# 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 provides information regarding the FY 16 Executive Budget that was released on February 27th, 2015. A detailed analysis of each agency will be available in the LFO's Analysis of the Executive Budget 2015 (Green Book). This issue contains information on how the $1.6 B deficit was solved, nonrefundable tax credits and FY 16 replacement revenues. The issue also contains analysis on Medicaid, Higher Education, debt defeasance, GEMS Recommendations and K-12 education. This will be the last Focus on the Fisc for FY 15. The next issue will be published in FY 16.*

John D. Carpenter

## FOCUS POINTS

### How the $1.6 B Deficit was Solved

*Legislative Fiscal Office Staff*

At the February 2014 Joint Legislative Committee on the Budget (JLCB) meeting, the Division of Administration (DOA) presented the updated 5-Year Baseline Projection with a projected SGF imbalance of approximately $1.6 B ($1,588,691,653). Below is a high level summary of how the $1.6 B projected FY 16 deficit was solved in the proposed FY 16 budget.

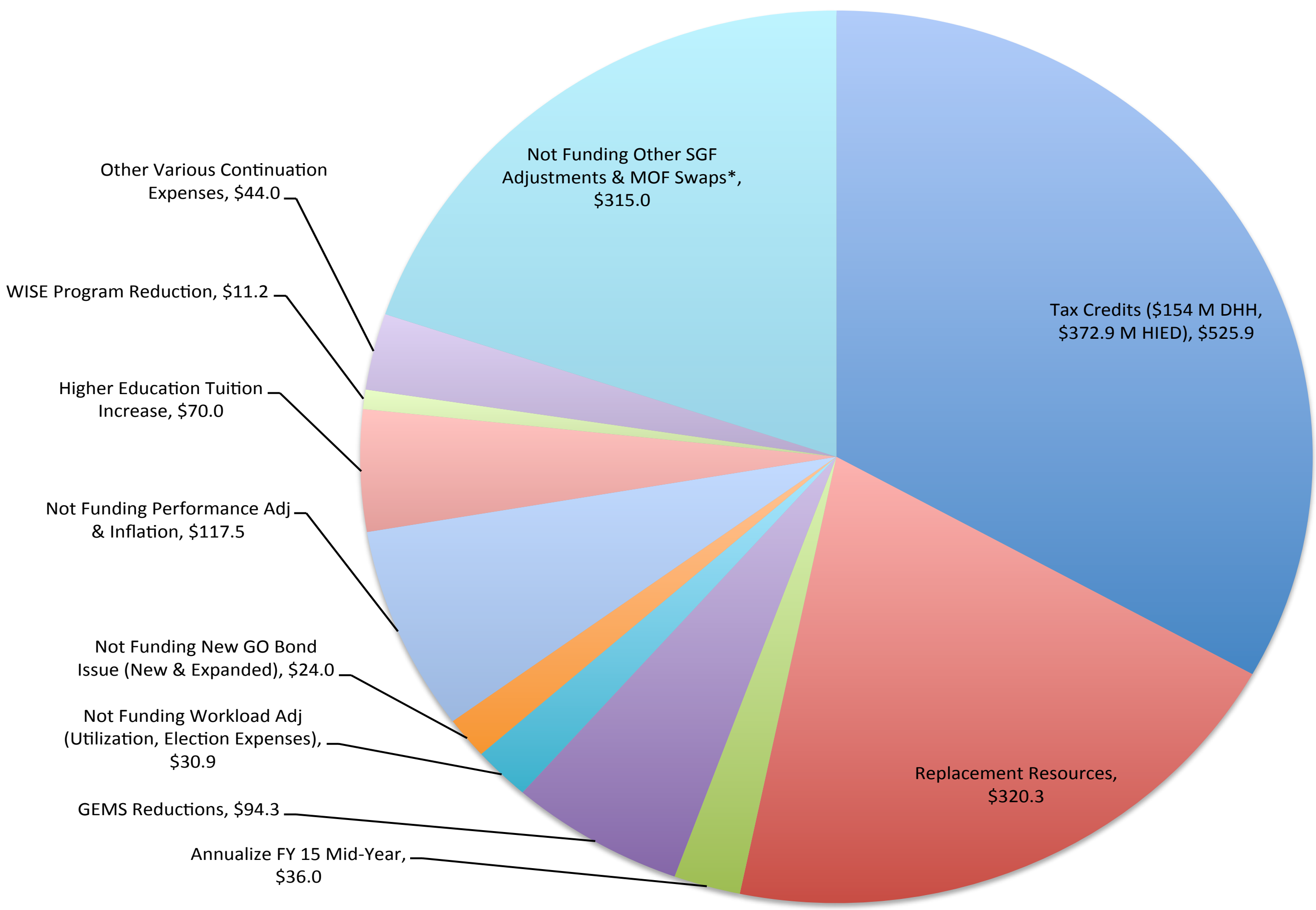
| **FY 16 SGF Deficit (in millions)** | **($1,589.0)** |
|---|---|
| Refundable Tax Credits ($153.8 M DHH, $372.1 M HIED) | $525.9 |
| Replacement Resources | $320.3 |
| Annualize FY 15 Mid-Year | $36.0 |
| GEMS Reductions | $94.3 |
| Not Funding Workload Adj (Utilization, Election Expenses) | $30.9 |
| Not Funding New GO Bond Issue (New & Expanded) | $24.0 |
| Not Funding Performance Adj & Inflation | $117.5 |
| Higher Education Tuition Increase | $70.0 |
| WISE Program Reduction | $11.2 |
| Other Various Continuation Expenses | $44.0 |
| Not Funding Other SGF Adjustments & MOF Swaps* | $315.0 |

**Examples include: $27.9 M TANF Swap in DOE (LA-4 Program), $36.7 M DHH ACA Federal MOF swap, $18.6 M by not funding judgments, a total of 958 positions reduced (727 TO, 231 non-TO FTEs), $4.2 M State Police MOF Swap (additional TTF & Riverboat), $4.2 M AGRI reduction, $114.8 M Higher Education reduction.*

As presented in Chart 1 on the next page, approximately 53% of the deficit solution involves the use of $320 M of replacement revenues and pending passage of converting refundable tax credits to non-refundable tax credits that generate an additional $526 M of SGF resources that have not been considered by the legislature or the Revenue Estimating Conference.

