FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This issue focuses on FY 15 major budget issues, remaining FY 14 budget issues and an update on the Office of Group Benefits (OGB) fund balance. As has been stated before, this is your publication. If there is any way it can be made more useful including additional topics for research and inclusion in one of our upcoming publications, please contact us.

I am pleased to announce two members of our staff, Shawn Hotstream and Stephanie Blanchard, will be presenting comparative data reports at the Southern Legislative Conference in Little Rock, Arkansas at the end of the month. Shawn Hotstream, Section Director, will present a report on Medicaid and Stephanie Blanchard, Fiscal Analyst, will present a report on Adult Corrections. These reports are two of five reports to be presented at the conference.

In addition, July 1, 2014 marked the office's 40th anniversary of the LFO as it was created in 1974 via Act 169. SCR 176 of the 2014 Regular Legislative Session highlighted this anniversary. On Sunday June 1, 2014, the office held an event to honor all current and former LFO employees to congratulate and thank them for their service to the Louisiana Legislature and the State of Louisiana. Check out pictures from the event on page 12 of this newsletter.

John D. Carpenter

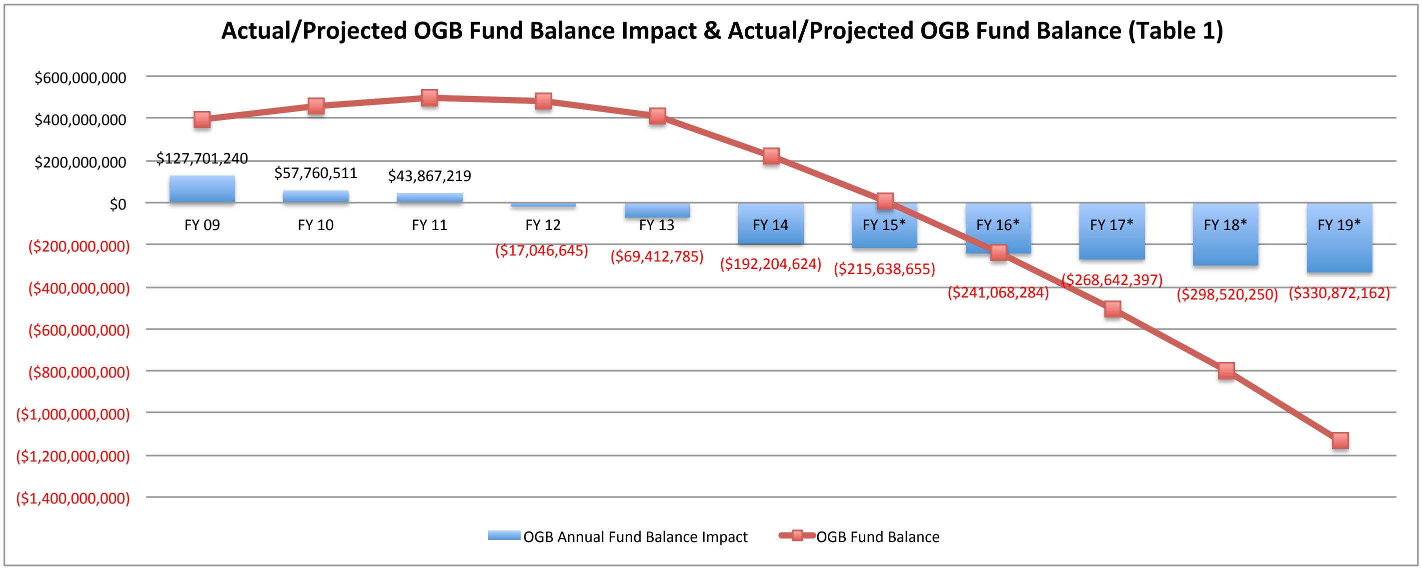
FOCUS POINTS

Office of Group Benefits (OGB) Fund Balance Update
J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

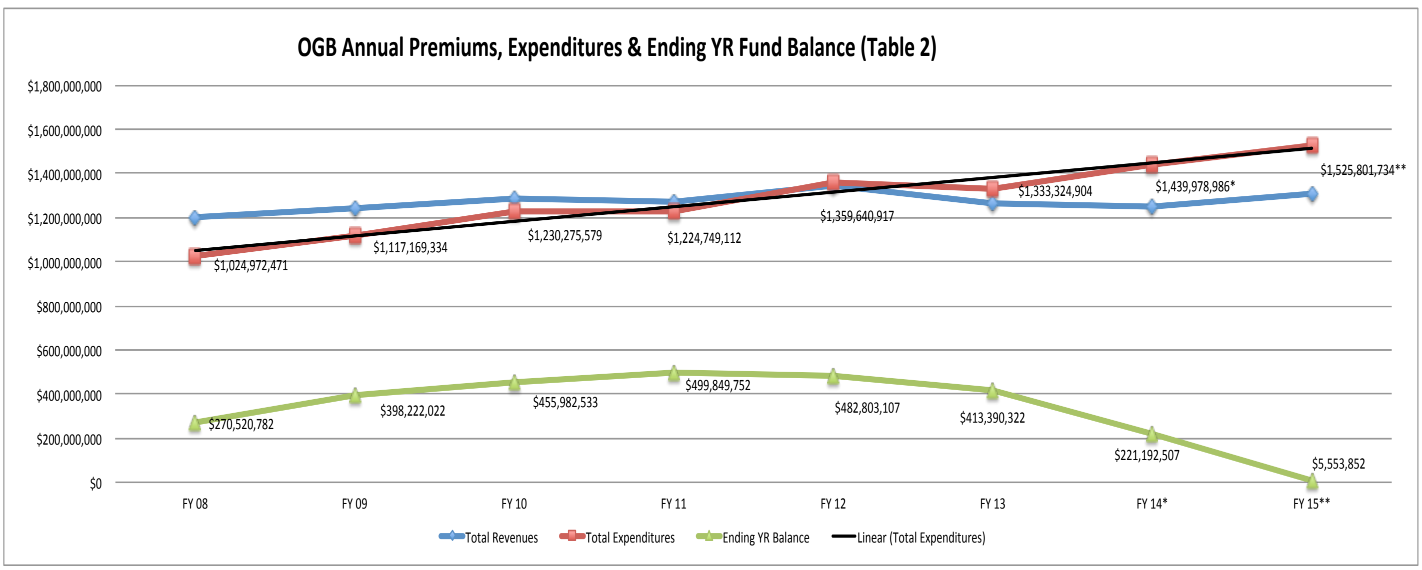
Based upon the latest OGB financial statements (as of May 2014), OGB's current fund balance is approximately $237.2 M, which is $176.2 M (or 57%) less than the fund balance as of June 30, 2013 ($413.4 M). In FY 14, OGB expended an average of approximately $16.1 M more per month than actual per month revenue collections, which equates to utilizing a projected $192.2 M of OGB balance in FY 14 (See Table 1 on the next page). To the extent this continues, OGB's projected ending year fund balance may be $221.2 M for FY 14 and $5.6 M for FY 15. *Without the 5% premium increase effective July 1, 2014, which is anticipated to generate $57.9 M of additional revenues, the anticipated ending year FY 15 fund balance could be greater than negative $50 M. These projections assume no material changes in OGB's expenditures, which on average increase approximately 6% annually (From FY 08 – FY 14).* See Table 1 on the next page, which shows the annual amount of fund balance OGB "generated" or "lived on" from FY 09 to FY 14 and projects the next 5 years based upon the **current OGB expenditure trend (6% increase annually) and assuming revenues increase 5% annually**.

