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NOTICE: This is the final edition of the interim publication "Focus on the Fisc". Publication will resume following the Legislative Session.

FOCUS POINTS

Handouts provided by the Administration relative to this article are located on the LFO website under the Revenue & Economic Documents Section (Administration Tax Proposal).

Administration Tax Proposal: Update
Greg Albrecht, Chief Economist

Since the administration's tax proposal first began being floated in January, considerable discussion regarding it has occurred. An overview presentation was made, including an appearance by the governor, to a joint committee of House Ways & Means and Senate Revenue & Fiscal Affairs on March 14th, and presentations of the various sales tax and income tax components of the package were made to the Ways & Means Committee on March 19th and March 26th, respectively. Presentations of the severance tax and tobacco excise tax components of the proposal have not been made yet. The discussion below describes significant information that is known so far about the various pieces of the proposal.

The centerpiece of the proposal is the elimination of the state personal income tax and corporate taxes in exchange for an increase in the state sales tax. The sales tax rate would be increased to 6.25% (initially 5.88%), and the tax base would be expanded to include a variety of services not currently taxed and a variety of existing sales tax exemptions would be eliminated. In addition to replacing the income and corporate tax loss, the proposal also finances a number of existing incentive/financial assistance programs managed by the Department of Economic Development, a collection of existing school readiness and other credits/ financial assistance, and 2 new programs to relieve retirees and low-income households of some portion of the burden of higher sales taxes. Replacement revenue comes from the sales tax rate increase and base expansion, increases in tobacco taxes on cigarettes and other tobacco products, higher severance taxes from reducing certain exemptions and preferences, and a few other miscellaneous revenue raising components. Aggregate revenue neutrality is a stated goal, and the working value of the total proposal potentially involves some $3.6 B of revenue decreases and increases.

<u>Revenue Reductions and Financing Requirements</u>
The largest component of revenue loss is obviously the personal income tax, currently in excess of $2.5 B. There are nearly 1.8 M resident tax filers (a proxy for households) and nearly 192,000 nonresident tax filers. All households with positive tax liabilities (over 1.6 million resident filers) benefit to the extent of their liability, and while detailed distributional effects are outside the scope of this write-up, an obvious result of a progressive tax is that larger tax benefits accrue to higher income households consistent with the higher tax burdens they bear. Additional material revenue loss occurs from the elimination of the corporate income and franchise taxes; currently projected at a combined $340 M. There are approximately 150,000 corporate tax filers that could potentially benefit from these tax eliminations. However, these corporate tax liabilities tend to be extremely concentrated in a fairly small number of filers from year to year. Roughly 85% of corporate income tax filers have zero or negative taxable income in any given year, and the share is about 50% for franchise tax filers. The top 1% of income tax filers will receive nearly 90% of the tax elimination, while the top 1% of franchise filers will receive nearly 80%. Smaller business owners also stand to benefit to the extent their business net income is reported on their personal income tax filings. This amount is material; possibly up to a quarter of personal income tax liabilities are related to a broad concept of business income.

With the elimination of the income and franchise taxes, a question arises as to the retention of a variety of tax credits and rebate programs charged against these taxes. The personal income tax form contains 55 nonrefundable credits and 27 refundable credits (the corporate return contains comparable numbers of credits) and a number of rebate programs exist, as well. These credits and rebates basically reimburse filers for some portion of various kinds of spending deemed desirable or worthy of support. These are essentially public spending programs utilizing the tax filing process or charged against these taxes to provide the respective support to the targeted activity. While elimination of these taxes as a whole can provide large benefits to households and corporations, some of these supports may be deemed desirable without regard to the existence of the taxes used to provide their benefits. The proposal acknowledges this fact by retaining 3 categories of these benefit/ financial assistance programs. These programs are (a) reimbursement for local property taxes paid on inventory, natural gas, offshore vessels, and by land-line telephone companies; (b) assistance for a spectrum of pre-school child care activities; and (c) a credit for historic structure rehabilitation as well as a number of incentive/financial assistance programs managed by the Department of Economic Development. The proposal estimates the property tax reimbursements to require over $450 M, historic rehabilitation $41 M, the child-care supports $10 M, and the economic development programs over $350 M. The property tax reimbursements, historic rehabilitation credit, and child-care supports appear to be continuations of existing tax credit programs, except that their costs would now have to be charged against other tax collections. The same could be said about the economic development programs to be retained. The specific economic development programs to be retained were itemized at the March 26th presentation, and the administration also discussed plans to modify some of these programs. For those programs being modified, fiscal costs will presumably change, although material cost changes are only likely to be realized in future years as existing participants move out of the current programs and new applicants move into the modified programs. Actual cost changes depend on the specific modifications proposed, which were only outlined in presentation.

Two additional programs requiring financing are also included in the proposal. In order to alleviate the net tax burden likely to accrue to low-income households and retirement-income and military-income households, both of which may receive little benefit from the income tax elimination but will have to pay higher sales taxes, the proposal includes support programs for those households. Payments would be made to these households to compensate them for the increased sales tax burden over any reduction in their income tax burden. Presentations indicated that low-income households up to $35,000 of income (depending on filing status) could be eligible (nearly 650,000 filer/households), and retiree households up to $60,000 of income (likely over 150,000 filer/households). Active duty military with income up to $30,000 also receive support. The proposal estimates the retiree and military income support program as having a $50 M cost. Additionally, the low-income support program has been discussed in the context of the State's earned income tax credit that would be eliminated (3.5% of the federal credit amount and refundable). This current program provides benefits to households well beyond the $20,000 income level (into the $30,000 and even $40,000 ranges), and costs some $45 M per year. While the proposal now estimates $110 M in cost for the new low-income support program, it is targeting the net tax increase affecting low-income households and may not replace the current earned income tax credit benefits for some low-income households.