*NOTE: The Continuation Budget is a useful* <u>*planning tool*</u> *that compares projected SGF revenue with projected SGF expenditures necessary to sustain the current year's state operations and service delivery (FY 15 in this case) in subsequent fiscal years (FY 16 – FY 19 in this case). Projected SGF expenditures attempt to account for employee payroll growth, general and medical inflation, changes in program utilization, funding mandates and changes in* *federal financing availability. This is not the budget goal for the ensuing fiscal years, and not all of these adjustments are funded each year. However, the continuation budget exercise provides the SGF dollar equivalent of funding decisions the legislature must make to continue the current slate of state government operations, activities and services. The Executive Budget proposal is ultimately the budget goal and incorporates those portions of continuation costs that are supported by the administration as well as any number of administration budget initiatives not contained in the continuation budget exercise. Until an Executive Budget proposal is submitted, the ensuing year's budget is discussed in continuation budget terms.*

**How the $1.6 B Deficit Was Solved (in millions)(Chart 1)**




**Refundable Tax Credits Proposed To Fund The FY 16 Executive Budget**
*Greg Albrecht, Chief Economist,* albrechtg@legis.la.gov

One of the funding mechanisms proposed by the FY 16 Executive Budget is the conversion of certain refundable tax credits to non-refundable status. The administration has estimated that this conversion would result in $526 million of additional general fund resources being made available to support the proposed budget. These resources have been suggested for use in the budgets for higher education ($372.1 million) and Medicaid ($153.8 million). It should be noted that these resources will not materialize without legislative action, and that these budgets have actually been reduced by at least these amounts. In the case of the Medicaid budget, by virtue of the federal matching contribution, the total dollar reduction associated with these resources is $406.9 million.

A refundable tax credit is one where the entire annual credit amount is provided to the person or firm claiming the credit without regard to the actual tax liability of the person or firm. To the extent the person or firm has a tax liability, that liability is first eliminated by the credit then any remaining amount of credit is paid to the person or firm as if it were a refund of taxes. A nonrefundable tax credit is one where the annual amount of credit provided to the person or firm is limited to the actual annual tax liability of the person or firm. Unused amounts of credit are typically allowed to be used to reduce or eliminate tax liabilities in subsequent years. Thus, the entire amount of annual refundable credits reduces state resources each year, while the loss to the state fisc of the entire annual amount of nonrefundable credits is spread out over a number of years.

By converting refundable credits to nonrefundable credits, the amount refunded to persons or firms over the amount of the credit used to offset their annual tax liabilities is what would be retained by the state and be available to support the budget. Table 1 below itemizes the refundable credits selected for conversion to nonrefundable status, along with the total amount of credit claimed for each, the amount of that total used to offset tax liabilities, and the amount remaining to be retained by the state rather than be refunded to persons or firms claiming the credit. The last two columns indicate the share of each credit's total amount that is to be retained by the state, and the share of the total group that each credit makes up. These figures are based on claims made during FY 14 as reported in the Revenue Department Tax Exemption Budget, and are claimed against the corporate and individual income taxes, and the corporate franchise tax.

The administration's rationale for conversion of these credits from refundable to nonrefundable status is that the portions of the credits claimed in excess of tax liabilities and subsequently refunded to claimants constitutes spending that should be reduced in order to spend these funds on other priorities. The FY 16 Executive Budget has proposed expenditure of these funds in higher education and the Medicaid program.

Table 1

| Selected Refundable Tax Credits | FYE 6/14 | Offsetting Tax | Refunded | % Refunded | % of Total |
|---|---|---|---|---|---|
| Ad Valorem - Inventory Tax | $452,676,421 | $75,961,191 | $376,715,230 | 83% | 72% |
| Solar - total | $63,441,215 | $6,280,828 | $57,160,387 | 90% | 11% |
| Ad Valorem - Offshore Vessels | $56,406,978 | $13,356,040 | $43,050,938 | 76% | 8% |
| Research & Development | $24,380,813 | $794,852 | $23,585,961 | 97% | 4% |
| Musical & Theatrical | $8,754,604 | $185,497 | $8,569,107 | 98% | 2% |
| Telephone Co Property Tax | $22,643,842 | $17,381,873 | $5,261,969 | 23% | 1% |
| Ad Valorem - Natural Gas | $4,534,210 | $551,179 | $3,983,031 | 88% | 1% |
| Vehicle Conversion - Alternative Fuel | $4,148,005 | $878,471 | $3,269,534 | 79% | 1% |
| Sugarcane Trailer Conversion | $2,744,431 | $23,053 | $2,721,378 | 99% | 1% |
| Milk Producers | $1,555,702 | $112,401 | $1,443,301 | 93% | 0.3% |
| Angel Invester | $1,568,555 | $690,898 | $877,657 | 56% | 0.2% |
| Historic Rehabilitation - Residential | $275,657 | $149,345 | $126,312 | 46% | 0.02% |
| Total | $643,130,433 | $116,365,628 | $526,764,805 | 82% | 100% |

For completeness, Table 2 below itemizes the refundable credits that have not been proposed for conversion to nonrefundable status by the administration.

Should this credit conversion proposal be utilized to help fund the FY 16 budget, certain issues are important to realize. The first is that these figures do not constitute a fiscal note on the legislation necessary to implement this proposal. These amounts reflect only one fiscal year of history (FY 14). These credits exhibit growth and volatility in total claims as well as amounts offsetting tax. More than one year of data will need to be looked at to ascertain a reasonable estimate of the affected amounts for FY 16 and beyond.

Table 2

| Other Refundable Tax Credits | FYE 6/14 | Offsetting Tax | Refunded | % Refunded | % of Total |
|---|---|---|---|---|---|
| Earned Income Credit | $47,849,737 | $26,450,670 | $21,399,067 | 45% | 34% |
| Citizens Insurance Assessments | $45,677,785 | $33,546,054 | $12,131,731 | 27% | 19% |
| Child Care Refundable | $13,773,978 | $5,278,644 | $8,495,334 | 62% | 13% |
| Digital Interactive Media | $6,685,889 | $6,963 | $6,678,926 | 100% | 11% |
| School Readiness - Directors & Staff | $8,114,353 | $2,303,078 | $5,811,275 | 72% | 9% |
| School Readiness - Provider | $4,662,556 | $256,260 | $4,406,296 | 95% | 7% |
| School Readiness - Refundable | $2,383,775 | $85,643 | $2,298,132 | 96% | 4% |
| Digital Interactive Media & Software | $752,312 | $328,766 | $423,546 | 56% | 1% |
| School Readiness - Business Supported | $624,842 | $275,367 | $349,475 | 56% | 1% |
| School Readiness - Fees & Grants | $596,792 | $250,030 | $346,762 | 58% | 1% |
| Quality Jobs Rebate | $2,529,606 | $2,236,046 | $293,560 | 12% | 0% |
| Retention & Modernization | $180,941 | $18 | $180,923 | 100% | 0% |
| Technology Commercialization | $201,377 | $27,030 | $174,347 | 87% | 0% |
| La Hunting & Fishing Licenses | $131,204 | $107,302 | $23,902 | 18% | 0% |
| Mentor-Protégé | $15,584 | $7,250 | $8,334 | 53% | 0% |
| Property Insurance Credit | $34,939 | $26,899 | $8,040 | 23% | 0% |
| Total | $134,215,670 | $71,186,020 | $63,029,650 | 47% | 100% |

The effectiveness language of the legislation necessary to implement the credit conversion proposal is significant. To retain these monies for the FY16 budget appears to require that the all claims filed from July 1, 2015 will have to be converted regardless of when the activity occurred that generated the credit (for example inventory property taxes paid by December 31, 2014, or solar panel installations made during 2014).

