FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

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

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This issue provides information on TOPS funding projections, retirement issues, and hospital cooperative endeavor agreements. In addition, this issue discusses state employment growth and Department of Revenue budgetary obligations.

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

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

John D. Carpenter

FOCUS POINTS

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

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

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

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

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

Table 1				
LOSFA Projections Removing 10% LA Grad Act Tuition Increases After FY 16 (millions of dollars)				
	FY16 *	**FY17**	**FY18**	**FY19**
LOSFA April 2014 Forecast - (10% LA Grad Act Increases All Years)	$280.2	$313.5	$348.3	$386.9
LOSFA November 2014 Forecast - (No 10% LA Grad Act Increases After FY 16)	$284.3	$287.4	$288.8	$291.7
Difference	$4.1	($26.1)	($59.5)	($95.2)
Cummulative Difference	$4.1	($22.0)	($81.5)	($176.7)
* Last year of current six-year Grad Act performance agreements.				

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

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

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

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

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

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

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

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

GENERAL GOVERNMENT

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

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

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

Table 2

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

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

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

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

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

Table 3

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

Unfunded Accrued Liability Update

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

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

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

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

HEALTH & HOSPITALS

Significant Changes to Public/Private Hospital Partnership Cooperative Endeavor Agreements

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

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

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

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

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

<u>Significant changes universal to all CEAs</u>

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

<u>Significant Financial changes universal to all CEAs</u>

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

<u>Significant changes specific to University Medical Center Management Corporation (UMCMC) - New Orleans</u>

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

<u>Significant changes specific to University Hospital & Clinics (UHC) - Lafayette</u>

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

REVENUE

State Employment Growth Since Economic Recovery Began

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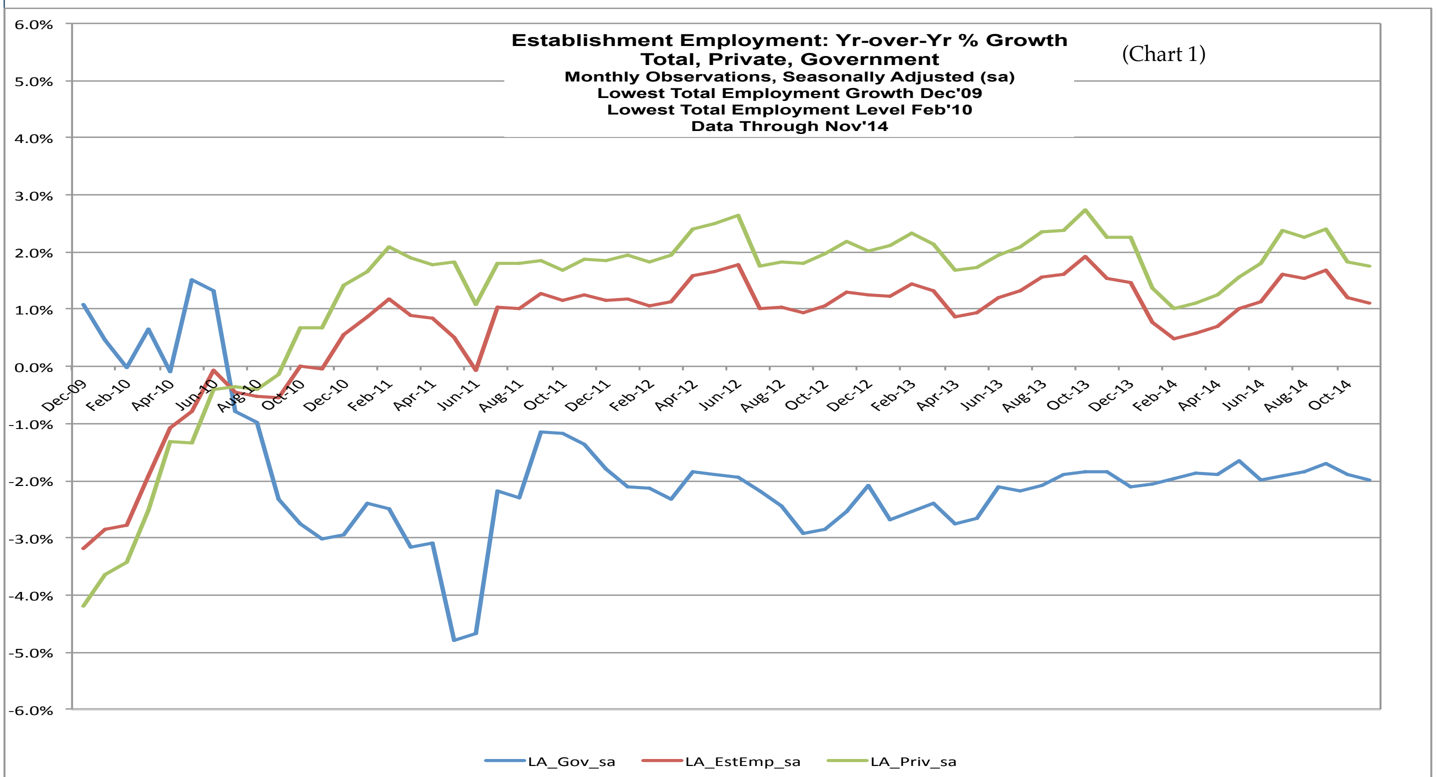
Probably the most important metric tracking a state's economic performance is payroll employment. Depicted in the Chart 1 is the year-over-year growth of each month's total payroll employment in the state, and the subsets of private and public sector employment. These are annual growth rates of seasonally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