Revenue Increases and Exemption Eliminations

At this point, the most discussed component of the proposal has been the expansion of the state sales tax base to services that are not currently subject to tax. The administration distributed a one-page list of 36-service industry sectors to be included, with estimates of the total amount of purchases from each industry and the associated sales taxes at the 5.88% tax rate. Total taxable purchases were estimated at $24 B, and total new sales tax collections at $1.4 B ($1.5 B at 6.25%). The new services to be taxed will affect all entities in the economy: tourists (various transportation and entertainment services) as well as resident households (veterinary, photographic, security, cable-vision, entertainment, and various personal care services), and businesses (mining support, professional and business support, information and certain insurance services). Based on the estimating methodology utilized, roughly 85% of these new tax receipts will be directly paid by businesses on their purchases of services from other businesses, with the balance directly paid by individuals. These shares do not reflect the ultimate incidence of the new tax burden, and very small businesses (less than $10,000 of annual sales) are to be exempt from charging the tax. Determining actual incidence of tax burdens is difficult to do with confidence, and requires information and assumptions that can be subject to considerable dispute. However, it is true that all business costs are ultimately borne by individuals in their simultaneous roles as final consumers, suppliers of labor, and owners.

Expansion of the state sales tax base is also proposed by eliminating nearly 70 existing exemptions or preferences, as well as the State's three sales tax holidays. These exemptions are quite varied, and a number of them are targeting transactions that are likely not frequently occurring, if at all. They directly affect both households and businesses, but appear to be predominately oriented to business transactions. These exemptions are reported as part of a catchall line on sales tax forms, and cannot be readily estimated individually. The Revenue Department's Tax Exemption Budget publication reports the total tax value of this tax form line in the range of $600 M, and the proposal includes the elimination of this subset of exemptions at $96 M. The basis of this estimate hasn't been detailed at this point, but is less than 20% of the total for the catchall line, and in that sense may turn out to be a relatively safe estimate.

A seemingly straight-forward funding component of the proposal is an increase in the tobacco tax on cigarettes and other tobacco products; a $1.05 per pack increase on cigarettes (from 36¢ per pack today) and raising the tax rate on all other tobacco products to 68% of manufacturer invoice (from various rates today of 8% - 33%). The new total cigarette tax of $1.41 per pack would then equal the rate in Texas, and the new total rate on other products would then equal the rate in Arkansas. However, at that point LA would have tax rates well in excess of Mississippi (68¢ per pack and 15% of invoice), and a somewhat higher rate on cigarettes than Arkansas ($1.15 per pack). The State has some history with the effects of tobacco tax rate increases (3 since 1990) and a federal rate increase in 2009. These experiences suggest additional revenue in the range of $200 M per year, utilizing a 40% discount for expected negative tax-paid consumption response. However, the proposal has included higher tobacco tax estimates, that seem unlikely to be achieved, plus $10 M more of sales tax receipts associated with higher tobacco retail prices.

Another major funding component is greater severance tax collections from the adjustment of oil & gas production tax preferences. The proposal has utilized $289 M of additional revenue here. This figure is roughly half of what the total of severance tax exemptions are reported to be, and is simply a target figure for the proposal. Of the total exemption amount reported, a little over half is associated with the natural gas horizontal drilling, largely in the Haynesville Shale area of north LA. While that value is large, it primarily reflects the production volumes of a large number of already producing wells enjoying the exemption they qualified for. Unless existing exemption benefits are going to be retroactively eliminated, low gas prices and greatly reduced drilling activity make the value of this exemption going forward from new wells not yet producing much smaller than the reported total. The next largest exemption that could be adjusted is for wells re-entered after a period of inactivity. However, this program stopped accepting new well applications back in 2010, and only a small number of new wells come online now from the large influx of applications that were filed leading up to the program's close. Again, unless existing benefits are going to be curtailed, the reduction or elimination of benefits only for newly producing wells is likely to involve a much smaller amount of value than the total reported for this program. A similar dynamic exists for deep-well and tertiary recovery benefits. Finally, a sizable amount of value is associated with stripper well and incapable well tax preferences. These benefits are not tax exemptions at all, but are long-standing low statutory tax rates applicable to low volume-producing wells. To gain revenue from these wells requires raising their statutory severance tax rates closer to the full-rate levels applied to more productive wells. Possible changes to horizontal and inactive well exemptions are to provide only a partial exemption while extending this partial exemption for some period longer than the current 24-month exemption period. The amount of new revenue that could be generated depends on the exemption share and whether existing wells or only new wells are included in such a change.

Miscellaneous funding items include equalizing the sales tax on telecommunications services with the new proposed tax rate. These services are taxed at lower rates under current law: 1% for intrastate communications and 2% for interstate communications. The proposal assumes $29 M from this change. In addition, limiting the vendor compensation allowed to businesses (especially big-box retailers) for collecting and remitting the tax has been mentioned, as well as the discounts allowed on excise tax remittances. Specifics of these possible changes have not yet been discussed, but a target revenue figure of $19 M has been utilized. As mentioned above, the proposal also assumes additional sales tax receipts from higher retail tobacco product prices resulting from the proposed tax rate increases. Additionally, a new use tax process for individuals making remote/online purchases has also been discussed. This idea is to require an annual form be filed where a pre-determined dollar amount of tax due could be selected and payment made, or documentation of the actual purchases could be provided with payment, or the taxpayer attests to the fact that no remote purchases have been made and no tax is due. This seems to be an attempt to encourage payment of these sales without waiting for a federal solution to be enacted. Another tax amnesty program has also been briefly mentioned as a way to collect revenue in the initial transition period of the proposal's tax swap. The last amnesty program occurred at the start of FY 10. Neither of these last 2 ideas had any dollar estimates mentioned in their discussion.

<u>Overarching Issues</u>

In order to be able to account for the various components of the proposal as it began being developed in the fall of 2012, the administration has largely utilized FY 11 actual values where known and a few target values for unknowns and components still being constructed. However, the official fiscal note on the proposal will reflect the changes from the current baseline of expected receipts starting in FY 14 and extending through FY 18. While netted to revenue neutrality in the administration's planning, there is no guarantee that fiscal note analysis will do so and, more importantly, that actual performance will do so. Of particular concern is the major funding component of expanding the sales tax base to numerous services that have not been taxed before. Ernest & Young developed estimates of this new tax base, and the methodology employed is reasonable. However, the methodology starts with broad aggregate economic data at the U.S. level, and estimates a tax base that has never actually been taxed in LA. A high degree of confidence cannot be assigned to these estimates. A similar concern exists with regard to the elimination of existing sales tax exemptions. In addition, while the support programs were described in presentations with handouts, the accompanying draft legislation leaves it up to the administering agency (Revenue and Children & Family Services) to implement the programs by rule.

