



STATE OF LOUISIANA
LEGISLATIVE FISCAL OFFICE
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TO: The Honorable James R. Fannin, Chairman Joint Legislative Committee on the Budget (JLCB)
 Honorable Members of the Joint Legislative Committee on the Budget (JLCB)

FROM: John D. Carpenter, Legislative Fiscal Officer

DATE: December 18, 2014

SUBJECT: FY 15 Mid-Year Deficit Reduction Changes (BA-7 Analysis)

On 11/21/2014, the Division of Administration (DOA) presented the FY 15 Mid-Year Deficit Elimination Plan to the Joint Legislative Committee on the Budget (JLCB) to address the shortfall with total funding adjustments of \$179.6 M. The DOA provided a presentation to the committee as to the specific details for this plan.

The Legislative Fiscal Office has reviewed the BA-7s submitted to the committee and is providing the committee the **significant** changes to the original plan as presented. The significant changes include those reductions that differ from the original DOA Power Point presentation and those reductions that were not explicitly detailed in that same presentation. The significant changes will be broken into 3 categories as follows: 1) Adjustments being presented for JLCB approval, 2) Adjustments being processed in-house with DOA approval (Executive Order), and 3) Adjustments impacting elected officials.

In addition, this memo identifies those specific resources that are being utilized as offsets that have not been officially recognized by the Revenue Estimating Conference (REC).

SIGNIFICANT CHANGES FROM ORIGINAL DOA PRESENTATION

Adjustments Being Presented For JLCB Approval

Department of Health & Hospitals (BA-7s Numbers 12, 13, 14)

The initial SGF reduction on the Mid-Year Deficit Elimination Plan allocated to the Department of Health & Hospitals was \$5.34 M. This SGF savings was understated as additional Amnesty revenues not reflected in the original power point were used in Medical Vendor Payments (MVP). An additional \$2.1 M in Amnesty was swapped with State General Fund in MVP, for a total of \$34.2 M in Amnesty utilized to offset SGF cuts in Medicaid. The total State General Fund reduction for DHH is actually \$5.5 M.

Medicaid

Reduces SGF in the Department of Health & Hospitals, Medical Vendor Payments (MVP). Approximately 99% (\$126,445,728) of the State General Fund reduction is restored with a like amount of Statutory Dedications, which will not result in a reduction in services in FY 15. The impact on FY 16 will depend on additional SGF or other like revenues added to maintain the level of services supported by this funding. The balance of the State General Fund reduction (\$995,750) is not offset with other revenue sources, and will result in a reduction in payments to certain hospitals that receive Disproportionate Share Hospital (DSH) payments, Pediatric Day Health Care Providers, and program offices. The total SGF cut for FY 15 is \$127,015,128.

(\$127,441,478) - Total State General Fund reduction in MVP (09-306)
\$126,445,728 - Statutory Dedicated Funding added to offset SGF mid year cuts
 (\$995,750) - Net State General Fund cut resulting in payment reductions to providers

The specific Statutorily Dedicated Funds used to replace SGF reductions are reflected below.

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

**Note: Excess Statutory Dedicated revenue used to offset 99% of the State General Fund cuts include the following: 1) \$12.5 M in SGF reversions; 2) Agency self generated fund reversions (\$10.9 M OFI and \$17.7 M from Department of Insurance); 3) FEMA payments (\$6 M from Department of Corrections); 4) Excess balances swept from the Insurance Verification Fund (\$15 M) - The fund was created as a result of Act 641 of 2014 and receives funding from the increased fines for drivers that do not maintain automotive liability*

insurance; 5) Riverboat fund (\$5 M); 6) excess insurance reimbursement/settlement in ORM (\$12 M); 7) and remaining fund balances as a result of dissolution of the LA Office Building Corporation \$500,000).

Transportation & Development (Operating) (BA-7 Numbers 9 & 10)

In the Mid-Year Deficit Elimination Plan presented by Commissioner Nichols on November 21, DOTD was reported to be in line for an \$8.2 M operating budget reduction. The amount presented in the BA-7 reductions is \$6.1 M and reflects the elimination of an originally reported \$2.1 million reduction by freezing expenses for supplies for road maintenance and other non-essential spending.

Transportation & Development (Capital Outlay) (BA-7 Number 35)

The BA-7 package submitted for approval includes a reduction of \$9,042,000 in TTF-Regular from the DOTD – Capital Outlay Program that was not included in the original Mid-Year Deficit Elimination Plan presented on November 21. This reduction is assessed to the Highway Priority Program.