How did we get here?
Table 2 on the next page shows total OGB revenues, total OGB expenditures and the ending year OGB fund balance for the past 6 fiscal years with projected amounts for the remainder of FY 14 and all of FY 15. Based upon Table 2 *(see next page)*, OGB started to expend more than revenue collections beginning in FY 12. Thus, OGB began to live off its fund balance and has continued to do so through FY 14. There are 3 variables that play a role in understanding how OGB's fund balance decreased from $524.6 M in April 2011 (FY 11) to the

current FY 14 projected ending year fund balance amount of $221.2 M. The variables include: *1.) OGB enrollment, 2.) Total OGB expenditures, and 3.) Total OGB revenue collections. <u>Based upon LFO analysis, overall revenue collections is the most significant factor contributing to the reduction in OGB's fund balance the past 3 fiscal years, which largely consist of health insurance premium collections</u>.*



FY 15 – FY 19 OGB Fund Balance Impact & Fund Balance Projection is based upon historical OGB expenditures, which increase an average of 6% annually, and assumes OGB revenues will increase 5% due to annual health insurance premium increases.* *<u>To the extent the OGB Administrative changes and Health Insurance Plan changes suggested by Alvarez & Marsal (A&M) result in overall programmatic expenditure savings, the subsequent fiscal year projections of the annual amount of fund balance utilized to run OGB illustrated above would likely be eliminated and/or significantly reduced depending upon the actual expenditure savings which will occur as a result of such changes</u>.***



**FY 14 information is based upon prior 11 months of actual revenues and expenditures.*
***FY 15 information is based upon expenditure and revenue trends from FY 08 – FY 14.*

OGB Enrollment: Based upon the information provided to the LFO by the OGB/DOA, the total number of OGB members paying premiums has remained relatively unchanged having only decreased 2% (or 2,311) from 133,822 in FY 08 to 131,511 in FY 14. In addition, total OGB population covered, which includes all dependents and OGB members combined, has minimally increased from 227,899 in FY 08 to 232,609 in FY 14. Thus, OGB's enrollment changes have likely had little impact to the OGB fund balance, as the enrollment figures have remained static.

Total OGB Expenditures: Based upon the latest financial information provided to the LFO by the OGB/DOA, OGB's overall expenditures have grown an average of 6% per year. In fact, the trend line, which is included in Table 2 above, illustrates that FY 14 anticipated expenditures are extremely close to the anticipated trend over a 6-year period (FY 08 – FY 14). Thus, OGB's overall expenditures have consistently increased an average of 6% per year from FY 08 to FY 14 with expenditures increasing 10% and 11% in FY 10 and FY 12 and decreasing 1% and 2% in FY 11 and FY 13.

Total OGB Revenue Collections: Health insurance premiums (state share/employee share) represent the majority of OGB revenue collections. Based upon the latest financial information provided to the LFO by the OGB/DOA, OGB's health insurance premiums have increased only an average of 2.1% over the past 7 fiscal years. Table 3 reflects the OGB health insurance premium rate changes from FY 08 to the current year (FY 15).

% OGB Premium Rate Change (Table 3)	
FY 08	6.0%
FY 09	3.7%
FY 10	0.0%
FY 11	5.6%
FY 12*	8.1%
FY 13	-7.0%
FY 14	-1.8%
FY 15	5.0%

**Due to OGB changing from a state fiscal year to a calendar fiscal year, the health insurance premiums increased twice over a 12-month period (August 2011 by 5.6%, January 2012 by 5.0%) during FY 12. The 8.1% premium increase reflected in Table 3 has been annualized to reflect the FY 12 % change in OGB health insurance premiums over a 12-month timeframe.*

The OGB Board is meeting July 30, 2014 to present the anticipated benefit plan changes. The Legislative Fiscal Office will provide an update of the information presented at the board meeting in the next Focus on the Fisc and will include this information in our monthly OGB Report at the next JLCB meeting in August 2014.

GENERAL GOVERNMENT

Budget Stabilization Fund
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Act 646 (HB 1026) of 2014 once again modified the statutory provisions of the Budget Stabilization Fund. Under the new law, the greater of $25 M from any source, or 25% of officially designated nonrecurring revenue shall annually be deposited into the fund. The dedication of 25% of nonrecurring revenue already existed. Thus, this change results in a minimum of $25 M per year to be deposited regardless of whether any nonrecurring revenue has been designated. For FY 15, $25 M is allocated to the fund from anticipated Overcollections Fund resources officially designated as nonrecurring. For FY 16 and FY 17, the official forecast anticipates $25 M per year be deposited from state general fund resources. Prior to Act 646, current law provided for FY 16 repeal of a provision that prohibits deposits into the Stabilization Fund until the official forecast exceeds actual general fund collections of FY 08. Act 646 provides for this repeal one year later, in FY 17. The official revenue forecast currently anticipates $270.6 M of general fund resources being deposited to the Stabilization Fund in that year.