Any uncertainty of the proposal's fiscal effects is of particular significance in light of the stated effectiveness for the entire proposal at one time on 1/1/2014. Dramatic changes to major revenue sources will begin occurring mid-way through the next fiscal year, the state government budget for which is currently being developed. All employment after that point will be exempt from income tax, and withholding payments should drop off toward zero within just a few weeks. Since 3 quarters of a fiscal year's personal income tax collections occur through withholdings, it is essential that the new sales tax base be remitting the full amount of collections expected with as little transition delay as possible. Obviously, the other funding and cost components also have to occur as expected to avoid disruption of the budget in the second half of FY 14 and in the subsequent full year of FY 15.

Revenue growth in subsequent years is also uncertain. The personal income tax has largely been the growth tax in the State's revenue mix. It's progressivity and the tendency for upper incomes to grow faster than lower and middle incomes combines to give the income tax a growth rate that typically exceeds that of personal income. This has provided a growth basis to overall State revenue as mineral revenue and corporate revenue have exhibited sharp surges and collapses. The sales tax has also provided a growth basis, but at typically lower rates than the income tax. The relatively slow growth of lower and middle incomes translates into low growth in sales taxes. This is exacerbated by the secular shift away from tangibles and toward services in household consumption patterns, and the increasing amount of remote/online purchases. Expanding the sales tax base to include more services reflective of the modern economy should enhance the sales tax growth rate. However, much of the growth in services is associated with the medical and education service sectors, which are not included in the proposal. It is likely that the new sales tax oriented revenue base will provide lower overall growth to State revenues than the current tax mix. This is ultimately an empirical question that will be resolved over the next several years.

The FY 14 executive budget contains no expenses related to transitioning the collections process to a new tax base. When considering the stated start of the tax swap on 1/1/2014, it is reasonable to expect that department preparations need to begin well before that point. Considerable efforts should be expected in identifying new taxable entities, taxpayer education and outreach, processing system and reporting adjustments, employee training, and rule promulgation. Further, if the department's goal of relying solely on self-generated revenue is attained over the next 2 fiscal years, the tax collection budget is expected to decrease by about 40% while implementing a complex and far-reaching tax swap. In addition, about 75% of the tax collection program's funding is derived from delinquent fees related to income tax. Implementation of the tax swap implies that this source of funding would not be available to fund the department. It remains questionable whether the department will be able to maintain current efforts related to tax collection while significantly limiting the funding available for that purpose. On-going collection capabilities could be compromised. In addition, the Department of Children & Family Services will be charged with administering a new support program for low-income households. It currently administers other programs for various such populations, but has indicated that additional personnel and expenses will be necessary to add this new program to their operations. The FY 14 executive budget contains no expenses related to preparing for this transition.

REVENUE

FY 13 Major Revenue Collections Summary Through February 2013
Greg Albrecht, Chief Economist

January marks 8 cash months and approximately 7 accrual months of collections this fiscal year. Overall, February was encouraging, but certain issues call for any optimism to be tempered. The personal income tax jumped sharply ahead of forecast, but this performance is distorted by processing delays, especially with respect to refunds where only about 20% of the normal amount occurred. March net collections are likely to be down sharply as the catch-up occurs. Despite this distortion, some optimism is associated with better performing gross withholdings in recent months. The general sales tax exhibited its typical post-Christmas retrenchment in February but is ahead of forecast on an accrual basis and finally positive on a cash basis. Both of these taxes have been exhibiting a monthly seesaw pattern and a subsequent weak month can pull both of their year-to-date performance records below forecast. The next 2 months will be particularly important for the income tax, as March will bear very large refunds before the first typical large payment month of April occurs. A string of good months is necessary to make a trend, and the collection of these 2 taxes is still best characterized as erratic.

Although monthly corporate collections tell us little about annual performance, and these monthlies exhibit wide variation, the only generally strong tax so far this year has been corporate. Even though February was another negative month, it is still a considerable improvement over prior year. The forecast for this tax is modest and generally good monthlies are encouraging. However, 1/2 to 2/3 of these collections arrive in the last quarter of the fiscal year. Thus, confidence in this tax cannot typically be obtained until late in the fiscal year.

February was a mixed bag for mineral revenue with the severance tax improving and royalty receipts disappointing. The year-to-date performance of the severance tax has improved relative to prior year, but the toughest monthly comparisons come at the end of the fiscal year and caution has to be considered here. Royalty receipts continue to be weak, likely a result of weak gas prices, and seem unlikely to meet forecast.

Gaming receipts from riverboats, video poker, and slot machines were again weaker in February, diminishing year-to-date growth, and remaining just barely positive and just barely above forecast. Current year-to-date performance is based on only 2 good months, but the forecast calls for only very modest growth. This discretionary spending still hasn't returned consistently and these revenues could disappoint this year.

<u>Overall</u>, after the 12/13/2012 REC downward forecast revision, total tax revenue for FY 13 is expected to drop by 0.9% from FY 12 actual collections, and general fund tax revenue is expected to drop by 1.1%. This is a year-over-year revenue drop expectation, not just a forecast drop for a given year, and is largely due to sub-par performance of the 2 taxes that largely reflect real-time economic conditions, sales tax (household and business spending) and personal income tax (employment and income generation). Although there has been some improvement through this point of the fiscal year, it hasn't yet been enough to confidently change the current forecast expectation.

GENERAL GOVERNMENT

FY 14 $1,278,096,671 Continuation Budget Problem
LFO staff

At the January 2013 Joint Legislative Committee on the Budget (JCLB), the Division of Administration (DOA) presented the FY 14 Continuation Budget with a projected SGF imbalance of approximately $1.3 B.

The LFO compared various budgetary adjustments presented in the FY 14 Continuation Budget and the FY 14 Executive Budget. The continuation budget provides for an additional SGF need of $1.195 B from FY 13 SGF EOB, while the executive budget reduced the SGF by $53.33 M [($53.33 M) - $1.194 B = ($1.248 B)].