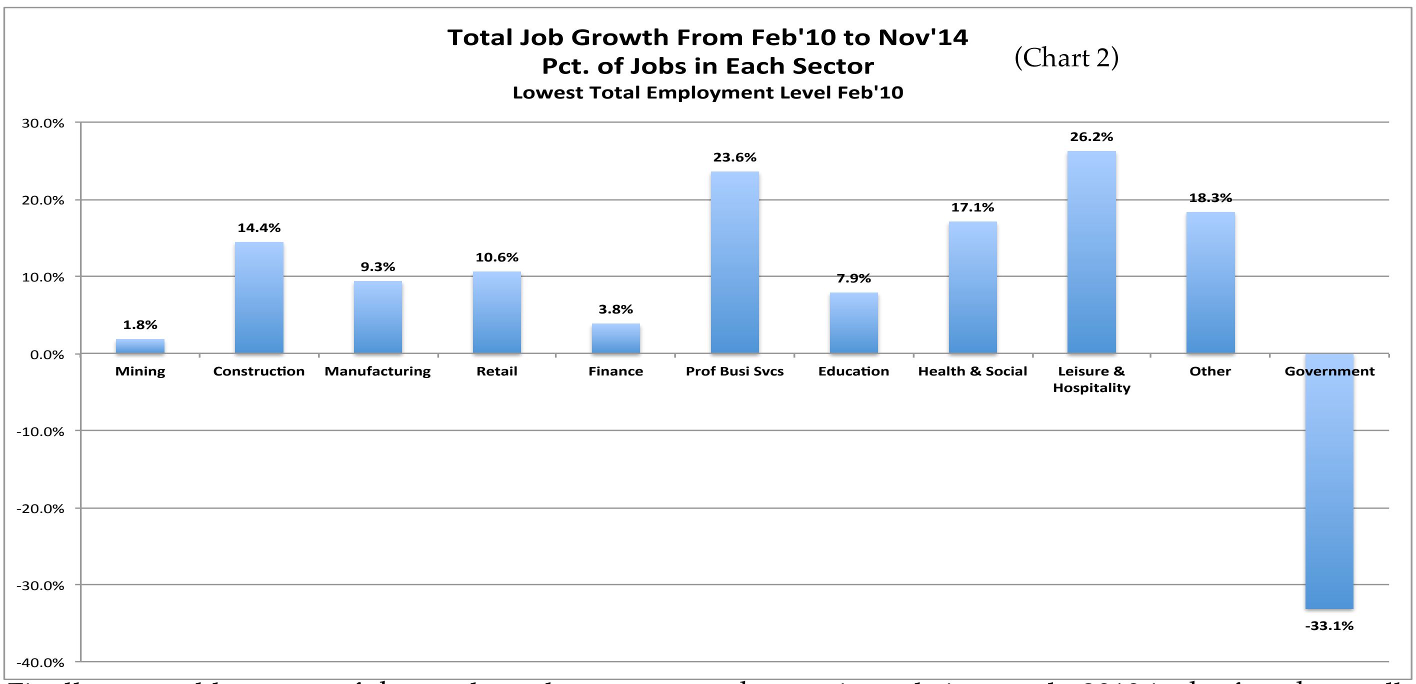
This same pattern of stability is exhibited in private sector employment growth, as well. Since March 2012 this growth rate has settled into an average rate right at 2%, and has been just under that rate since early 2011. While also increasing in volatility, it too has shown no acceleration or step-up,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