Other issues to consider include carry-forward provisions. Most nonrefundable credits allow unused portions (the amounts not offsetting tax in ay particular year) several years of subsequent taxes to be offset.

If this is allowed for these conversions it will build up future exposure to state tax receipts, although in any particular year much of that exposure might not be realized. Another issue would be the permanence of the conversion. If the conversion is to only be temporary, for a year or two or three, are the annual amounts retained during these years to ultimately be refunded in the future? If so, then very large exposures will build up that will actually be realized against the state fisc in the future. To date, no legislation specifying the implementation of this conversion proposal has been reviewed.

**FY 16 Revenue Replacements**

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The FY 16 budget includes approximately $320 M of "replacement revenues." These "one-time" resources are utilized within the budget to prevent further SGF reductions. These resources represent approximately 20% of the $1.6 B projected SGF deficit solution. The specific resources are currently recommended in the following areas of the budget:

$50,000,000 – 2013 Tax Amnesty Program (Medicaid Program)
$52,856,978 – Overcollections Fund (Medicaid Program)
$124,958,096 – FY 14 Ending Cash on Hand (GO Debt Service-Debt Defeasance)
$66,499,999 – Unidentified Resources+ (GO Debt Service-Debt Defeasance)
$26,000,000 – Bond Premium (Received in the Fall 2014 Bond sale; will be applied to FY 16 debt service)
$320,315,072 – TOTAL
*+The unidentified resources will not be known until the Funds bill is filed.*

As previously mentioned, there is approximately $52.9 M of Overcollections Fund resources recommended within the Medicaid Program for FY 16. Table 3 below depicts there is approximately $32.5 M Overcollections Fund resources still available. The remaining $20.3 M of resources that equates to $52.9 M will not be made known until the Funds Bill and the FY 15 Supplemental Appropriations Bill are filed.

The specific recognized sources of the Overcollections Fund are shown in the *"Recognized FY 15 Resources Not Utilized"* column.

**Table 3**

| Overcollections Fund | REC Forecast (1/26/2015)* | Used In Round 1 Plan*** | Used In Round 2 Plan | Total FY 15 Budgeted | Recognized FY 15 Resources Not Utilized |
|---|---|---|---|---|---|
| Self Insurance Fund | $12,000,000 | $12,000,000 | $0 | $12,000,000 | $0 |
| Insurance Verification Fund | $15,000,000 | $15,000,000 | $0 | $15,000,000 | $0 |
| Riverboat Gaming Enforcement**** | $13,200,000 | $5,000,000 | $8,200,000 | $13,200,000 | $0 |
| LA Office of State Building** | $473,213 | $473,213 | $0 | $473,213 | $0 |
| LDR SGR or Fraud Initatives | $11,100,000 | $0 | $11,100,000 | $11,100,000 | $0 |
| Motor Fuels Underground Tank Fund | $8,000,000 | $0 | $0 | $0 | $8,000,000 |
| Employment Security Administration Account | $3,540,000 | $0 | $0 | $0 | $3,540,000 |
| Penalty & Interest Account | $4,200,000 | $0 | $0 | $0 | $4,200,000 |
| Telephone Community Property Assessment Relief Fund | $30,000,000 | $0 | $13,206,438 | $13,206,438 | $16,793,562 |
| **TOTAL** | **$97,513,213** | **$32,473,213** | **$32,506,438** | **$64,979,651** | **$32,533,562** |

**The sources listed are those items anticipated to be collected above and beyond the $102.24 M of FY 14 resources recognized as recurring.*
***Although the adopted forecast includes a revenue projection of $500,000 from the LA Office of State Building, the actual funding available from this source is $473,213. Thus, approximately $27,000 of actual resources is not available.*
****Although the approximately $32.5 M of resources were officially recognized at the last REC meeting (1/26/2015), these resources have not been appropriated to date, but will likely be appropriated in the FY 15 supplemental appropriations bill. In addition, there is $10,705,143 of Tax Amnesty resources (revenue offset to FY 15 SGF reductions in the Medicaid Program) that are included in the Round 1 Mid-Year Deficit Reduction Plan that have not been appropriated. These resources will likely also be appropriated in the FY 15 supplemental appropriations bill.*
*****As it stands today, $6 M of the $8.2 M in Riverboat Funds are currently double encumbered within State Police and Medicaid. At the 2/27/2015 JLCB meeting, the committee rejected the use of TTF funds within State Police's FY 15 budget, which would have "freed-up" Riverboat Funds for use in the current year Medicaid budget as offset for SGF cuts.*

**Debt Defeasance**

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The FY 16 budget includes $191.5 M in SGF revenue made available through a debt defeasance in FY 15. A defeasance acts as a prepayment of principle and interest, which frees up SGF in the subsequent year that otherwise would have paid the debt service. In this case, the defeasance covered one year of debt service.

The SGF made available by the defeasance is recommended within the overall FY 16 budget and is a major component of the revenue replacements included in the proposed budget. In order for the defeasance to occur, money must be placed with a trustee prior to the end of FY 15 to create a fund from which payments will be made and interest will be accrued through FY 16. Thus, the funds must be available approximately 2 weeks before the fiscal year ends or about the middle of June 2015.

It is not known which funds have been identified for use in the defeasance. Due to interest accruing in the fund during the year and eligible for use in the defeasance, the entire $191.5 M will not be required, possibly closer to $185 M. Based upon committee testimony by the Division of Administration (DOA), the excess funds of $178 M identified during FY 15 (state's net cash portion) and used in part to offset the FY 14 budget deficit will make up a portion of the defeasement. However, those funds were declared non-recurring and are subject to deposits of 5% toward the Unfunded Accrued Liability ($8.9 M) and 25% to the Budget Stabilization Fund ($44.6 M) leaving 70% or about $125 M for use in the defeasement. The remaining $60 M has not been clearly identified or evaluated for timely availability. The specific source of these funds will not be made known until the Funds Bill is filed. The FY 15 budget included $210 M from a similar one-year defeasance.