Note: The $30 M difference ($1.248 B versus $1.278 B) is associated with anticipated SGF revenue collections in excess of the current SGF forecast related to the Department of Revenue's Fraud Initiative. Essentially, by generating $30 M in SGF revenues, the DOA did not have to reduce SGF expenditures by an additional $30 M.

Below are some of the significant SGF budgetary adjustments comparing what was included within the continuation budget to the executive budget. *Refer to "FY 14 Continuation Budget: Medicaid" below for significant items associated with the Medicaid budget.*

($26,188,143) Performance Adjustments (Merit Increases) – Unless there is an official directive from the Civil Service Commission stating suspension of merit increases, performance adjustments may be granted. Because the Civil Service Commission did not suspend merit increases, state agencies will be required to fund merits in FY 14 unless the agency submits a layoff avoidance measure to the Civil Service Commission. The continuation budget assumes a SGF need of $26.2 M for performance adjustments, while the executive budget does not include any specific SGF for these performance adjustments.

($97,931,500) Inflation/Medical Inflation – Included within the FY 14 $1.278 B budget deficit calculation is a SGF need of approximately $97.9 M in inflationary costs that are not funded.

$30 M Department of Revenue Fraud Initiative – The executive budget contains the addition of $30 M in SGF that is budgeted in Higher Education and is indicated to be the result of a fraud initiative within the Department of Revenue (LDR). Presumably, these funds are to be generated due to the implementation of 3 efforts initiated within the LDR to combat fraud, 2 of which involve electronic verifications against existing public records and certain other corroborating data. The third effort provides 2 additional criminal investigators to the Attorney General (AG) to assist with fraud detection and enforcement efforts. From discussions with LDR, it appears that a material portion of this revenue is related to an anticipated increase in income tax collections. If these funds are considered a likely absolute increase of $30 M in SGF revenue due to higher income tax collections, the $30 M will also

become a required component of any analysis of revenue neutrality in the anticipated income/sales tax swap proposal, and the revenue stream will cease if the income tax is repealed. Numerous discussions between the LFO and the LDR have determined that the evaluation of the fraud initiative has not been finalized as of this writing.

Significant MOF Swaps for SGF

($4,563,971) Attorney General – The FY 14 budget includes $4.9 M (inclusive of FY 13 remaining settlement funds in the amount of $412,734) of mortgage settlement funds, while the continuation budget did not include these funds. Revenue from the mortgage settlement agreement is derived from a joint state-federal settlement with 5 banks (Wells Fargo, Citigroup, Bank of America, JP Morgan Chase and Ally Financial) related to fraudulent foreclosure practices. LA received a one-time payment of $ 21,741,560 in 2012. To the extent the FY 13 and FY 14 appropriated mortgage settlement funds are completely expended, there will be approximately $5.3 M remaining of the $21.7 M originally awarded. These funds have been utilized as follows: $477,804 – Act 53 of 2012 (FY 12 Supplemental Appropriations Bill); $10,971,142 - FY 13 Budget (Act 597 of 2012 (Funds Bill) transfer of ($7 M) to the SGF included; and $4,976,705 - FY 14 Budget.

($3,168,093) Culture, Recreation & Tourism – The continuation budget does not include any SGF MOF swaps. However, included within the executive budget there are MOF swaps that replace SGF ($3.1 M) with statutorily dedicated funding ($1.7 M - LA Tourism Promotion Fund and $1.4 M - State Parks Improvement & Repair Fund).

($10 M) Public Safety – The continuation budget includes a MOF swap that replaces SGF with SGR due to anticipated under collections associated with the sale of 2-year motor vehicle inspection stickers. This MOF swap was not included within the executive budget due to various SGR budgetary reductions in the Office of Management & Finance, State Police and the Office of Motor Vehicles. Thus, no SGF is included in FY 14.

($120.3 M) Higher Education Tobacco Settlement Refinance/Arbitration – The executive budget replaces $120.3 in SGF with funding from the TOPS Fund from savings anticipated by the administration from refinancing tobacco bonds to a lower interest rate ($60 M) and from settlement of arbitration between states and tobacco companies related to regulation of tobacco products ($60.3 M). These MOF swaps were not included within the continuation budget.

($489,640,279) Higher Education Overcollections Fund – The executive budget includes a MOF swap that replaces SGF with funding from the Overcollections Fund. This MOF swap was not included within the continuation budget. According to the DOA, the major resources utilized to fund this $489.6 M are as follows: $103.3 M – Various Fund Sweeps; $47.24 M – Property Sales; $28.28 M – Go Zone Bond Repayments; $100 M – Ernest Morial Convention Center; $93.25 M – Hospital Lease Payments; $2 M – LA Housing Corporation; $16 M – Self-Insurance Fund; $37.8 M – Average Wholesale Price (AWP) legal settlements; $41.8 M – Miscellaneous SGR; and $20 M – FEMA reimbursements. These additional revenue sources were not included within the continuation budget.

($75,282,537) Higher Education LaGrad Act – The executive budget includes a MOF swap replacing SGF with SGR from FY 14 LaGrad Act tuition increases. The LaGrad Act allows higher education institutions to raise tuition up to 10% each year by meeting specific performance objectives. Amounts by system include the following: LSU System ($34,068,903); UL System ($39,179,764); and SU System ($2,033,870). This MOF swap was not included within the continuation budget.

Significant Other SGF Adjustments

($6,738,400) Executive – The continuation budget includes $6.7 M in SGF for the statewide rollout of LaGov. However, included within the FY 14 budget is $950,000 (non-SGF) to bring only the Department of Natural Resources (DNR), Department of Wildlife & Fisheries (WLF) and the Office of Coastal Protection & Restoration (Coastal) online with the state's new financial system (LaGov) with a go-live date of 7/1/2014.

$50 M Department of Corrections – This additional SGF is provided in the executive budget, which provides funding to DOC for off-site non-primary health care services for offenders. This funding amount is based on historical utilization data from LSU-HCSD, DHH and several cost projections from insurance providers. These services include emergency, in-outpatient, specialists, diagnostics, surgery, and cancer treatments. The $50 M will be used to fund offender costs at LSU-Shreveport, E.A. Conway, and Lallie Kemp ($11,712,921), in addition to contracting with LSU partner hospitals and other private hospitals for inpatient and outpatient specialist care ($38,287,079). LSU is currently negotiating with its partner hospitals to continue the provision of prisoner care on campus and/or in dedicated prisoner wards where those are available and bill DOC for services rendered. DOC is also working with DHH to find hospitals that are willing to provide emergency care, inpatient

hospitalization, intensive care, and any diagnostic or surgical procedure that cannot be done at prison facilities.