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

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

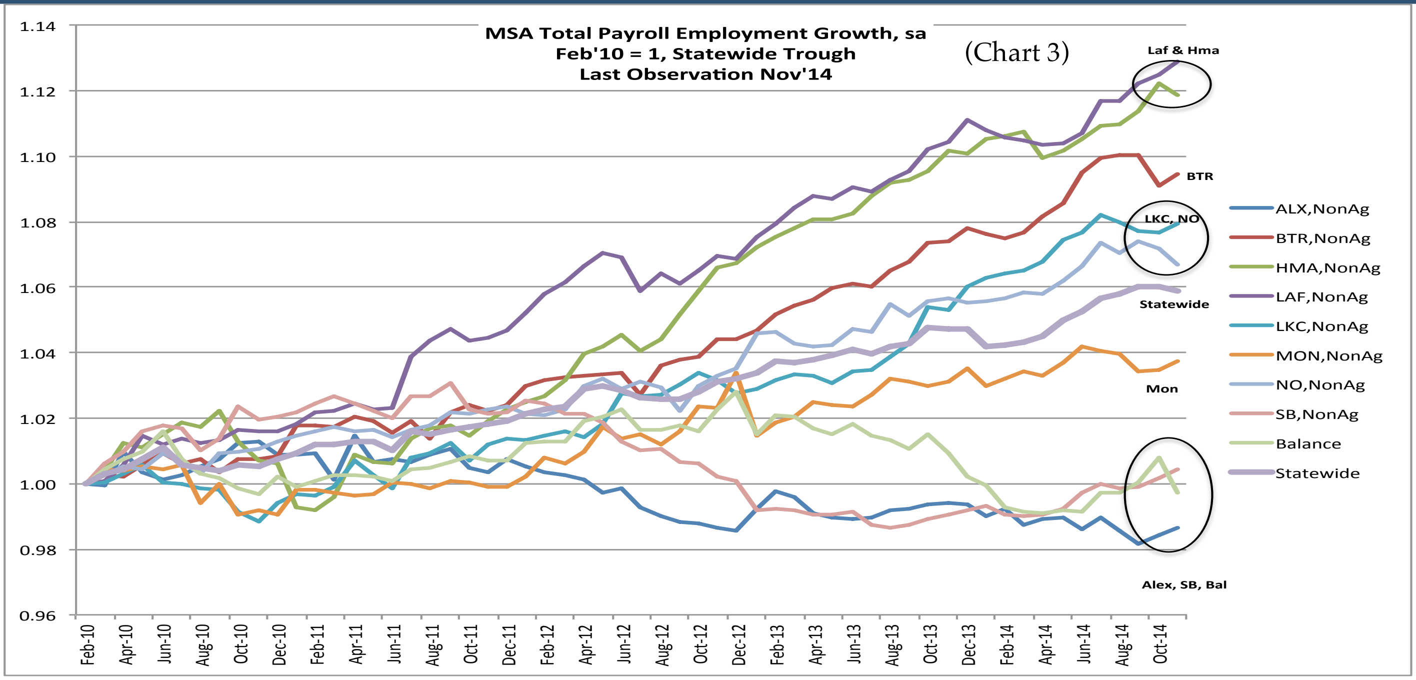
Chart 2 depicts the composition of total employment growth across various industry sectors from February 2010 through November 2014. The large decline in public sector employment is obvious (36,500 jobs and a negative 33.1% share of total employment change), and is largely explained as a policy decision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