**Government Efficiencies Management Support (GEMS) "Savings"**

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Included within the FY 16 budget are GEMS budgetary reductions that equate to a total of $94.3 M SGF ($163.2 M Total MOF). These budgetary reductions have various moving parts including: reduction associated with statewide initiatives such as procurement and human capital, agency specific GEMS adjustments and the creation of the Office of Human Capital and the Office of Procurement. Table 4 below is a summary of the net SGF and total means of financing (MOF) impact of the GEMS initiatives built into FY 16.

***Statewide GEMS Reduction ($46.7 M – SGF, $57.9 M – Total MOF)***

The FY 16 budget includes a statewide adjustment that captures all anticipated expenditure savings from the statewide procurement initiative and the human capital initiative. Per the Executive Budget presentation, the breakdown is as follows:

Table 4

| SUMMARY (in millions) | SGF | Total MOF |
|---|---|---|
| Statewide GEMS Reduction | ($46.7) | ($57.9) |
| Human Capital/Procurement Consolidation & Billing | $1.0 | $32.0 |
| **Statewide Adj Sub-Total** | **($45.7)** | **($25.9)** |
| Agency Specific GEMS Reduction | ($48.6) | ($137.3) |
| **TOTAL** | **($94.3)** | **($163.2)** |

| | **FY 15** | **FY 16** |
|---|---|---|
| Procurement Initiative | $18.6 M | $17.3 M |
| Human Capital Management | $5.5 M | $5.3 M |

According to the DOA, all these procurement and human capital GEMS initiatives will result in recurring savings at various state agencies and have been built into the FY 16 budget.

***Agency Specific GEMS Initiatives ($48.6 M – SGF, $137.3 M – Total MOF)***

The FY 16 budget includes various agency specific GEMS initiatives that are either annualized in the FY 16 budget (implemented in FY 15) or will be new initiatives in FY 16. The majority of this SGF reduction is contained within the Medicaid Program in the amount of $33.9 M SGF.

Other significant agency specified SGF GEMS reductions include $7 M within the Office of Juvenile Justice (OJJ) and $7.3 M net reduction adjustment within the Local Housing of State Offenders.

The $7 M in GEMS adjustments within OJJ is due to various initiatives including: probation & parole caseloads, relocation of youth, increasing Title IV-E Funds, improvement to monitoring non-secure residential contract providers & diversion program contract providers and span of control.

The $7.3 M aggregate net adjustment within Local Housing of State Offenders is associated with multiple initiatives, which seek to facilitate early release for certain offenders and increase participation in transitional work programs. While the projected savings total $13.2 M, the FY 16 budget includes implementation costs of $701,000 for Work Release and $5.1 M for Reentry Services.

Table 5 is a summary of the specific agency GEMS reductions included within the FY 16 budget.

| Table 5 | | | | | | |
|---|---|---|---|---|---|---|
| Agency Specific GEMS Sumary | SGF | IAT | SGR | Stat. Ded | Federal | Total |
| 01-EXEC | ($100,000) | $0 | $0 | $0 | $0 | ($100,000) |
| 07-DOTD | $0 | $0 | $0 | ($2,205,192) | $0 | ($2,205,192) |
| 08-CORR | ($75,000) | $0 | $0 | $0 | $0 | ($75,000) |
| 08-DPS | $0 | $0 | ($1,665,450) | ($2,083,875) | $0 | ($3,749,325) |
| 08-OJJ | ($7,000,062) | $0 | $0 | $0 | $0 | ($7,000,062) |
| 09-DHH | ($33,922,000) | $0 | $0 | $0 | ($56,570,520) | ($90,492,520) |
| 10-DCFS | ($223,000) | $0 | $0 | $0 | ($863,824) | ($1,086,824) |
| 11-DNR | $0 | ($26,939) | ($1,000) | ($68,030) | $0 | ($95,969) |
| 20-OTHER | $0 | $0 | $0 | $0 | $0 | $0 |
| 21-ANCI | ($7,322,851) | ($25,196,000) | $0 | $0 | $0 | ($32,518,851) |
| **TOTAL** | **($48,642,913)** | **($25,222,939)** | **($1,666,450)** | **($4,357,097)** | **($57,434,344)** | **($137,323,743)** |

***Consolidation and Creation of the Office of State Procurement & Office of Human Capital (including agency billing) ($1.0 M – SGF, $32 M – Total MOF)***

The FY 16 budget provides for the creation (within the Ancillary Appropriations Bill) of the Office of State Procurement and the Office of Human Capital. The statewide adjustments identified within the current budget are aggregate budgetary adjustments related to the transfer of various positions within state agencies to the newly created offices as well as the anticipated agency billings for FY 16.

The net budgetary impact of these 2 concepts is a SGF increase of $967,452 and a total MOF increase of $32 M and movement of 101 T.O. positions (state procurement), 316 T.O. positions (human capital), the transfer of 5 T.O. positions (from human capital to State Civil Service) and the reduction of 43 T.O. positions (relative to the human capital creation).

***Note: To the extent the GEMS initiatives do not actually produce the anticipated savings as projected by the Division of Administration (DOA), the state agencies will have less resources in FY 16 than in FY 15.***

## *GENERAL GOVERNMENT*

**FY 16 Election Expenses**

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The cost of Election Day expenses for statewide elections to be held in FY 16 is projected at $20.3 M. These costs include, but are not limited to, commissioner pay, drayage, precinct rental, and ballot printing. The Secretary of State is currently budgeted $16.9 M, which is the full amount of these costs in FY 15 and requested an additional $3.4 M for additional statewide elections to be held in FY 16. These include the gubernatorial primary and general elections in the fall as well as the presidential primary in the spring of 2016. Additionally municipal primary and general elections will be held in Spring 2016. The FY 16 Executive Budget does not include funding increases for these elections.

Act 424 of 2013 definition of nondiscretionary expenditures which must be funded because of constitutional and other mandates includes the cost of elections and ballot printing as well as the salaries and related benefits for the registrars of voters and their employees. While these costs are not fully funded in the FY 16 Executive Budget, appropriations to the Secretary of State are “more or less estimated” so election expenses, which are not included in the agency's budget authority must be funded in a supplemental funding bill or other instrument.