The Budget Stabilization Fund's statutory provisions are currently subject to litigation regarding the constitutionality of R.S. 39:94(C)(b). This provision effectively provides that no deposits of mineral revenue shall be made into the Budget Stabilization Fund until the official forecast exceeds the state general fund revenue collections for FY 08. This language has allowed mineral revenues to flow into the state general fund to finance the state operating budget rather than flow into the Budget Stabilization Fund up to its maximum balance (currently established as $800.7 M). The case currently remains in District Court awaiting a trial date.

Revenue Impact of Act 641 of 2014
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Act 641 of the 2014 Regular Legislative Session 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 reinstatement fees that were increased are for insurance cancellations for less than 30 days, insurance cancellations between 31 to 90 days, insurance cancellations over 91 days, and notices of violation 1st offense and 2nd offense. The fee increases are noted in Table 4 on the next page.

According to information received from OMV, there was an average of approximately 320,000 insurance cancellation fees assessed annually over a three-year period for operating a vehicle without automotive liability insurance. In addition, there was an annual average of 20,548 notices of

Type of Fee (Table 4)	Previous Amount	New Amount	Fee Increase
Insurance cancellations for less than 30 days	$25	$100	$75
Insurance cancellations between 31 & 90 days	$100	$250	$150
Insurance cancellations for over 90 days	$200	$500	$300
Notice of violation - 1st offense	$50	$100	$50
Notice of violation - 2nd offense	$150	$250	$100

violations issued (20,000 1st offense + 548 2nd offense) over the same time period. The fees and the amounts collected are detailed in Table 5 below.

Fee (Table 5)	# of Fees Paid	Previous Fee Total	New Fee Total	Difference
Cancellations < 30 days	150,000	$3,750,000	$15,000,000	$11,250,000
Cancellations 31 - 90 days	75,000	$7,500,000	$18,750,000	$11,250,000
Cancellations > 90 days	95,000	$19,000,000	$47,500,000	$28,500,000
Notice 1st offense	20,000	$1,000,000	$2,000,000	$1,000,000
Notice 2nd offense	548	$82,200	$137,000	$54,800
TOTAL	**340,548**	**$31,332,200**	**$83,387,000**	**$52,054,800**

To the extent the average number of fees paid remains constant in future years, OMV would collect approximately $83,387,000 annually in insurance cancellation and notice of violation fees. This is an increase of $52.05 M ($83.38 M – $31.33 M). Act 641 creates the Insurance Verification System Fund, which will receive the revenue from the fees. Act 641 also designates how the increased collections are to be spent in FY 15 and FY 16.

The fund must first use collections to operate and maintain the real-time insurance database at OMV. This is expected to cost $1.1 M in FY 15 and $1.0 M in FY 16 and subsequent years. To the extent $52 M is collected in FY 15 and $1.1 M is spent on the insurance database, $50.9 will remain in the fund. Act 641 then mandates $42 M be dedicated to OSP, but does not specify what the funding will be used for. In the event $42 M is spent by OSP, $8.9 M will be available for public safety and law enforcement purposes. The Act does not define what those purposes are. It is the LFO's understanding that some of the $42 M will be used for state police pay raises. In OSP's FY 15 budget request, $14.6 M was the requested salary adjustment increase for state police that includes salaries and related benefits. **However, at this time the State Police Commission has not approved a new salary pay grid and the potential cost is unknown.**

In FY 16, Act 641 specifies that the deposits into the fund will be used to pay for the operation of the database ($1 M), a dedication to OSP ($42 M), funding for the parole violators (DOC inmates released on parole who are subsequently arrested) as a result of Act 652 ($7 M), and funding for additional assistant district attorneys ($1 M) in FY 15. These dedications amount to $51 M, which would leave $1 M to be used for public safety and law enforcement purposes in FY 16. See Table 6 below.

Insurance Verification System Fund Distributions by Act 641 (Table 6)

Item	FY 15	FY 16
Real-time Database	$1,100,000	$1,000,000
State Police	$42,000,000	$42,000,000
Parole Violators	$0	$7,000,000
District Attorneys	$0	$1,000,000
Law Enforcement Purposes	$8,900,000	$1,000,000
TOTAL	**$52,000,000**	**$52,000,000**

Note*: The $52 M increase in revenue is an estimate based on current collections. The amount actually collected may change based on a number of variables, including the following:*

1. *The increased amount of fees may encourage more motorists to carry automotive liability insurance, which would reduce the number of fees issued and result in a smaller collections increase.*
2. *As a result of the real-time insurance database, more motorists that do not have automotive liability insurance may be ticketed, which would support the estimate of additional collections.*

The Act specifies that the order of distribution from the fund as the real-time insurance database first and the dedication to OSP second in FYs 15 and 16. In FY 16 the order of distribution adds the parole violators after the OSP dedication (DOC inmates released on parole who are subsequently arrested), then district attorneys, followed by public safety purposes. To the extent $52 M is not collected annually, it is unknown if the distribution amounts would not occur depending on the amount collected or would the distribution order remain and amounts be reduced.