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



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

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



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

Budgetary Obligations of the Department of Revenue

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

Ad Hoc Revenue Sources Exposure

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

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

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

Table 4		
	General Fund Collections	**Self Generated Revenue**
2015 Amnesty	$142,000,000	$27,000,000
Debt Recovery (Est.)	$15,000,000	$2,000,000
Fraud Initiatives	$32,000,000	$5,000,000
A&M (auditors)	$54,000,000	$8,000,000
TOTAL	**$243,000,000**	**$42,000,000**

*The A&M study (GEMS) identified collections of $54M that are not yet specified as a revenue source in the FY 15 budget, but may be considered for the FY16 budget. The collections are the result of the hiring of auditors. Such normal efforts by LDR are already part of anticipated baseline revenue collections. The T.O. of LDR has already been increased by 50 auditors since FY13 with an additional 24 auditor positions currently requested, though not all positions have been filled, and not all audit processes have been completed.

LDR Operating Budget Exposure

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

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

Making the best-case assumptions that:

1) LDR regular SGR collections increase by 20% in FY15
2) LDR only spends 90% of the existing operating SGR budget of $104M or about $93M
3) LDR retains $25M of the $27M in amnesty SGR that has been identified ($2M was effectively utilized in the November mid-year reductions)

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

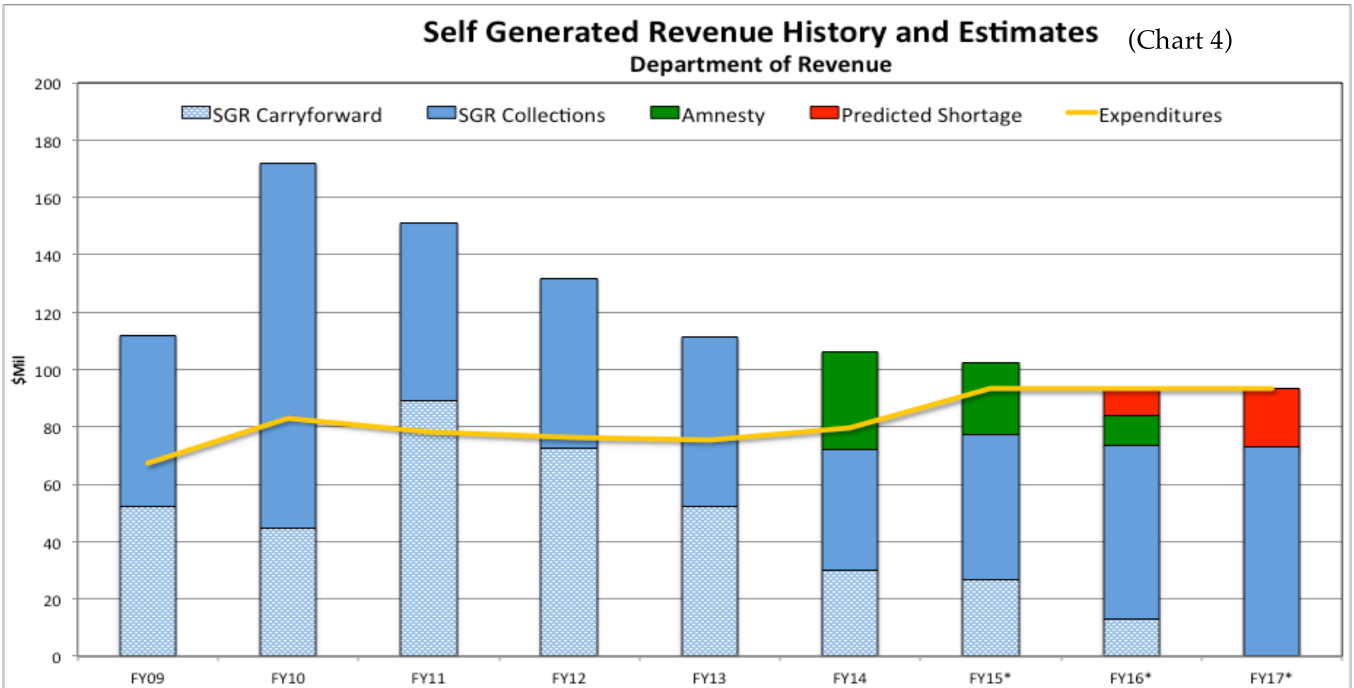
Then, if the following assumptions are made for FY 17:

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

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

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

These assumptions are depicted graphically below:



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