Furthermore, the FY 16 budget annualizes FY 15 mid year reductions associated with funding for the Registrar of Voters staff ($997,181) and eliminates Voter Outreach Services ($335,585). Statutes require the Secretary of State to pay the state's share of salaries for the Registrar of Voters and their employees. Voter Outreach staff are responsible for encouraging qualified Louisiana citizens to register to vote by developing and promoting a program of education for school-aged children and adults on the registration and voting process. The Outreach Division seeks to participate or sponsor at least one voter education outreach event in each parish annually.

## *HEALTH & HOSPITALS*

**Solving for FY 16 Medicaid - Executive Budget**

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The FY 16 Medicaid Budget Request reflects approximately $900 M in SGF need for FY 16, $700 M in additional SGF need alone to replace non-SGF revenue sources that is used as state match to draw federal financial participation for provider payments. The requested means of finance swap of $700 M represents funding to maintain FY 15 base services/spending (standstill budget) in the Medicaid Program for FY 16.

Although SGF support increased by approximately 29% ($530 M) in the Executive Budget, appropriated funding for the Medicaid budget (Medical Vendor Payments) essentially reflects a standstill budget for FY 16 ($94 M, or 1.2% increase). Standstill funding is achieved through replacement of $700 M in one-time revenues with SGF and other revenues that likely will require replacement in FY 17, implementation of cuts/efficiencies, adding new Federal funds to offset SGF, and not funding projected growth (in Medicaid Managed Care, the Public Private Partnerships, and mandatory provider categories).

**FY 16 Executive Budget Solution**

*Replace Major One-Time Revenues ($700 M)*

$232.9 M SGF used to replace Medicaid Trust Fund for Elderly means of finance
$266.3 M SGF ($213.5 M) and **new Overcollections** (OC) Fund revenues ($52.8 M) replacing FY 15 OC revenues
$156.5 M SGF ($106.5 M) and **new forecasted Amnesty revenues** ($50 M) replacing FY 15 Amnesty revenues
$46 M SGF to replace other Statutory Dedication revenues no longer available in FY 16

***Note:*** *Approximately $153.8 M of SGF in Medicaid in FY 16 represents supplemental refundable tax credit rev*enue.

*Cuts/Efficiencies (SGF Savings)*

($33.9 M) GEMS efficiencies - SGF savings through various payment and program initiatives
($18.0 M) Elimination of legacy expenses associated with LSU HCSD and LSU Shreveport
($4.7 M) Eliminate High Medicaid DSH pool funding, implement triage and sub acute rate
($2.0 M) Eliminate Outlier payment pool funding
($2.1 M) Elimination LaHIPP Program (SGF savings)
($4.4 M) Annualize mid-year cuts (reduce payments for MHERE, High Medicaid DSH pool, Pediatric Day Healthcare facilities, and supplemental reimbursement to hospitals for treating certain Medicaid Patients with Hemophilia).

*New Revenues (SGF Savings)*

($36.7 M) – Federal match percentage increase reducing need for like amount of SGF in the LaChip Program
($67.2 M) – Non SGF state match source transferred from LSU to DHH for physician UPL payments

*Projected Growth (Not Funded)*

Public Private Partnerships – The FY 16 Executive Budget does not fund Uncompensated Care Costs payment growth associated with the public private partnerships, nor projected UPL growth for hospitals other than Children's in New Orleans ($105 M UPL adjustment). A projection cost spreadsheet received from DHH reflects approximately $141.9 M (14%) projected payment growth in both UPL and UCC payments over the current appropriation (FY 15).

Bayou Health – The FY16 Executive Budget does not fund additional projected costs associated with Bayou Health. The Medicaid Budget Request reflects additional plan costs in FY 16, which is anticipated to result in a modification (increase) to the actuarially sound rate range. Based on recommended level of funding, it is assumed the rate capitation rate point will fall below the current 50% within the rate range. To the extent the capitation rate point would fall below a newly established rate range, DHH could modify provider rates or restructure benefits managed by the plans. Based on Bayou Health re-procurement, the FY 16 budget projection as reflected in the FY 16 Executive Budget is approximately $3,297,831,062

Other – The FY 16 Executive Budget does not fund growth in certain mandated payment increases. These include rate increases to Federally Qualified Health Centers and Rural Health Clinics ($581 K SGF), Hospice mandated rate increase ($2.1 M SGF), 100% State General Fund 'Clawback' payments to cover the costs associated with prescription drug payments -Medicare Part D ($15.6 M SGF). In addition, other projected growth is not funded, such as Long Term Personal Care Services ($3.4 M) and Buy in premium increases ($4.9 M).

Items Funded with Tax Credit Revenue

The Medicaid budget for FY 16 includes approximately $153.8 M in contingent revenue that is based on revenue from elimination of certain refundable tax credits. Based on information in the FY 16 Supporting Document from the Division of Administration, this revenue is tied to certain payments in Medicaid and is reflected as a Supplementary Recommendation. Contingent revenues are tied to a portion of Public Private Partnership payments, rural hospital payments, managed care payments, and supplemental payments and provider rates.

**Medicaid Outlook**

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The FY 16 Medicaid budget contains $256.6 M supplementary and replacement revenues used as a state match source. Supplementary revenues are generated by proposed changes to refundable tax credits.

**FY 17 Replacement Revenues**

The FY 16 Medicaid budget contains approximately **$102.8 M** in funding from 2 separate sources that will likely have to be partially or entirely replaced with SGF or alternate revenue sources in FY 17. These sources of revenue include Amnesty tax collections projected to be collected in FY 16, and Overcollections Fund revenues. These fund sources are appropriated in Payments to Private Providers, and collectively will draw $169 M ($169,035,641) in federal match for a total of $271.9 M ($271,892,619) in claims payments.

***Amnesty Revenues: The Executive Budget*** reflects $50 M in amnesty revenues appropriated in Medical Vendor Payments (Payments to Private Providers) for FY 16. 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 $50 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 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for LA Medicaid, $50 M in amnesty revenues will generate approximately $82 M in federal matching funds for a total of $132 M in Medicaid claims payments. To the extent amnesty tax revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments to providers will probably be reduced by a proportionate amount (inclusive of federal match).

***Overcollections Fund Revenues: The Executive Budget*** contains $52.8 M in Overcollections Fund revenues appropriated in Medicaid (Payments to Private Providers) for FY 16. The known revenue sources that are projected to be in the Overcollections Fund include Motor Fuels Underground Tank Fund, Employment Security Admin Account, Penalty & Interest Account, and the Telephone Community Property Assessment Relief Fund. All $52.8 M of the Overcollections Fund revenues appropriated in Medicaid for FY 16 will be used as a state match source to draw down federal financial participation for claims payments to private providers. Based on the FY 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for LA Medicaid, $52.8 M in Overcollections Fund revenues will generate approximately $86.9 M in federal matching funds for a total of $139.7 M in Medicaid claims payments. To the extent Overcollections Fund revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments to providers will probably be reduced by a proportionate amount (inclusive of federal match).