($12,785,513) Children & Family Services – The executive budget reductions in SGF is attributed to the following reductions: $4.27 M as a result of elimination of the Early Childhood Supports & Services (ECSS) Program; $3.5 M reduction for the Modernization Project that is in its third year of implementation; $1.16 M as a result of eliminating the Young Adult Program (YAP) in the Child Welfare Program **(**foster care**)**; $1 M as a result of consolidating and closing parish and regional offices; and $879,447 as a result of eliminating state funding associated with the licensing of Class B day care facilities. These reductions were not included within the continuation budget.

($24,732,251) Higher Education Public and Private Partnerships – The executive budget includes a decrease in SGF related to the public and private partnerships and prisoner care at the LSU Shreveport Medical Center, E. A. Conway Medical Center (EACMC), and H. P. Long Medical Center (HPLMC). A decrease of $7,584,508 SGF at the LSU Shreveport Medical Center is related to the transfer of funding for prisoner care to the Department of Corrections (DOC). Regarding EACMC, $911,717 in SGF is transferred to DOC for prisoner care and the remaining $6,595,781 reduction in SGF is due to the privatization of EACMC scheduled for 10/1/2013. Finally, $9,635,049 in SGF reduction is due to the privatization of HPLMC scheduled for 7/1/2013. This SGF reduction was not included within the continuation budget.

($51,094,272) Minimum Foundation Program (MFP) – Approximately $39 M is provided for additional students in the Minimum Foundation Program in the executive budget. The continuation budget projected an additional $30 M for an increase in student enrollment and an additional $60,094,272 to provide the 2.75% increase to the base per pupil amount used in the MFP formula for a total of $90,094,272. However, the executive budget only provided $39 M for an increase in student enrollment for a difference of $51.1 M.

($60,401,172) LA Health Care Service Division (HCSD) – The executive budget $60.4 M reduction consists of a MOF swap of $35 M from Statutory Dedications (Overcollections Fund) to SGF in the executive budget. The $35 M was budgeted in Overcollections Fund in FY 13 for payments from Children's Hospital for the lease of the New Orleans Adolescent Home (NOAH). As this is a one-time revenue source, the MOF swap back to SGF is necessary for FY 14. However, due to the public/private partnerships between 6 of HCSD's hospitals and private hospitals within their areas, this $35 M that was placed back into SGF for FY 14 is then being reduced. In addition, there is another SGF reduction of $25.4 M from the FY 13 base budgets of these 6 hospitals ($35 M + $25.4 M = $60.4 M SGF).

($24,987,877) Judgments – The continuation budget includes a SGF need of $25 M for road and bridge hazard claims. Historically, Special Acts (judgments) are never included within the executive budget and are not included within the executive budget.

($8.7 M) Capital Outlay – The continuation budget assumes an FY 14 SGF need of $10 M for various SGF projects in Capital Outlay. The executive budget includes $1.3 M in SGF in Capital Outlay, which is the current SGF utilized in FY 13 for the Local Government Assistance Program (LGAP).

($2,893,603) Non-Appropriated Requirements/IEB Funding (Interim Emergency Board) – The executive budget reduces the SGF allocation for the Interim Emergency Board. Prior to FY 12, the executive budget always included the total projected constitutional IEB allocation. Pursuant to Article VII, Section 7(C.) of the LA Constitution, the amount of SGF set aside for IEB allocations shall not exceed one-tenth of 1% of total state revenue receipts for the previous fiscal year. However, since the FY 12 budget, the DOA now only includes an amount equivalent to prior year expenditures from the Interim Emergency Fund (average board approved expenditures). *By not setting aside the full amount at the beginning of the fiscal year, the operating budget is being supported at the outset before knowing emergency needs for the upcoming fiscal year*.

Act 597 Action Not Materialized (Update)
Travis McIlwain, General Govt. Section Director

In the February *Focus on the Fisc*, the LFO indicated that there were approximately $278.4 M of funds bill resources that have not been transferred to the SGF, Medical Assistance Trust Fund (MATF) or Overcollections Fund that have been appropriated in FY 12 & FY 13. Based upon updated information provided to the LFO by the State Treasury, to date there are approximately $155.2 M of funds bill resources that have not been transferred to the SGF, MATF or Overcollections Fund that have been appropriated in FY 12 & FY 13.

Act 597 transfers approximately $258.4 M from various resources into the SGF. *To date, there is approximately $147.1 M (or 57%) of resources that have been transferred into the SGF for expenditure*. Some of the significant funding items ***not*** transferred include: $56

M – Risk Management's Self-Insurance Fund; $10 M – Excess proceeds from the NOAH sale; $1.1 M – LA Tourism Promotion District (remaining balance); $11 M – LA Housing Corporation; $10 M – FEMA Reimbursements; and $20.1 M from the Coastal Protection & Restoration Fund.

Act 597 transfers approximately $79.5 M from various resources into the MATF. *To date, there is approximately $136.3 M of resources that have been transferred into the MATF for expenditure (see not below)*. Some of the significant funding items ***not*** transferred that were originally anticipated include: $6.7 M – Go Zone bond repayments; and $5.9 M – various fund transfers.

Note: A large portion of the $136.3 M transferred into the MATF comes from collecting $75.1 M of Average Wholesale Price (AWP) legal settlements. Act 13 (HB 1) appropriates $22 M of these resources from MATF within DHH and the FY 13 Mid-year Reduction Plan appropriated another $30.5 M of these resources. Thus, approximately $52.5 M of AWP resources is currently appropriated in FY 13. In addition, $16.4 M of the $136.3 M transferred into the MATF will be appropriated in support of the FY 14 budget. These resources are Go Zone Bond debt repayments.

