550,000	$ 45,765,118	$ 23,735,037
Health	$ -		$ -	$ -	$ -	$ -
Children and Family Services	$ (34,712,518)	$ 34,712,518	$ -	$ 1,000,000	$ 35,712,518	$ 1,000,000
Natural Resources	$ (2,111,043)	$ 2,111,043	$ (173,920)	$ 280,000	$ 2,217,123	$ 106,080
Revenue	$ -		$ -	$ -	$ -	$ -
Environmental Quality	$ -		$ -	$ -	$ -	$ -
Workforce Commission	$ (1,792,398)	$ 1,792,398	$ (147,668)	$ 1,000,000	$ 2,644,730	$ 852,332
Civil Service	$ (1,213,245)	$ 1,213,245	$ (99,954)	$ -	$ 1,113,291	$ (99,954)
Higher Education	$ (70,379,221)	$ 70,379,221	$ -	$ 119,749,514	$ 190,128,735	$ 119,749,514
Special Schools and Commissions	$ (9,783,880)	$ 9,783,880	$ (806,051)	$ 2,700,000	$ 11,677,829	$ 1,893,949
Education	$ (26,816,627)	$ 26,816,627	$ (2,209,305)	$ 16,691,827	$ 41,299,149	$ 14,482,522
LSU Health Care Services Division	$ -		$ -	$ -	$ -	$ -
Other Requirements	$ (23,132,392)	$ 23,132,392	$ (1,905,777)	$ 70,902,613	$ 92,129,228	$ 68,996,836
Subtotal HB 1	**$ (264,453,377)**	**$ 264,453,377**	**$ (10,791,158)**	**$ 272,585,603**	**$ 526,247,822**	**$ 261,794,445**
		***Prioritized Spending Increases**				
Executive Office				$ 343,000		
Division of Administration - LAGOV				$ 4,557,000		
State - Reigstrar of Voter increases				$ 480,000		
Justice - Restoration Executive budget reductions				$ 869,649		
Economic Development				$ 1,360,000		
CRT - Office of the Secretary				$ 1,650,000		
Corrections Services - pay raise, acquisitions				$ 21,690,000		
Winn Correctional Cener				$ 2,740,000		
Allen Correctional Center				$ 1,022,000		
Youth Services - Raise the Age Initiative				$ 2,000,000		
Youth Services - Youth Centers' repairs				$ 800,000		
Youth Services - Acadiana Center for Youth				$ 12,000,000		
Youth Services - Regional Programs				$ 10,750,000		
Children and Family Services - Foster Care (SB 129)				$ 1,000,000		
Natural Resources - Legacy site remediation				$ 280,000		
Workforce Commission - LA Rehabiliatation Services				$ 1,000,000		
Education - Student Scholarship for Educational Excellence Program				$ 2,100,000		
Education - Non-Public Educational Asssistance				$ 14,591,827		
Special Schools and Commissions				$ 2,700,000		
Board of Regents - Restoration Executive Budget reductions				$ 25,680,922		
Board of Regents - GO Grants				$ 1,000,000		
Taylor Opportunity Program for Students (TOPS)				$ 88,368,592		
Southern University Board of Supervisors				$ 3,200,000		
University of LA System - Grambling				$ 1,500,000		
Local Housing of Adult Offenders - Parole Hold				$ 10,000,000		
Local Housing of Adult Offenders - Transitional Work Program				$ 4,976,775		
Local Housing of Adult Offenders				$ 29,136,125		
District Attorney/Asst DAs Salary payments				$ 25,809,713		
Justice of the Peace Supplemental Pay				$ 980,000		
Subtotal				**$ 272,585,603**		
Legislature **(HB 33)**	$ (16,375,572)	$ 17,499,220	$ -	$ -	$ 17,499,220	
Judiciary **(HB 34)**	$ (34,868,591)	$ 44,445,138	$ -	$ -	$ 44,445,138	
Subtotal	**$ (51,244,163)**	**$ 61,944,358**	**$ -**	**$ -**	**$ 61,944,358**	
Total	**$ (315,697,540)**	**$ 326,397,735**	**$ (10,791,158)**	**$ 272,585,603**	**$588,192,180**	