The sources of revenue are reflected below:

| Revenue Source | Amount |
|---|---|
| State Tax Amnesty Program Revenues | $50,000,000 |
| Overcollections Fund Revenues | $52,856,978 |
| FY 15 Non-SGF Match Sources Used as Match | $102,856,978 |

**Supplementary Revenues**

In addition to these above referenced non-SGF revenue sources used as state match, the FY 16 Medicaid budget includes approximately **$153,826,672** in contingent revenue resulting from the elimination of certain refundable tax credits. This revenue is used as a state match source for Medicaid DSH payments to providers.

| | FY 16 Tax Revenue Appropriated | Federal Match | Total Payments Impacted in FY 16 |
|---|---|---|---|
| Payments to Private Providers | $65,283,785 | $107,287,679 | $172,571,464 |
| DSH Payments (UCC Costs) | $88,542,887 | $145,759,539 | $234,302,426 |
| **Total Tax Revenue** | **$153,826,672** | **$253,047,218** | **$406,873,890** |

**Public Private Partnership Payments**

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The FY 16 Executive Budget maintains base funding of $1,150,396,329 for Public/Private Partnership payments for FY 16, plus a $105,736,187 additional UPL payment to Children's Hospital in New Orleans, for total of $1,256,129,516 in funding for the partnerships in FY 16. Partnership payments are comprised of Medicaid Title XIX claims payments, Disproportionate Share Hospital (DSH) payments for uncompensated care costs and Medicaid shortfall, and Medicaid Upper Payment Limit (UPL) supplemental Medicaid payments. The UPL defines a payment level a state can pay certain Medicaid providers. Specifically, it represents a maximum aggregate payment a state can pay to a provider class. These payments to a provider type are above what a state (DHH) is paying for services to that provider class through its Medicaid provider rates.

**UPL & DSH Payment Growth**

The FY 16 Executive Budget does not fund projected payment growth in the partnerships associated with DSH payments. However, the budget provides for an increase in UPL payments by $105 M, specifically for Children's Hospital (ILH partner). Based on cost projection worksheets received from DHH, the partnership budget submission reflects a request of approximately $ 141.9 M in both UPL and UCC payment growth over FY 15 allocated funding.

Chart 2 reflects FY 14 and 15 partnership funding allocations, FY 16 budget submission (requested), and recommended funding.

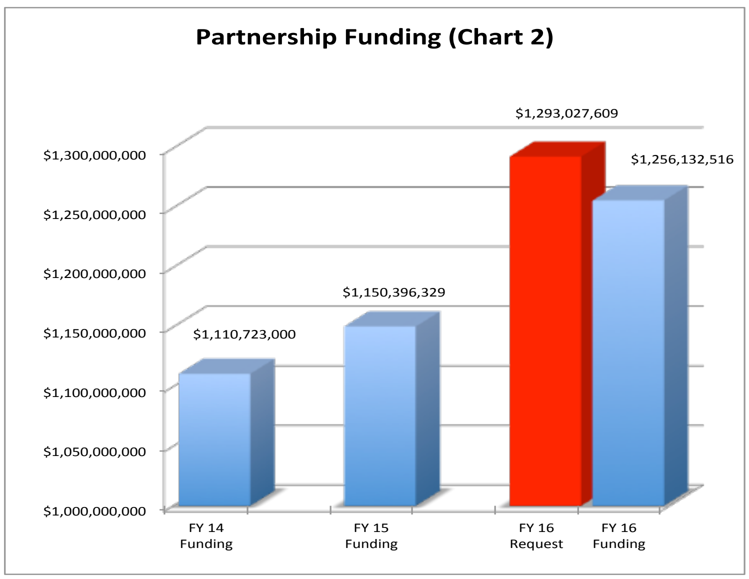


Table 6 below reflects FY 16 partnership payment history, exclusive of Lallie Kemp Regional Medical Center.

Table 6

| | FY 14 Allocated | FY 15 Allocated | FY 16 Recommended | Note |
|---|---|---|---|---|
| Title XIX claims | $177,999,183 | $150,003,674 | $150,003,674 | (portion of claims in Bayou Health |
| UPL | $279,559,909 | $263,857,238 | $410,362,356 | (Increase - Childrens' & Conway |
| UCC | $653,163,908 | $736,535,417 | $695,766,486 | (EA Conway - DSH to UPL model |
| Total | $1,110,723,000 | $1,150,396,329 | $1,256,132,516 | |

**Note:** Total UPL payments are increasing as a result of EA Conway being financed through a supplemental payment model (corresponding decrease in UCC payments in EA Conway), and as a result of increasing supplemental payments to Children's Hospital in New Orleans by $105.7 M.

**Note:** There is no direct funding in the partnerships for certain legacy expenses associated with LSU Health Care Services Division or LSU Shreveport. However, the Medicaid budget includes $177.8 M in total funding for Physician UPL payments to LSU. Information provided by the Division of Administration indicates a portion of these payments can be used for certain ongoing legacy expenses (such as risk management premiums).

### MFP and LA Scholarships Programs FY 16 Funding

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**The Minimum Foundation Program (MFP)** provides for an equitable distribution of state funds to local school districts. The MFP is the major source of state funding to local schools. For FY 15, the MFP is funded at $3.59 B; $3.30 B in SGF and $291.6 M in Statutory Dedications from the Support Education in LA First Fund ($173.2 M) and Lottery Proceeds Fund ($118.4 M). The FY 16 Executive Budget includes an adjustment of $34 M for an anticipated increase of 6,284 students. Additionally, there is a $32.2 M MOF swap replacing Lottery Proceeds funds ($19.7 M) and SELF funds ($12.5 M) with SGF based on the most recent REC forecast. FY 16 recommended funding totals $3.62 B ($3.36 B SGF, $153.5 M Lottery Proceeds Fund and $105.9 SELF Fund).

The MFP Task Force formed by BESE in 2013 reconvened in September 2014 in response to a number of legislative requests passed during the 2014 R.S. The task force has recommended that BESE request that the Legislature fund a 2.75% inflation adjustment, (approximately $75 M), increase funding for high costs special education services ($5.4 M) and increase per pupil funding for career education and dual enrollment (Course Choice) from $26 to $35 ($2.6 M). In light of the state's fiscal issues, the DOE instead recommended an increase of $1.38% ($36 M) while supporting the recommendations for the funding increases for special education and career education. On March 6, BESE voted to approve the recommendations of the DOE and to send the request to the Legislature for a total request of an additional $44 M. The MFP must be submitted to the Legislature by March 15.