FY 14 & FY 15 Overcollections Fund Revenue Collections

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Act 420 of 2013 provides for the transfer of various funds and resources into the Overcollections Fund for FY 14 appropriation. Table 7 on the next page represents outstanding FY 14 Overcollections Fund to date. After the August 15th FY 14 close-out accounting period, the

LFO will provide more specific details as to how short the FY 15 Overcollections Fund appropriation may be in a future newsletter. At this time, the FY 14 Overcollections Fund has not collected approximately $61.2 M. ***Also, to date the Overcollections Fund has collected $202 M of revenues anticipated to be expended in FY 15 of which $61.2 M was utilized to repay the FY 14 outstanding State Treasury Seed balance (See Table 8). The majority of the FY 14 state treasury seed was associated with the $70 M of approved borrowing for higher education (Table 9). Thus, at this time there is at least a $61.2 M deficit in the FY 15 Overcollections Fund appropriation (recurring Overcollections Fund resources), which funds the items in Table 10.*** *Note: The Legislative Fiscal Office will include a discussion of the State Treasury Seed process and Interfund borrowing in the next edition of Focus on the Fisc.*

FY 14 OC Fund Rev. Sources (Table 7)	Anticipated	Collected & Transferred	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$132,230,991	$8,019,009
Legal Settlements	$64,771,871	$64,771,871	$0
Sale of Pointe Clair Farms	$12,000,000	$12,000,000	$0
Sale of Baton Rouge State Office Bldg.	$10,250,000	$10,250,000	$0
Sale of Southeast Hospital Property	$17,840,000	$0	$17,840,000
Sale of Wooddale Towers	$350,000	$335,325	$14,675
Sale of Hart Parking Garage Property	$2,180,000	$0	$2,180,000
Sale of Various WLF Properties	$2,000,000	$2,000,000	$0
Sale of Greenwell Springs Hospital Property	$0	$0	$0
Sale of Pines Campus Property	$0	$0	$0
Sale of Southern Oaks Addiction Recovery Property	$0	$0	$0
Sale of Bayou Region Property	$0	$0	$0
Sale of MDC Apartment Property	$0	$0	$0
LDR Fraud Initiative	$20,000,000	$21,057,770	($1,057,770)
Excess FEMA Reimbursements (Act 597)	$19,950,000	$6,604,609	$13,345,391
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$24,235,674	$4,048,826
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$2,000,000	$0
Self Insurance Fund	$16,000,000	$16,000,000	$0
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$988,632	$999,474
2% Fire Insurance Fund	$2,358,715	$2,358,715	$0
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$48,298	$0
Compulsive & Problem Gaming Fund	$57,071	$57,071	$0
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$1,000,000	$0
Mega-Project Development Fund	$11,300,000	$11,300,000	$0
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$25,019	$0
Penalty & Interest Fund	$1,541,440	$1,541,440	$0
Riverboat Gaming Enforcement Fund	$8,605,392	$8,605,392	$0
Transfer from fund to SGF	($5,000,000)	($5,000,000)	$0
TOTAL	**$413,207,388**	**$352,041,223**	**$61,166,165**

FY 15 OC Fund Rev. Sources (Recurring) (Table 8)	Anticipated	Collected & Transferred	Left to Collect
Community Water Enrichment Fund	$777,318	$777,318	$0
Department of Justice Debt Collection Fund	$90,375	$90,375	$0
Department of Justice Legal Support Fund	$191,558	$0	$191,558
Department of Health and Hospitals' Facility Support Fund	$238	$0	$238
DNA Testing Post-Conviction Relief for Indigents Fund	$1,773	$1,773	$0
Employment Security Administration Account	$3,850,189	$3,850,189	$0
FEMA Reimbursement Fund	$35,375	$35,375	$0
Fish and Wildlife Violations Reward Fund	$679	$679	$0
Hazardous Waste Site Cleanup Fund	$2,681,729	$2,681,729	$0
Health Care Facility Fund	$267,900	$267,900	$0
Louisiana Interoperability Communications Fund	$17,329	$17,329	$0
Louisiana Help Our Wildlife Fund	$496	$496	$0
Marketing Fund	$24,064	$24,064	$0
Medical & Allied Health Professional Ed. Scholarship & Loan Fund	$187	$187	$0
Payments Towards the UAL Fund	$12,570,426	$12,570,426	$0
Riverboat Gaming Enforcement Fund	$18,600,000	$18,600,000	$0
Small Business Surety Bonding Fund	$409,144	$364,271	$44,873
Two Percent Fire Insurance Fund	$1,544,046	$131,657	$1,412,389
UNO Slidell Technology Park Fund	$111	$111	$0
Variable Earning Transaction Fund	$19,892	$19,892	$0
Pharmaceutical Settlements	$106,000,000	$59,211,660	$46,788,340
Interest amounts from underground storage tank settlements	$9,000,000	$0	$9,000,000
SGR from DOA	$7,900,000	$7,900,000	$0
Sinking Fund for major repairs & equipment purchases	$7,000,000	$7,000,000	$0
Office Facilities Corporation (OFC) interest earned & savings from bond refunding	$25,000,000	$25,000,000	$0
ORM Self Insurance Fund	$34,000,000	$34,000,000	$0
FY14 SGF Reversions	$13,067,171	$0	$13,067,171
Louisiana Property Assistance Agency	$3,700,000	$3,700,000	$0
Aircraft Services	$250,000	$250,000	$0
Go Zone Payoff - Convention Center	$25,528,429	$25,528,429	$0
TOTAL	**$272,528,429**	**$202,023,860**	**$70,504,569**

FY 14 Overcollections Fund Seeds (TABLE 9)	
Agency	**Total Seed**
DNR	$4,104,286
Judgments	$5,758,143
State Aid	$1,100,000
Higher Education	$70,000,000
TOTAL	**$80,962,429**

State Agency (Table 10)	Agency Name	FY 15 EOB	FY 15 Exp. To Date	Unexpended
09-306 (Act 15)	Medical Vendor Payments	$266,346,081	$0	$266,346,081
01-133 (Act 55)	Elderly Affairs	$1,700,000	$0	$1,700,000
19-681 (Act 55)	DOE-Subgrantee Assistance	$1,700,005	$0	$1,700,005
TOTAL FY 15 OC Recurring Resource Appropriation		**$269,746,086**	**$0**	**$269,746,086**

FY 16 Replacement Financing Decision List

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

The LFO is providing you with a list of potential FY 16 financing replacements as a result of the FY 15 budget. See Table 11 below for a listing and description of resources being utilized in FY 15 that will likely require another revenue source in FY 16.