Act 597 directs the state treasurer to transfer $41.1 M into the Overcollections Fund. *To date, there is approximately $10.1 M (24%) of resources that have been transferred into the Overcollections Fund for expenditure*. The significant funding item not transferred includes: $31 M – Sale/lease of NOAH. In addition to NOAH, Act 597 directs the state treasurer to transfer proceeds from the sale of the former DOI building site, excess receipts over $10 M from FEMA reimbursements and excess receipts over $56 M from the Self-Insurance Fund. These additional items have not taken place and are not currently included within the FY 13 operating budget. However, the FY 14 budget includes $20 M **in** funding from FEMA reimbursements and $4.8 M from the sale of the former DOI building site.

Note: To the extent these Act 597 resources do not materialize, the FY 13 SGF budget could finish the fiscal year in a deficit posture unless expenditures are reduced or another resource is identified.

Update Act 23 (HB 2) Resources Utilized in FY 13
Travis McIlwain, General Govt. Section Director

The FY 13 operating budget is not only supported by typical SGF collections and Act 597 (Funds Bill) resources, it is also being supported by approximately $38.5 M in Act 23 rescinded SGF capital outlay projects and dependent upon another $20.1 M in rescinded non-recurring SGF capital outlay projects, which equates to a total of $58.6 of capital outlay projects rescinded that are needed to fund the FY 13 budget. This funding was been made available due to the following steps:

- Act 23 rescinds:
  a) $20,411,082 of SGF capital outlay projects and replaces with Priority 5;
  b) $38,232,698 of non-recurring SGF capital outlay projects; and
  c) $18,128,388 of SGF projects & replaces with $18,128,388 of non-recurring SGF resources previously rescinded.
- Act 597 transfers $20,104,310, which is the remaining portion of rescinded non-recurring SGF resources to the Coastal Protection & Restoration Fund. This transaction allows the same exact amount of recurring revenue flow to be transferred from this fund to the SGF.
- Act 13 (HB 1) appropriates $38,539,470 of rescinded resources for expenditure of which $20,411,082 is from rescinded SGF projects and $18,128,388 is from rescinded SGF projects that are swapped for previously rescinded non-recurring SGF projects.

Based upon information provided to the LFO by the State Treasury, all $58.6 M in capital outlay project sweeps discussed above have taken place. However, the State Treasury has not transferred the $20,104,310 (mentioned above) to the SGF from the Coastal Protection & Restoration Fund, which is a fund sweep included within Act 597. Act 23 rescinds $38,232,698 of non-recurring SGF projects of which Act 597 intends to transfer $20,104,310 of these rescinded project resources to the Coastal Protection & Restoration Fund and the same amount of recurring revenue flow from this fund is to be transferred to the SGF (Act 597). *To date, the State Treasury has not completed this fund transfer due to the legal interpretation by State Treasury of Section 9 of Act 597. The language within Section 9 of Act 597 provides for the State Treasurer to transfer funds from non-recurring revenue of the Coastal Protection & Restoration Fund comprised of cash recognized from "prior year end surplus". The State Treasury interprets "prior year end surplus" to mean FY 12 resources in which these $20.1 M of rescinded capital outlay projects were originally appropriated with designated non-recurring SGF prior to FY 12.*

HEALTH & HOSPITALS

FY 14 Continuation Budget: Medicaid
Shawn Hotstream, Health & Hospitals Section Director

The FY 14 Continuation Budget reflects a SGF need of approximately $687 M for FY 14. SGF for the Medical

Vendor Payments (MVP) increases by approximately \$588 M in HB 1 Original. *This increase in SGF is not necessarily used to support additional expenditures (Medicaid growth), but mainly for means of finance swaps that replace non-SGF revenue sources.* For FY 14, the most significant factors contributing to the increase in SGF include replacement of non-recurring revenue sources (\$191.6 M), and a decrease in the Federal Medical Assistance Percentage (FMAP) for both Title 19 claims and the Disproportionate Share Hospital (DSH) payment rate (\$311.6 M). In addition, several significant adjustments were added in the FY 14 Executive Budget resulting in an increase in SGF need, including 'Clawback' funding and utilization. Approximately \$26.9 M in SGF match (\$72.6 M total payments) is added in the Private Providers Program in FY 14 for projected utilization increases. In addition, \$33.2 M in SGF is added for Clawback funding. These payments are 100% SGF payments made by LA Medicaid to the federal Medicare Program as required by the Centers for Medicare & Medicaid Services (CMS) to cover the cost of the Medicare Prescription Drug Program (Part D) for dual eligibles.

HB 1 Original also includes significant reductions that are not reflected in either the Medicaid budget request or the continuation budget, <u>which reduces the need for SGF support for FY 14</u>. These adjustments include additional means of finance swaps replacing SGF with other revenue sources. Other revenue sources include the appropriation of certified public expenditure federal funding and other statutorily dedicated funding such as Medicaid Trust Fund for the Elderly revenues, Community Hospital Stabilization Fund revenues, Go Zone repayment revenues from the Medical Assistance Trust Fund (MATF), and an increase in nursing home provider fees revenue (increase per bed fee from \$8.02 to \$10). In addition, the budget reflects contingent savings as the result of limiting providers for the delivery of Lab & X-Ray and Durable Medical Equipment, and providing these services through a sole source contract. This will require the Centers for Medicare & Medicaid waiver approval. Another significant reduction is projected savings as the result of reducing services related to 3 optional programs in Medicaid, including the Medicaid Purchase Plan, Disability Medicaid, the Family Opportunity Act, and certain services for Pregnant Women above 133% of the federal poverty level (FPL).

Historically, the Medicaid Program has been allocated a significant level of one-time revenue in place of SGF support. These revenue sources have been deposited into the MATF, and were used as a non-SGF state match source to draw federal financial participation for claims payments (typically to private providers). In FY 13, the Medicaid Program utilized over \$200 M in one-time revenues for such purposes. However, HB 1 only allocates \$16,434,518 M in one-time revenue in the MATF to be used as a match source. The original source of these funds is revenue from Go Zone payments, which represent a transfer of a loan repayment (in full) from the Law Enforcement District of the Parish of Orleans.