The reduction is associated with savings anticipated through the implementation of GEMS recommendations. DOTD reports that GEMS' DOTD initiative numbers 3 (reduced parish maintenance, project engineering, other offices and property), 4 (expand advertising revenue for roads, bridges and rest stops), 5 (reduce use of outside design and construction engineer contractors) and 9 (reduce cost overruns with Quality Assurance/Quality Control Engineering Team) will be used to generate the realized savings in the Highway Priority Program.

The LFO questions the feasibility that this amount of savings can be generated from the GEMS recommendations regarding the Highway Priority Program within the current fiscal year. The total Transportation Trust Fund - Regular (TTF-Regular) appropriated to the program totals \$34.2 M in FY 15. The projected savings, which the LFO assumes would be derived primarily through the use of in-house design and construction engineers, total 26.5% of the TTF-Regular appropriation to the Highway Program. Additionally, due to the nature of transportation capital funding, although an appropriation is made one fiscal year the complete expenditure of funds generally does not occur until subsequent fiscal years as projects must be designed, contracted and constructed. This process generally spans across several years.

The TTF-Regular appropriated in the current Capital Outlay budget provides for a match against federal funds of approximately 5.1% (\$34.2 M compared to \$668.5 M TTF - Federal). This budget adjustment will lower the TTF-Regular available to a match rate of approximately 3.7%. Factoring other means of finance appropriated to the FY 15 Highway Program will bring the adjusted match rate up to approximately 5.5% (\$4.9 M of prior balance G.O. Bonds, \$6.7 M of prior balance capital outlay cash, and \$25.1 M new level of TTF-Regular; or \$36.7 M total MOF compared to \$668.5 M TTF-Federal).

The limited match available to DOTD will result in the department focusing almost exclusively on pavement preservation on federal interstate highways. *Note: The most recent revenue forecast adopted by the Revenue Estimating Conference projects that TTF-Regular revenues in FY 15 will exceed existing appropriated levels by approximately \$16.5 M.*

Department of Public Safety (BA-7 Number 11)

As a result of the mid-year reduction, the Department of Public Safety – Office of State Police will have a means of finance (MOF) swap by reducing funding from the Riverboat Gaming Enforcement Fund by \$5.0 M and replacing it with \$5.0 M in Debt Recovery Fund. However, the current balance of the Debt Recovery Fund is \$0. The DOA's original presentation did not include this information. To the extent money collected from the Office of Debt Recovery is deposited into the fund, State Police will use that money to pay for the cadet academy. In the event money is not deposited into the fund, another source of funding would need to be identified to fund the cadet academy.

LA Economic Development (LED) Debt Service (BA-7 Number 7)

DOA's Mid-Year Deficit Elimination Plan presented to JLCB on 11/21/14 included a reduction of \$648,086 from LED's Debt Service/State Commitments in Schedule 20. The presentation by DOA did not identify the funding source of the reduction as STAT DED from the Rapid Response Fund. Furthermore, the presentation by DOA did not include an additional \$1.5 M reduction in SGF to LED's Debt Service/State Commitments in Schedule 20. The presentation by DOA stated that the proposed \$648,086 reduction to LED's Debt Service/State Commitments "should not hamper the Department's ability to attract new commitments." LED will absorb the \$648,086 Rapid Response Fund reduction from the fund's current unobligated balance of \$8.9 M and will fund a \$1.5 M payment to IBM that was funded with SGF prior to the Mid-Year cut with unobligated Rapid Response Funds until receiving a \$1.5 M SGR payment from City of Baton Rouge for IBM that is due in June. When the SGR payment from Baton Rouge for IBM is collected in June, the intent is to appropriate these funds in the Supplemental Bill to replenish the \$1.5 M paid to IBM from the Rapid Response Fund. However, LED is currently negotiating with companies for new economic development projects, and use of unobligated Rapid Response Funds to absorb Mid-Year budget cuts will likely result in a shortfall in the Rapid Response Fund by the end of FY 15.

Education (BA-7 Numbers 32 & 33)

The Mid-Year Deficit Elimination Plan presented to JLCB on 11/21/14 indicated total reductions to

the Department of Education of \$5.65M; actual reductions total \$7.4 M, which includes the following additional adjustments:

\$669,411 increase in Statutory Dedications from the Education Excellence Fund and simultaneously reduces funding by a like amount. This represents a 5% reduction from the FY15 appropriated amount. Per DOA, there is currently an un-appropriated balance of \$967,831. The mid-year reduction will leave a balance of \$298,420. The funding provides Pre-K through 12th grade instruction enhancements for students, including early childhood education programs focused on enhancing preparation of at-risk children for school, remedial instruction and assistance to children who fail to achieve required scores on tests necessary for advancement to succeeding grade. Expenditures for maintenance or renovation of buildings, capital improvements and increases in employee salaries is prohibited. Reducing the un-appropriated fund balance will not impact actual program expenditures, which are budgeted at \$13.9 M.