TABLE 11

Program	Potential Financing Replacement in FY 16 *(in millions)*	FY 15 Funding Sources
MVP - Overcollections Fund	$266.3	$266.3 M REC Recurring Overcollections Fund - fund sweeps, various DOA SGR resources, Pharmaceutical Settlements, Self Insurance Fund, Go Zone Bond Repayments. These resources are utilized to fund recurring Medicaid expenditures (09-306).
MVP - Medicaid Trust Fund for the Elderly	$233.7	Monies will be exhausted in FY 15 and other resources will have to be identified in FY 16.
MVP - 2013 Tax Amnesty Fund	$156.5	Remaining Phase I & projected Phase II resources. Phase III collections that are above projections from Phase II could be utilized to replace a portion of these Medicaid expenditures though the specific amount of Phase III collections is indeterminable at this time. Phase II collections are anticipated to be approximately $100 M.
Advanced Debt Payment - SGF	$210.0	REC Non-Recurring Revenues & other revenues - LA Housing Corporation ($25 M), DOJ Mortgage Settlement Funds ($4.6 M) and SGF savings and reductions included in Act 55 (HB 1094) ($7.4 M) along with FY 13 Prior Year Surplus and FY 12 Rescinded Capital Outlay Projects is being utilized to fund the advance debt payment. This use of these resources frees up SGF that would otherwise have been utilized on GO bond debt payments. This budget mechanism is essentially a way to get non-recurring resources into the state's operating budget.
Bond Premium - SGF	$34.2	In FY 14 the state sold GO bonds that generated a bond premium. Much like the advanced debt payment discussed above, utilizing these resources reduces the amount of SGF allocated for debt payments. This resource basically frees-up a like amount of SGF to expend elsewhere in the FY 15 operating budget.
Department of Revenue	$20.0	SGF need due to exhausting all retained SGR proceeds from the Tax Amnesty Program.
TOPS Fund	$22.0	Remaining proceeds from the Tobacco Refinancing. These funds will have to be replaced in FY 16 from the TOPS Fund in the TOPS Program.
Health Insurance High Risk Pool	$16.0	Act 646 (HB 1026) provides for the remaining proceeds from the LA Health Insurance High Risk Pool to be transferred to the Mega-Project Development Fund once the plan has paid all of its current obligations. This risk pool is no longer needed due to Affordable Care Act (ACA) requirements. These funds are utilized to pay economic development obligations in lieu of utilizing SGF.
WISE Fund	$23.2	$12.15 M of CDBG Program Income and $11 M of non-recurring Overcollections Fund resources are being utilized to fund the WISE Initiative Act 803 - HB 103) for FY 15. Utilizing these resources likely requires a State Action Plan amendment approval by HUD. These resources will have to be replaced in FY 16 as the current version of Act 803 (HB 1033) contemplates an annual program with at least $40 M of appropriated resources for this initiative.
LA Lottery Reserves	$9.0	Senate floor amendment to Act 646 (HB 1026) (Funds Bill) provides for the LA Lottery Corporation to transfer $9 M of its reserves to the State Treasury for deposit into the LA Mega-project Development Fund. These funds are utilized to pay economic developoment obligations in lieu of utilizing SGF.
Potential November 2014 Bond Sale	?	*See information below*
TOTAL	**$990.9**	

The FY 15 budget anticipates a $300 M bond sale that is expected to require SGF for debt service in FY 16, the amount of which will depend on the final structure of the bonds. Level debt at 5% over 20 years places this amount at $24 M in principal and interest for FY 16.

EDUCATION

Workforce & Innovation for a Strong Economy (WISE) Fund

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Act 803 of 2014 created the Workforce & Innovation for a Stronger Economy (WISE) Fund and requires that $40 M be deposited into the fund each year, subject to an annual appropriation by the legislature.

The General Appropriations bill (GAB) (Act 15 of 2014) includes $29 M for the WISE initiative from the following sources: $16.85 M in SGF and $12.15 M in IAT from the Community Development Block Grant (CDBG) Program. The Legislature did not appropriate or transfer this $29 M to the WISE Fund specifically. However, there is a deposit of $11 M from the Overcollections Fund into the WISE Fund contained in the Funds bill (Act 646 of 2014). These monies are appropriated in the Capital Outlay Bill (Act 25 of 2014) for Library, Instructional and Scientific Equipment. All three funding sources together from the General Appropriations and Capital Outlay bills total $40 M for the WISE initiative from the following sources: $16.85 M SGF, $12.15 M in IAT, and $11 M statutory dedicated WISE Fund.

The $12.15 M in CDBG funds for the WISE initiative are from repayment of interest and repayment of loans from the Louisiana Farm Recovery & Grant Program and Louisiana Agri-Business Recovery Loan Assistance Program. Interest and loan repayments from these agricultural programs are considered "Program Income" under the current CDBG Action Plan and Amendments and can be used for "Continuing Disaster Assistance". "Continuing Disaster Assistance" includes "Economic Revitalization" projects in 53 parishes affected by hurricanes Gustav and Ike targeted towards low and moderate-income individuals. The Board of Regents is writing a grant to use the $12.15 M for the WISE initiative and should complete and submit the grant to the U. S. Department of Housing & Urban Development (HUD) by the end of July 2014. <u>Allowable uses of the CDBG funding for the WISE initiative will not be known until HUD reviews and approves the grant</u>.