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FY 14 BUDGET UPDATE

J. Travis McIlwain, General Govt. Section Director

At the 2/22/2013 Joint Legislative Committee on the Budget (JLCB) meeting, the administration presented the FY 14 Executive Budget Recommendation in the amount of $24.7 B of total expenditures of which $8.2 B is SGF. As testified in committee, the administration utilized various methods to balance the budget including but not limited to: various governmental consolidations, utilizing one-time revenue sources, maximizing various non-SGF means of financing, and various budgetary reductions. The LFO is in the process of analyzing the Executive Budget Recommendation and will provide the legislature a detailed analysis of the budget as HB 1 and all the money bills move throughout the process (Supplemental Appropriations Bill, Capital Outlay, Funds Bill).

FOCUS POINTS

Tobacco Settlement Securitization Refinance

Deborah Vivien, Economist/Fiscal Analyst

The Tobacco Settlement Financing Corporation Board (TSFCB) authorized the solicitation of professionals for the refinancing of the outstanding securitized Tobacco Settlement proceeds of $820 M (original securitization was for $1.2 B), though the final structure of the refinancing is not yet known. If the savings are "frontloaded" over the first years of the restructure, it is estimated that the state will gain access to roughly $60 to 80 million either by the end of FY 13 or the beginning of FY 14 without changing the anticipated date of maturity. If the savings are used to reduce the term of the bonds, the bonds will mature in 2021 instead of 2023 at which time the state will receive the full amount of the Tobacco Settlement proceeds. If the state utilizes the savings annually through 2023, it is expected that the state will gain access to about $10 M per year. The TSFCB must finalize the sale structure that will then be approved by the State Bond Commission and the Joint Legislative Committee on the Budget (JLCB). This process is expected to take a few months. From testimony before the JLCB on the Budget, it is anticipated that these savings will be utilized in the supplemental appropriation in FY 13, but those plans will not be certain until the supplemental bill is filed.

State Bond Commission (SBC) Update

Deborah Vivien, Economist/Fiscal Analyst

The SBC received the final calculation of debt capacity for Net State Tax Supported Debt (NSTSD) of $51 M of debt service or about $600 M in borrowing capacity. The SBC indicated that it will move forward immediately with the sale of $100 M in State Highway Improvement Fund (SHIF) bonds for rural highways and await guidance from the SBC Executive Committee on the optimum structure of future debt obligations. Other savings measures that were discussed included the possibility of restructuring some of the existing GO debt using mechanisms that have not yet been decided but are expected to make $100 M - $120 M available to the state in FY 14. Also, the SBC considered a call modification of certain Revenue bonds in exchange for a payment of about $12 M and the possibility of a new Transportation Infrastructure Finance & Innovation Act (TIFIA) loan from the U.S. Department of Transportation, which would consolidate the Senior Lien debt and the existing TIFIA loan utilizing a lower rate. According to DOTD, this transaction would also save an estimated $87 M in debt service obligations under the lower rate (though details concerning this estimate are not clear) and move about $3.6 M in debt service from under the debt limit as the Senior Lien debt would no longer be considered NSTSD. It is not certain whether these savings measures will provide additional revenue for supplemental appropriation in FY 13 or for general appropriation in FY 14 upon implementation, though the timing for all but the $100 M in SHIF bond transaction seems more likely to materialize in FY 14.

Earl K. Long Medical Center (EKL) Closure

Jennifer Katzman, Fiscal Analyst

Transition & Financing: In February 2010, LSU entered into a cooperative endeavor agreement (CEA) with Our Lady of the Lake (OLOL) for operation of EKL's inpatient indigent populations with the exclusion of OB/GYN services and prisoner care. OLOL is adding 100-140 new inpatient beds and plans to expand Graduate Medical Education (GME) once it assumes EKL's business. Under this arrangement, in addition to quarterly advance UPL payments for the upfront care costs of servicing LA's indigent populations, the Dept. of Health & Hospitals (DHH) has agreed to reimburse OLOL for 100% of UCC costs and 95% of Medicaid costs for inpatient services.

Closure of EKL and the transition of inpatient services were originally scheduled to take place in November 2013 (FY 14); however, with the reduction in FMAP rates in FY 13, HCSD is currently negotiating with OLOL to advance this transition date to take place in FY 13 by 4/15/2013. This will allow HCSD to close EKL ahead of schedule and save on labor and operational costs. In addition to amending the CEA in order to advance the transition date, HCSD is also negotiating with OLOL to take over operation and management of EKL's outpatient clinics. Financing rates and amounts paid to OLOL for operation of EKL's outpatient clinics is still being negotiated between DHH and OLOL; however, federal reimbursement of Medicaid and UCC costs through OLOL for the outpatient clinics will require approval of the Centers for Medicare & Medicaid Services (CMS).

Personnel Layoffs: There are 964 T.O. appropriated for EKL in FY 13, however, according to HCSD, due to destabilization from the FMAP reductions, there are only 834 personnel employed at EKL as of 1/30/2013. Once EKL closes and services transition to OLOL, these 834 personnel will be laid off from state employment (565 full-time, 269 part-time). HCSD plans to submit its finalized layoff plan to the state Civil Service Commission at its 3/6/2013 hearing with a projected layoff date of 4/14/2013. OLOL is obligated under the CEA to give EKL's current employees first consideration for employment.

Prisoner Care: Prisoner care is not contemplated under the existing CEA with OLOL. As a result, HCSD's current plans for EKL prisoner care is to work with the Dept. of Corrections to increase utilization of on-site prison clinics and telemedicine, and transport prisoners to Lallie Kemp Regional Medical Center if deemed medically necessary. In FY 12, EKL had 2,130 prisoner visits and expended approximately $11.7 M ($8.5 M budgeted for FY 13). Prisoner care is reimbursed with 100% SGF. For further details on statewide prisoner health care costs and procedures, see article titled "*Correctional Care*."

Mental Health Emergency Room Extension (MHERE) Unit: Currently at EKL, the Capital Area Human Services District (CAHSD) owns and operates a 10-bed MHERE unit attached to the Emergency Department. This unit redirects critical behavioral health patients that enter the ER to a more stable environment so that they do not immobilize needed ER beds that are necessary for other emergency health issues. Once the patients are stabilized, CAHSD arranges for follow-up care in the community or residential treatment as necessary. Based on information provided by CAHSD, the MHERE unit served more than 3,400 patients and saved the state approximately $20.6 M by avoiding hospitalizations for 68% of the patients admitted to the emergency department. Once EKL closes, the MHERE unit will not have a place to operate though CAHSD is working to find a new location. Through emergency rule, CAHSD anticipates being able to operate under a new crisis receiving center license that does not require proximity to a hospital or emergency department by 3/20/2013.