\$1,123,045 increase in Statutory Dedications from the Lottery Proceeds Fund to the Minimum Foundation Program (MFP). The DOA will process an in-house BA-7 reducing SGF by a like amount. The amount is based on a projected end of the year fund balance pursuant to the revised REC forecast.

Department of Culture, Recreation & Tourism (BA-7 Number 8)

Reduction of salary and related benefits in the amount of \$26,450 due to the elimination of a vacant Public Information Officer position within the Seafood Promotion Board in the Office of the Secretary. As the donated funding for the Seafood Promotion Board begins to decline, the attempts at outreach are much less frequent, removing the need for a public information officer. This reduction is not expected to impact performance of the Office of the Secretary as every major office within CRT still has a public information officer to perform their required duties. In addition, there is anticipated to be \$159,019 of additional SGF reductions to be processed in-house.

Governor's Office of Coastal Protection & Restoration (CPRA) (BA-7 Number 3)

Reductions from the statutorily dedicated Coastal Protection & Restoration Fund are as follows:

Hiring Freeze (\$53,355) - The mid-year reduction plan cuts 2 positions and associated funding for the remainder of the fiscal year in the amount of \$53,355. The annualized salary and related benefits reduction will be \$106,710. These positions have not been identified, but could be either engineering or scientist positions. There are currently 9 vacancies within CPRA.

Expenditure Freeze (\$894,343) – The mid-year reduction plan reduces supplies by \$28,096, overtime for disasters by \$116,247, and commitments to levee boards by \$750,000. Originally \$1 M was budgeted for levee boards to help with project startup costs and operating, maintenance, and monitoring costs. Levee boards will now receive up to \$250,000. The projects associated with the boards have not been identified and the reduction in funding currently has no impact on the boards.

LA Public Defender Board (BA-7 Number 4)

(\$22,320) from the LA Public Defender Fund: This mid-year reduction to Personnel Services is a part of the Limited Hiring Freeze pursuant to Executive Order BJ 2014-1. The reduction of one (1) position from the T.O. is the Trial-Level Compliance Officer (TCO), who monitors compliance with Board-adopted standards and guidelines of counsel at the district level. The position has been vacant since January 2014. LPDB personnel currently perform this position's duties to the extent that they are able and necessary. The total reduction is \$22,230 from the statutorily dedicated LA Public Defender Fund.

TOPS (BA-7 Number 30)

DOA's Mid-Year Deficit Elimination Plan presented to JLCB on 11/21/14 included a revenue opportunity of \$4.9 M from the TOPS Fund from "available balance as recognized by REC", but did not include a related means of financing substitution replacing SGF (\$4,946,681) with a like amount from STAT DED from the TOPS Fund for TOPS awards. The reduction in the TOPS Fund is based on \$7,498,361 in excess funds carried forward from FY 14 and a reduction in the Revenue Estimating Conference (REC) projection for the TOPS Fund of \$2,551,680 producing a net estimated balance in the TOPS Fund of \$4,946,681 in FY 15. Using TOPS funds in the current year leave less resources to fund a \$22 M SGF MOF Swap in FY16 replacing tobacco restructuring/refinancing proceeds. The ST DED funds from the TOPS Fund will not be available until the REC recognizes the excess resources available for the TOPS Fund.

Adjustments That Are Anticipated To Be Processed By DOA In-house

Department of Military Affairs (DOA in-house BA-7)

(\$205,000) in SGF: This mid-year reduction to Personnel Services is a part of the Limited Hiring Freeze pursuant to Executive Order BJ 2014-1. The reduction of five (5) positions from the T.O. relate to Force Protection (3 positions) and two (2) other positions. Military Affairs requested that these positions be frozen until FY 16 because they are essential to readiness and security. Currently, Military Affairs has 98 positions allocated for Force Protection and this allocation is at a critical level with little or no flexibility to effectively carry out its mission as there are more demands being placed on its programs; also, deployments will continue in the upcoming years. Over 90% of force protection personnel are active guardsmen. Military Affairs plans to address the reduction through

attrition. The two (2) other positions are a Forestry Management program vacancy funded with self-generated revenues, and an Emergency Management Coordinator vacancy funded with federal monies.