The Funds bill directs the Treasurer to deposit the $11 M from the Overcollections Fund from monies collected from the Louisiana Department of Revenue (LDR) fraud initiatives and debt recovery efforts. It also directs the Treasurer to fund $6 M in UAL payments to LASERS and TRSL systems and $25 M to the Budget Stabilization Fund from LDR revenues prior to depositing the $11 M into the WISE Fund. The actual amounts to be collected from the LDR initiatives are unknown at this time. <u>As such, the amount that will be eventually deposited into the WISE Fund and the timing of deposits are dependent upon actual collections by LDR and the amounts still available after the Treasurer makes UAL and Budget Stabilization Fund payments as required in the Funds bill.</u>

A language amendment in the GAB directs the Board of Regents (BOR) to distribute the following amounts by institution from the $29 M in the GAB: Pennington ($1.5 M), College of Engineering at LA Tech ($1 M), and School of Pharmacy at ULM ($1 M), which leaves $36.5 M in remaining funding for the WISE initiative distributions to higher education institutions in FY15. The Funds bill (Act 646 of 2014) also has language stating "any specific legislative allocations to postsecondary education institutions from the WISE Fund shall not preclude any postsecondary education institutions from receiving additional monies from the WISE Fund." This language in the Funds bill presumably refers to the distributions to Pennington, LA Tech, and the School of Pharmacy at ULM contained in the GAB and the Board of Regents confirms that Pennington, LA Tech, and the School of Pharmacy at ULM will all be eligible for allocations from the $36.5 M for the WISE initiative in addition to the amounts distributed in the language amendment mentioned above.

Monies in the WISE Fund are for degree/certificate production and research priorities in high demand fields through programs offered by Louisiana's public postsecondary education institutions to meet the state's future workforce and innovation needs. 80% of WISE funding is to be allocated to institutions based on degree and certificate production leading to 4 and 5 STAR jobs as defined by the LA Workforce Commission. The remaining 20% of WISE funds allocation is based on federally funded research expenditures as defined by the National Science Foundation. The WISE Council also has the authority to adjust the percentage of the distributions by no more than 10% relative to funds allocated for degree certification production (80%) and for federally funded research expenditures (20%). However, in no event shall the distribution based on federally funded research expenditures be reduced below 20%. To receive funds, institutions will have to partner with private industry by securing at least a 20% private match in cash or in-kind, such as technology and equipment. However, in any fiscal year that the total appropriated funds from the sum of the state general fund and dedicated funds for higher education are below the appropriated funding in the prior fiscal year, the WISE Council may delay or waive the match requirements.

The WISE Council held its first meeting on June 18, 2014 to broadly discuss the WISE initiative, use of funding sources, and methods of distributing funding. The $12.15 M in IAT funding from the Community Development Block Grant (CDBG) Program is the WISE funding source in FY 15 with the most restrictions. As such, the Council spent much of the time at the meeting on June 18th discussing how institutions might use the CDBG funds for the WISE initiative.

The WISE Council also indicated at the meeting on June 18th that staff from the BOR would be developing data to set up a framework for distribution of WISE funding. The BOR also will be studying restrictions on the uses of funds for the WISE initiative in FY 15, such as limitations on use of CDBG funding and funding from Capital Outlay for Library, Instructional and Scientific Equipment. The BOR reports that funding from Capital Outlay for Library, Instructional and Scientific Equipment will need to meet a general requirement of being "capital intensive" in nature, but was unable to give more specifics at this time.

The next WISE Council meeting is scheduled for August 6, 2014. At this meeting, the Council will further define methods and data to use and distribute WISE funding to institutions in the state. Furthermore, no distributions will be made until institutions apply to their management boards for funding and management boards select projects and institutions for submission to the Board of Regents. No dates or deadlines have been established for institutions and management boards to apply for WISE funds. As such, limitations on uses of available WISE funds, methods for distribution of WISE funds, and actual amounts of WISE funds by system and institutions will not be known for a few months. The LFO will monitor deliberations and actions by the WISE Council and report on significant developments in subsequent *Focus on the Fisc* publications.

REVENUE

Major Revenue Collections Summary, June 2014, FY 14 (Adjusted For Amnesty Receipts)
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Twelve cash months of collections have been received since this fiscal year began, with approximately the first month's worth of those collections posted back to FY 13 for many revenues. Thus, for the most part, eleven accrual months have actually been collected for FY 14. A number of these months included amnesty receipts that have been backed out of this report to obtain a more accurate assessment of current base collections activity. The FY14 Forecast Growth Rate is the projected growth as of the June 19, 2014 REC meeting. Major receipts' collection performance is depicted and discussed below.

MAJOR REC REVENUE SUMMARY, FY 2013-14
June 2014, Adjusted For Amnesty Receipts

Revenue Source	Current Month *	% Chg Same Month PY	FYTD (Jul - Jun) *	% Chg FYTD PY cash ***	% Chg FYTD PY acc **	FY14 Forecast	FY14 Forecast Growth Rate	FY15 Forecast Growth Rate
Income	$317.0	36.2%	$2,784.7	1.8%	1.2%	$2,811.5	2.1%	4.3%
Sales, General	$231.4	3.4%	$2,619.0	0.5%	1.6%	$2,609.9	1.1%	3.3%
Corporate	$86.9	-9.1%	$331.2	-13.7%	-1.3%	$279.5	-16.9%	25.5%
Severance	$67.7	-9.0%	$822.4	-2.4%	-3.2%	$850.5	0.4%	-4.9%
Royalty	$37.8	-14.9%	$471.8	0.0%	-5.3%	$524.1	5.9%	-7.9%
Gaming **	$47.2	9.9%	$599.6	0.5%	0.5%	$623.1	0.6%	-0.6%
Sales, Vehicle	$26.7	1.6%	$360.2	4.4%	3.8%	$366.1	3.0%	3.8%
Premium Tax	$5.5	259.5%	$441.7	7.7%	5.9%	$434.1	2.9%	3.6%
						6/19/14 REC		6/19/14 REC

* millions of $
** Riverboat, video draw poker, and racetrack slots combined
*** cash = July through June collections, acc = July through June less accrual to prior year

<u>Income tax</u> net receipts reported for June were strong but, while reversing the weak performance of the prior two months (relative to the one time strength of last year as taxpayers accelerated income into 2012 to avoid federal tax increases scheduled for 2013), the now full year-to-date cash growth of the tax is still only 1.8%. It is encouraging that much of this June strength came from withholdings, but stronger end-of-

quarter remittances are normal and this component of the tax has lagged all year long. Caution is advised going into the accrual period for the year. Return processing changes have distorted the pattern of net receipts reporting, making the monthly receipts data less reliable as an indicator of likely annual performance. Even with strong June net receipts, total yearly collections are only minimally greater than last year, and a negative FY 14 finish is still possible. Larger than typical accruals are required to hit even the modest forecast for FY 14.