**The Student Scholarship for Educational Excellence Program (SSEEP)** was funded at $46.2 M, in FY 15 with anticipated enrollment of 8,130 students at an average tuition of $5,557. Actual enrollment for the first two quarters has averaged 7,272 with an average tuition of $5,551. Based on historical attrition in the program, the LFO projects a program surplus of $5.4 M. As a result of the lower than expected enrollment, the program budget was reduced by $3.8 M as part of the mid year deficit reduction plan. Also included in the FY 15 budget was $4 M to improve program quality and provide support for choice programs. The DOE has awarded contracts totaling $2.6 M for organizations to launch new School Tuition Organizations, expand existing capacity and launch new scholarship schools.

For FY 16, the mid year reductions were not annualized, resulting in a standstill funding level of $46.2 M; the department projects an additional 679 students will participate in the program. However, in November 2014, the DOE reported that 15 participating schools did not meet required performance scores and voucher students at an additional 8 schools did not achieve proficiency rates. Those schools will not be permitted to enroll new student in the 2015-2016 school year. The extent to which the grant awards will generate new slots is not known, as the list of schools participating in 2015-2016 is not yet available.

### Early Childhood Education FY 16 Funding

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**Early Childhood Education** for the Cecil J. Picard LA 4 Early Childhood Program is currently funded at $76.8 M ($34.5 M SGF, $35.5 M TANF and $6.8 M 8g) in the DOE. Additionally, the Child Care Assistance Program (CCAP) which helps low-income families pay for child care while working or attending school or training is funded at approximately $77 M with federal Child Care Development Funds (CCDF) in the Department of Children and Family Services (DCFS). In accordance with Act 868 of the 2014 RS, the transfer of the CCDF Lead Agency Status to the DOE will become effective July 1, 2015. Until that time, pursuant to Cooperative Endeavor Agreements between the departments providing for the transition, the DOE has begun to promulgate rules for the administration and oversight of child care and early learning centers, including licensing regulations, minimum educational standards, training and certification requirements for staff as well as a transition from the current Quality Start rating system to a letter grade rating system.

As such, the FY 16 Executive Budget provides a number of adjustments relative to early childhood funding which include: 1) a $17.2 M increase in IAT authority for DOE to receive CCDF funding from DCFS; 2) a $59.9 M increase in federal funds to receive CCDF funds directly at the start of the federal fiscal year in October; and 3) an increase of 50 positions. As a result, funding for early childhood in the DOE is budgeted at $77.4 M for FY 16. In addition, a $27.9 M MOF swap replaces SGF with increased TANF funds for the LA4 Program.

HCR 61 of 2014 requested BESE to consult with the Early Childhood Advisory Council to develop a statewide model for the equitable funding and distribution of public funds for early childhood care and education for children aged birth to 5 and to submit recommendations to the Legislature 60 days prior to the 2015 Legislative Session. The funding model working group recommendations focused on 3 components for a combined funding request of $80 M for full implementation. The components included: 1) Upgrade Quality – by increasing per child funding from $4,580 to $5,185 for the current LA4/NSECD enrollment of 17,827 for a total cost $11M; 2) Create Equity – by increasing per child funding for 12,413 infant to 4 year olds currently in the Child Care Assistance Program for a total cost of $63 M; and 3) Increase Access – by increasing the number of at-risk 4 year olds to include an additional 5,012 children not being served currently (at $5,185 each) for a total cost of $26 M. The FY 16 Executive Budget does not

**Higher Education FY 16 Funding**
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FY 15 EOB funding for Higher Education totals $2.63 B ($924.1 M SGF). The FY 16 Executive Budget recommends a total budget of $2.04 B ($390.9 M SGF) reflecting reductions of $583.4 M ($533.2 M SGF); this equates to a 58% reduction in SGF and an overall reduction of 22% for higher education. Most significantly, the recommended budget includes $372 M in potential revenues generated by proposed changes to the refundable tax credits (*see article entitled Refundable Tax Credits Proposed To Fund The FY 16 Executive Budget)*. As such, the level of funding for Higher Education in the Executive Budget is reflected at $2.4 B ($762.9 M SGF) reflecting reductions of only $211.2 M ($161.2 M SGF) equating to a 17% reduction in SGF and an overall reduction of 8% for higher education.

Significant adjustments include the elimination of $12.6 M including equity formula funding ($6.1 M), STEM funding ($2.0 M), and support for the Southern System ($4.5 M). Significant increases include $34.2 M for TOPS associated with tuition increases, $24.1 M MOF swap replacing non recurring TOPS savings from a bond refinance with SGF. A $70 M MOF swap replaces SGF with tuition and fees associated with Grad Act tuition increases. Finally, $90.3 M in SGF associated with public/private contracts and the Health Science Centers has been moved off budget.

WISE funding in FY 15 included $16.85 SGF, $12.15 M IAT from the Community Development Block Grant (CDBG) Program appropriated in the operating budget (Act 15) and $11 M in Overcollections Funds appropriated in the Capital Outlay Bill (Act 25). The use of CDBG funds for this purpose requires HUD approval of an amendment to the State's Action Plan and expenditure of those funds is limited to 53 hurricane impacted parishes. To date, HUD has not approved the amendment. Additionally, the $11 M has not been deposited into the Overcollections Fund. As a result, only the SGF has been distributed to the institutions. The FY 16 Executive Budget includes $30 M in funding for the WISE initiative. $5.7 SGF and $24.3 M in CDBG funds. Table 7 on the next page summarizes the changes in SGF for higher education from FY 15 to FY 16.

The first column in the table shows the FY 15 SGF existing operating budget (EOB) by institution and system. The second column entitled "FY16 Recommended" shows the $391 M in SGF in the FY 16 recommended budget allocated to higher education. The recommended budget does not allocate specific amounts of SGF to individual institutions or systems. Instead, the recommended budget assigns all the SGF to the Board of Regents for allocation by the Board after passage of the appropriations bill. However, Table 7 on the next page illustrates the potential impacts of the SGF reductions on individual institutions and systems. The table assumes that the Legislature will fully fund the SGF requirements related to the Scholarship and TOPS Programs within the Louisiana Office of Student Financial Assistance (LOSFA). Excluding LOSFA, the table assumes that remaining higher education institutions and systems will receive an 82% pro rata reduction in SGF. In reality, the funding formula adopted by the Board of Regents WILL NOT allocate funding to institutions and systems on a uniform basis. However, Table 7 is intended to GENERALLY illustrate the magnitude of the reductions in SGF faced by institutions and systems in the proposed budget.