(\$154,000) in SGF: This mid-year reduction to the Department of Military Affairs is a part of the Executive Branch Expenditure Freeze pursuant to Executive Order BJ 2014-16.

- (\$135,000): Readiness Center repairs, totaling 5% of Military Affairs' funding for these repairs
- (\$12,000): Contracts for Storefront Recruiting Leases, Sustainment/Restoration/Maintenance Consulting, Professional Services, and Readiness Center Major Repairs. These contracts provide essential services to the Military Affairs Program's operation requirements. To reduce these contract services would have a negative impact on readiness; therefore, the Military Department will not award future service contracts to address the reduction.
- (\$7,000): Youth Challenge Program project to install insulation in one of the program classrooms as a means to prevent condensation and mildew buildup, as well as lower utility costs. The YCP will postpone the project to address this reduction.

Department of Veterans' Affairs (DOA in-house BA-7)

(\$240,000) in SGF: This mid-year reduction to Personnel Services in the Department of Veterans' Affairs is a part of the Limited Hiring Freeze pursuant to Executive Order BJ 2014-1. The freeze affects 11 positions, which will be held vacant to the extent it is necessary until FY 16. These positions will not be eliminated. The total reduction is \$240,000 of State General Fund. Savings are derived from the salaries and benefits related to these positions. Freezing of these vacancies would not be detrimental to Veterans' Affairs operations at this time.

Of the positions, six (6) are in the Department of Affairs' Cemetery Program. The Department was already filling these positions on an as-needed basis, and there is currently no need to fill them at this time. The Department of Veterans Affairs plans to fill these vacancies in FY 16. Three (3) of the positions are located in Veterans Affairs' Contact Assistance Program (CAP). Currently CAP staff is performing the duties of these positions to the extent that they are able. The Department of Veterans Affairs will hold these positions and will only attempt to fill them before the end of FY 15 if a need arises. Two (2) of the positions are located in Veterans Affairs' Administrative Program. Currently Administrative Program staff is performing the duties of these positions to the extent that they are able. The Department of Veterans Affairs will hold these positions and will only attempt to fill them before the end of FY 15 if a need arises.

The Mid-Year Deficit Elimination Plan presented to JLCB on 11/21/14 did not include reductions to the budgets of the Elected Officials, which include the following:

Department of Agriculture & Forestry (DOA in-house BA-7)

A total reduction of \$208,316 in SGF to the Department of Agriculture and Forestry from the following: a \$33,331 reduction in personnel services as a result of attrition in the Animal Health and Food Safety Program. A \$79,160 reduction in operating services in the Management and Finance Program which will impact IT services, as well as other operating services. A \$85,410 reduction in fuel supplies in the Forestry Program since fewer fires have occurred in FY 15. A \$10,415 reduction in professional services in the Agricultural and Environmental Sciences Program due to savings from a lawsuit that is being settled.

Department of Insurance (DOA in-house BA-7)

This reduction eliminates funding associated with six vacant insurance specialist positions and eliminates 3 vacant T.O. positions. LDI reports the positions are in the Market Compliance Program and will have no impact on agency operations in the current year.

REC Approval Needed

Certain items under consideration for an offset of midyear cuts have not yet been officially recognized by the Revenue Estimating Conference, which is required prior to appropriation, per Act 419 of 2013.

| Funds Requiring REC Recognition | (in millions) |
|--|----------------------|
| Insurance Verification Fund | \$15.0 |
| Risk Management Proceeds | \$12.0 |
| LA Office Building Corporation | \$0.5 |
| Riverboat Gaming Enforcement Fund | \$5.0 |
| Total Overcollections Fund | \$32.5 |
| 2013 Tax Amnesty Fund | \$10.7 |
| Total Funds Requiring REC Recognition | \$43.2 |

Transfers of recognized funds to the Overcollections Fund for appropriation will require an increase in the Overcollections Fund forecast due to these transfers, should the Conference agree that the money is actually available.

Additionally, \$5 M in existing SGF revenue from tax collections has been requested for transfer into the Debt Recovery Fund. The

BA-7 for the Department of Justice requiring JLCB approval will appropriate this money from the Debt Recovery Fund to the Office of State Police for a training academy. However, until the dedication of SGF is officially recognized with the approval of the BA-7, \$5M will be appropriated twice in the budget, both as SGF and Debt Recovery Fund appropriations.