For FY 15, the growth forecast is also modest at 4.3%, but is still a doubling of the current growth forecast and may be applied to a lower current year base. The FY 15 dollar forecast level may be difficult to hit unless underlying growth materially accelerates next fiscal year.

Sales tax is closing in on its third consecutive year of essentially no growth on a cash basis even though June receipts reversed poor collections in the prior two months. Year-to-date growth for the cash fiscal year is only 0.5%. The very modest growth forecast for this fiscal year may be met on an accrual basis, but only because the growth forecast is so low. Cautious conditions still appear to prevail within households and businesses, and with any inflation, real buying power tax receipts will still likely exhibit no growth. For FY 15, the growth forecast is 3.3%, but this more normal growth rate is a tripling of the current year forecast growth, and will require a distinct acceleration in spending to be achieved.

Vehicle sales tax cash receipts in June were only slightly greater than prior year, continuing the sharp growth step-down that has occurred through the second half of the fiscal year. Year-to-date cash growth finished the year at less than half the pace of the first half. The typical income tax refund support to car purchases did not appear to be significant this spring, and the double-digit growth surge in this tax appears to have run its course as of the first half of this fiscal year. The FY 14 growth forecast may be bested somewhat, but not be a large amount.

The growth forecast for FY 15 is 3.8%, only a small bump up from this year, but auto purchases can't get much weaker if this forecast is to be achieved.

Corporate tax collections in June were solid but still less than prior year, making year-to-date cash 13.7% behind prior year. However, the FY 14 official forecast calls for an even larger drop. Thus, barring a particularly bad accrual, collections this fiscal year are likely to exceed forecast. Corporate receipts are erratic, though, on a monthly basis and in the accrual period. Only the very low forecast provides any confidence the forecast will be achieved.

The forecast for FY 15 is sharply higher but reflects the idiosyncrasies of the official forecast adoption where an early forecast downgrade for FY 14 was retained while a later forecast upgrade for FY 15 was adopted.

Severance tax receipts in June were weaker than prior year and last month as tax exemption refunds returned to more typical levels. In the absence of refund variation, receipts largely follow movements in oil prices with a two to three month lag. Year-to-date cash collections are below forecast growth and a very large accrual will be needed to meet forecast. Although oil prices are projected to average about $100/bbl in FY 14, it is likely that collections will fall short of forecast.

For FY 15, receipts are forecast to drop along with a drop in oil prices to about $96.70/bbl. The dollar level forecast will be diminished if the growth drop has to be applied to a lower result in the current year.

Royalty receipts in June were also weaker than prior year and last month, generally following a similar pattern as severance taxes. Year-to-date cash collections are below forecast growth and a very large accrual will be needed to meet forecast. For FY 15, receipts are forecast to drop, as well, and the dollar level forecast will be diminished if the growth drop has to be applied to a lower result in the current year.

Gaming receipts on a cash basis in June from riverboats, video poker, and racetrack slots were better than last year, and this boosted year-to-date growth to just about the forecast growth rate. This group has been carried all year by modestly positive riverboat growth offsetting negative racetrack slot and video poker growth. Sustained positive spending growth across all three of these discretionary gaming sectors has yet to be observed, and collections will finish close to the current forecast on the strength of only one component. The FY 15 forecast is very cautious at a slight drop. Some upside may be possible here, but these sectors combined are in their fourth year of 1% or less growth.

Premium Tax receipts in June were not particularly large but were greater than last year and brought year-to-date cash basis growth over forecast. Again, a modest growth forecast for FY 14 means that accrual basis collections are likely to exceed forecast. Bayou Health premiums are fully incorporated into the tax base now, and any increases in Medicaid participants and premium increase in general will add to collections going forward. For FY 15, a somewhat higher growth forecast is anticipated, and a stronger performance this year will make it easier to attain the dollar level forecast next year.

Overall, while June was a good month for state tax receipts, bringing year-to-date receipts closer to forecast for FY 14, much of the good news relative to forecast is due to having very modest forecasts in place rather than reflecting strong revenue collections over the course of the year. Without regard to forecasts, the pace of revenue growth is still anemic. Personal income tax can still finish negative this year, although June made that less likely. The general sales tax is still barely growing and the three-year surge in vehicle sale tax appears over. Mineral revenue will likely fall relative to last year, and gaming revenue will be essentially flat. Positive growth will occur for the premium tax, but at a much lower rate than last year. Corporate will likely finish ahead of forecast and maybe ahead of last year, but accruals for this tax are no more certain than the monthly receipts.

Forecasts for FY 15 are generally modest and should be achievable. However, they do require some acceleration of revenue collections, and a similar situation existed in early FY 14 that ultimately required forecast downgrades to be made as the year progressed. The state may be on the cusp of significant industrial expansion, but there has been no suggestion of that in tax revenue collections so far, and FY 15 forecasts are no shoe-in.

HEALTH & HOSPITALS

Transfer of the Child Care & Development Fund (CCDF) Block Grant from the Department of Children & Family Services to the Department of Education

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Act 868 of 2014 was passed to continue developing a unified Early Childhood System of Local Networks that was started with the passage of the Early Childhood Education Act (Act 3) of 2012. The Early Childhood Education Act will bring all publically funded early childhood education providers under a unified Early Childhood System by FY 2015-2016. Act 868 transfers the lead agency with the authority to receive and expend Child Care Development Fund (CCDF) Block Grant federal funds from the Department of Children & Family Services (DCFS) to the Department of Education (DOE). The transfer of authority will be established in a cooperative endeavor agreement (CEA) no later than July 1, 2015.