The recommended budget includes $372 M in supplementary funding related to proposed legislation converting specific refundable tax credits to nonrefundable tax credits. The column entitled "FY16 Recommended including Supplemental Funding" in the table shows the funding for higher education including the $372 M in supplementary funding. This column uses the same assumptions relative to allocation of SGF to LOSFA, and applies the additional $372 M in supplementary funding to the remaining higher education institutions and systems on a pro rata basis. Application of this additional $372 M in SGF results in an average decrease in funding of 30% from FY 15 to FY 16, compared to 82% without these supplemental funds.

**Higher Education - State General Fund Summary by Institution and System (FY 15 Existing Budget to FY 16 Recommended Budget) Equal % Reductions in FY 16 Prior to Allocation of Formula Funding by Regents (Table 7)**

| Institution/System | FY15 Existing Operating Budget (EOB) | FY16 Recommended | % Change FY15 EOB to FY16 Rec. | FY16 Recommended including $372 M Supplemental Funding | % Change FY15 EOB to FY16 Rec. including Supplemental Funding |
|---|---|---|---|---|---|
| LSU - Alexandria | $5,096,001 | $952,710 | -81% | $3,589,691 | -30% |
| LSU - Baton Rouge | $115,136,522 | $21,238,329 | -82% | $80,023,308 | -30% |
| LSU - Eunice | $4,560,182 | $850,174 | -81% | $3,203,346 | -30% |
| LSU - Shreveport | $7,030,978 | $1,298,113 | -82% | $4,891,122 | -30% |
| LSU HSC - New Orleans | $69,277,530 | $12,789,346 | -82% | $48,188,620 | -30% |
| LSU HSC - Shreveport | $36,418,254 | $6,720,792 | -82% | $25,323,087 | -30% |
| LSU Ag Center | $64,200,388 | $11,857,963 | -82% | $44,679,287 | -30% |
| Pennington | $12,226,396 | $2,260,588 | -82% | $8,517,608 | -30% |
| **LSU System Total** | **$313,946,251** | **$57,968,014** | -82% | **$218,416,069** | -30% |
| | | | | | |
| SU Board | $7,046,139 | $1,303,270 | -82% | $4,910,556 | -30% |
| SU - Baton Rouge | $20,285,609 | $3,742,602 | -82% | $14,101,647 | -30% |
| SU - New Orleans | $6,240,850 | $1,151,615 | -82% | $4,339,138 | -30% |
| SU - Shreveport | $5,087,969 | $940,114 | -82% | $3,542,228 | -30% |
| SU Law Center | $4,837,633 | $893,746 | -82% | $3,367,521 | -30% |
| SU Ag Center | $2,360,193 | $436,263 | -82% | $1,643,784 | -30% |
| **SU System Total** | **$45,858,393** | **$8,467,610** | -82% | **$31,904,873** | -30% |
| | | | | | |
| UL Board | $1,033,268 | $191,116 | -82% | $720,099 | -30% |
| Grambling | $13,484,331 | $2,488,764 | -82% | $9,377,346 | -30% |
| LA Tech | $26,711,053 | $4,930,453 | -82% | $18,577,316 | -30% |
| McNeese | $17,150,879 | $3,165,763 | -82% | $11,928,189 | -30% |
| Nicholls | $14,574,135 | $2,689,955 | -82% | $10,135,407 | -30% |
| Northwestern | $19,998,358 | $3,692,281 | -82% | $13,912,042 | -30% |
| Southeastern | $28,851,253 | $5,325,838 | -82% | $20,067,076 | -30% |
| UL Lafayette | $43,862,785 | $8,133,582 | -81% | $30,646,297 | -30% |
| UL Monroe | $23,821,070 | $4,396,376 | -82% | $16,564,982 | -30% |
| UNO | $28,994,984 | $5,349,929 | -82% | $20,157,847 | -30% |
| **UL System Total** | **$218,482,116** | **$40,364,056** | -82% | **$152,086,602** | -30% |
| | | | | | |
| LCTCS Board | $7,153,027 | $1,323,041 | -82% | $4,985,048 | -30% |
| Baton Rouge CC | $14,486,430 | $2,675,599 | -82% | $10,081,315 | -30% |
| Bossier Parish CC | $10,509,907 | $1,941,999 | -82% | $7,317,205 | -30% |
| Central LA Technical College | $5,616,572 | $1,037,470 | -82% | $3,909,056 | -30% |
| Delgado CC | $25,459,433 | $4,702,520 | -82% | $17,718,496 | -30% |
| LA Delta CC | $7,815,254 | $1,443,468 | -82% | $5,438,803 | -30% |
| LA Technical College | $10,747,501 | $1,985,201 | -82% | $7,479,982 | -30% |
| L. E. Fletcher Technical CC | $2,895,998 | $534,981 | -82% | $2,015,740 | -30% |
| Northshore Technical CC | $4,919,093 | $908,701 | -82% | $3,423,868 | -30% |
| Nunez CC | $3,306,834 | $610,892 | -82% | $2,301,763 | -30% |
| River Parishes CC | $3,268,547 | $603,878 | -82% | $2,275,334 | -30% |
| South Louisiana CC | $12,400,527 | $2,290,293 | -82% | $8,629,533 | -30% |
| Sowela Technical CC | $6,351,588 | $1,173,513 | -82% | $4,421,648 | -30% |
| LCTCS Online | $1,295,904 | $239,693 | -82% | $903,134 | -30% |
| **LCTCS System Total** | **$116,226,615** | **$21,471,250** | -82% | **$80,900,925** | -30% |
| | | | | | |
| LOSFA | | | | | |
| Scholarships | $26,339,725 | $28,129,108 | 7% | $28,129,108 | 7% |
| TOPS | $169,900,750 | $228,316,610 | 34% | $228,316,610 | 34% |
| **LOSFA Total** | **$196,240,475** | **$256,445,718** | **31%** | **$256,445,718** | **31%** |
| | | | | | |
| **Board of Regents** | **$31,099,579** | **$5,742,323** | **-82%** | **$21,636,340** | **-30%** |
| | | | | | |
| **LUMCON** | **2,296,246** | **$424,521** | **-82%** | **$1,599,541** | **-30%** |
| **Statewide Total** | **$924,149,675** | **$390,883,493** | **-58%** | **$762,990,068** | **-17%** |