The CCDF is the principal source of federal funding for childcare subsidies for low-income families so that they can work or attend training and education. As a result of Act 868 there will be a transfer of $79.9M in total funding ($79.4 M in CCDF and $285,450 in SGR) from DCFS to the Department of Education. The SGR is from licensing fees charged to the 1,538 early learning centers currently licensed to operate. The transfer will include 131 positions related to the DCFS licensing functions, including provider directory staff (11), licensing staff (40), state office (3) and eligibility staff (77). Of the total positions, 54 are filled positions. The 77 eligibility staff positions will transfer as vacant T.O. only. All transfers will be made via mid-year budget adjustments (BA-7) in accordance with the provisions of the CEA.

The DCFS utilized CCDF funds to pay direct costs of childcare, including subsidies through the Child Care Assistance Program (CCAP). In addition, DCFS utilized CCDF funds to pay for indirect costs associated with personal services and operating expenses of their department. Historically, DCFS utilized approximately $2.8 M of the CCDF grant funds to cover indirect departmental expenses. A provision of Act 868 requires DCFS and DOE to enter into a cooperative endeavor agreement to ensure the transfer of CCDF funds does not result in a budgetary shortfall for DCFS in FY 15 and future fiscal years. Specifically, "the cooperative endeavor agreement entered into by the agencies to facilitate the transfer of the grant and services shall ensure the transfer of funds from the state Department of Education to the state Department of Children & Family Services in an amount sufficient to fully fund the indirect costs of the state Department of Children & Family Services which were previously funded by the Child Care Development Fund, until such time as another funding source is identified by the state Department of Children & Family Services to pay for those indirect costs." Although the CEA does not require the approval of the Joint Legislative Committee on the Budget (JLCB), *it must be submitted to the Committee for review.*

In FY 15, the transfer of CCDF will reduce approximately $2.3 M (10 months of the $2.8 M total indirect costs) of funding from DCFS. Information provided by DCFS indicates that this budget neutral transfer will be executed by the following plan. The DOE will send \$2.3 M in SGF to DCFS via IAT as part of a means of financing substitution. As part of the substitution, DCFS will increase TANF funding to the LA-4 programs within the DOE. The TANF funds are available based on projected decreases in expenditures associated with TANF core programs such as cash assistance. The additional TANF funding in LA-4 will allow DOE to transfer SGF to DCFS to replace the loss of federal indirect cost allocated funding from the CCDF block grant. The DOE has indicated that the details are still being developed and there is no proposed plan at this point.

In addition, DOE will transfer \$5.8 M in CCDF funds to DCFS for day care services that are provided to the Child Welfare Program, recipients in the STEP programs and to continue licensing Office of Juvenile Justice (OJJ) facilities. Although funded with CCDF funds, these activities will continue to be provided by DCFS.

Medicaid Outlook

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The FY 15 Medicaid budget contains approximately \$655.8 M in funding from 3 separate sources that will likely have to be partially or entirely replaced with SGF or alternate revenue sources in FY 16. These sources of revenue include tax amnesty collections projected to be collected in FY 15 (and a portion collected in FY 14), Overcollections Fund revenues, and revenues from the Medicaid Trust Fund for the Elderly (MTFE). These fund sources collectively will draw \$1 B (\$1,072,721,008) in federal match for a total of \$1.7 B (\$1,728,522,411) in claims payments.

Amnesty Revenues: Act 15 reflects \$156.5 M in amnesty revenues appropriated in MVP Payments to Private Providers Program for FY 15. Any revenues anticipated to be generated through a tax amnesty program are deposited into the 2013 Amnesty Collections Fund. Act 421 established the 2013 Amnesty Collections Fund through the LA Tax Delinquency Amnesty Act of 2013. All \$156.5 M of these revenues will be used as a state match source to draw federal financial participation for claims payments to private providers. Based on the FY 15 blended Federal Medical Assistance Percentage (FMAP) of 62.06% (37.94% state match) for LA Medicaid, \$156.5 M in amnesty revenues will generate approximately \$256.1 M in federal matching funds for a total of \$412.6 M in Medicaid claims payments. To the extent amnesty tax revenues are not realized up to the level of appropriation in Medicaid for FY 15, claims payments to providers will be reduced by a proportionate amount (inclusive of federal match).

Overcollections Fund Revenues: Act 15 contains \$266.3 M in Overcollections Fund revenues appropriated in MVP Payments to Private Providers Program for FY 15. The specific revenues in the fund that will be used in Medicaid include, but are not limited to, fund sweeps, pharmaceutical settlements, excess self generated revenues, savings from bond refunding, ORM insurance proceeds, state general fund agency reversions, fraud initiative revenues, LA Housing Authority revenues, and debt recovery revenues. The various revenue sources that are projected to be in the Overcollections Fund are anticipated to be collected in both FY 14 and FY 15. All \$266.3 M of the Overcollections Fund revenues appropriated in Medicaid for FY 15 will be used as a state match source to draw down federal financial participation for claims payments to private providers. Based on the FY 15 blended Federal Medical Assistance Percentage (FMAP) of 62.06% (37.94% state match) for LA Medicaid, \$266.3 M in Overcollections Fund revenues will generate approximately \$435.7 M in federal matching funds for a total of \$702 M in Medicaid claims payments. To the extent Overcollections Fund revenues are not realized up to the level of appropriation in Medicaid for FY 15, claims payments to providers will be reduced by a proportionate amount (inclusive of federal match).

Medicaid Trust Fund for the Elderly: Act 15 contains \$232.9 M in revenue from the Medicaid Trust Fund for the Elderly (MTFE) used to fund nursing home and long term care payments. These revenues are used as a state match source in FY 15 to draw down federal financial participation for long term care claims payments. Based on the FY 15 blended Federal Medical Assistance Percentage (FMAP) of 62.06% (37.94% state match) for LA Medicaid, \$232.9 M in MTFE revenues will generate approximately \$380.9 M in federal matching funds for a total of \$613.9 M in Medicaid claims payments to long term care providers.

The sources of revenue are reflected in Table 12 below:

Table 12

Revenue Source	Amount
State Tax Amnesty Program Revenues	\$156,539,178
Overcollections Fund	\$266,346,081
MTFE Revenues	\$232,916,144
FY 15 non-SGF match sources used as match	**\$655,801,403**

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