Closing Costs: Liabilities for which the state will still be responsible after EKL closes include retirees' insurance premiums & health insurance (estimated at $3,607,610 for all current and eligible retirees as of 6/30/2013) and termination pay (estimated at $3,917,048 under Civil Service rule 11.10). Currently, retiree insurance is funded through various payor mixes such as Medicaid and UCC, which have a Federal match component to mitigate state expenditures. Once EKL closes, these revenues will no longer be available for EKL's retirees, HCSD will have to pay retiree insurance with 100% SGF. In addition to these costs, until the state is able to sell or lease the property, certain costs associated with security, maintenance, and insurance with the Office of Risk Management (ORM) will continue to be paid by LSU HCSD (estimated at approximately $1,062,000 annually by HCSD). The market value of EKL is currently unknown; however, to increase sale potential, the state could choose to demolish the hospital in order to capitalize on land value. According the Office of Facility Planning & Control, it would cost the state an estimated $3,791,552 to demolish EKL's 18 buildings (236,972 square feet), which sit on 14.27 acres of land.

Land Sale Procedure: The LFO has requested confirmation from the Division of Administration's Office of State Lands (OSL) whether the LSU Board of Supervisors has the statutory authority under R.S. 17:3351 to buy, sell or lease its properties without going through OSL. Under this authority, the proceeds of any sales or leases would go to LSU as self-generated revenues and not be deposited directly to the SGF. Outside of R.S. 17:3351, if the state decides to deposit the sale proceeds into the SGF, LSU would have to surplus EKL to the Division of Administration as nonessential immovable property (R.S. 41:140). Nonessential property is defined as "land and immovable structures thereon, the use of which is not indispensable to fulfillment of an agency's legally established functions," including if the "property has been closed, abandoned or neglected by the agency" (LAC 43:XXVII.3101). After the property has been determined nonessential, LSU and the OSL will have to adhere to the following procedures detailed under LAC 43:XXVII.3101-3102:

* OSL and LSU shall execute an agreement transferring EKL to OSL. Copies of this agreement shall be filed with the clerk of court for the Parish of East Baton Rouge.

* OSL must prepare a land management evaluation report giving recommendations for the best use or disposition of the property containing the following: property appraisal by public lands appraiser, a minimum acceptable bid (must be 90% of the appraisal), timber appraisal (if applicable), map &

legal description of the property, recommendations for best use or disposition, and method & reasons for possible sale.

* The report must be filed with the House and Senate Natural Resources committees and the representative and senator in whose district the property is located.

* In order to sell EKL, OSL must receive the written approval of both House and Senate Natural Resources committees within 90 days of the committees receiving the report.

REVENUE

FY 13 Major Revenue Collections Summary Through January 2013
Greg Albrecht, Chief Economist

January marks 7 cash months and approximately 6 accrual months of collections this fiscal year. Overall, January was a decent collections month; but only the second decent month so far this fiscal year. The year-to-date growth of the personal income tax remains ahead of forecast, but the general sales tax is still barely ahead of forecast on an accrual basis and behind forecast on a cash basis. Both of these taxes have been exhibiting a monthly seesaw pattern and a subsequent weak month can pull both of their year-to-date performance records below forecast. The next 2 months will be particularly important for the income tax, as February and March have become large refund months. A string of good months is necessary to make a trend, and the collections of these 2 taxes are still best characterized as erratic.

Although monthly corporate collections tell us little about annual performance and these monthlies exhibit wide variation, the only generally strong tax so far this year has been corporate. Even though January was a negative month, it is still and improvement over prior year. The forecast for this tax is modest and generally good monthlies are encouraging. However, 1/2 to 2/3 of these collections arrive in the last quarter of the fiscal year. Thus, confidence in this tax cannot typically be obtained until late in the fiscal year.

Both severance tax and royalty receipts disappointed in January. As expected, the year-to-date performance of the severance tax has begun to deteriorate relative to prior year as easy monthly comparisons have ended. Royalty receipts continue the weakness they have exhibited all year, likely a result of and weak gas prices, and seem unlikely to meet forecast.

Gaming receipts from riverboats, video poker, and slot machines were weaker in January, diminishing year-to-date growth, but still remaining positive and above forecast. Current performance is based on only 2 good months, but the forecast calls for only very modest growth. While these revenues may not disappoint this year, this discretionary spending still hasn't returned consistently.

Overall, after the 12/13/2012 REC downward forecast revision, total tax revenue for FY 13 is expected to drop by 0.9% from FY 12 actual collections, and general fund tax revenue is expected to drop by 1.1%. This is a year-over-year revenue drop expectation, not just a forecast drop for a given year, and is largely due to sub-par performance of the 2 taxes that largely reflect real-time economic conditions, sales tax (household and business spending) and personal income tax (employment and income generation). Although there has been some improvement mid-way through the fiscal year, it hasn't yet been enough to change the current forecast expectation.

EDUCATION

Impacts on Graduate Medical Education (GME) from Redesign of LA's Public Health Care System
Charley Rome, Fiscal Analyst

The LSU Board of Supervisors (BOS) is overseeing a redesign of LA's Public Health Care System. This redesign is being driven by significant reductions in state and federal funding for public health care services for uninsured and indigent patients. Most of the state hospitals in the Health Care Services Division (HCSD) in south LA are participating with nearby private hospitals to operate HCSD hospitals, provide care to uninsured/indigent patients and provide training to resident physicians. Similarly, the 3 northern state Hospitals under LSU Health Sciences Center Shreveport (LSUHSC-S) are in discussions with potential partners to ensure continued medical education and patient access to care. It is unclear how LSU's health care redesign will affect Graduate Medical Education (GME).

GME refers to formal medical education pursued by individuals who have earned a medical doctor (M.D.) degree. The medical school in New Orleans is accredited to contract its residency program with multiple teaching hospitals to garner access to sufficient volumes and varieties of patients. Historically, the New Orleans medical school has contracted with HCSD's seven public hospitals, related clinics, and some affiliated private hospitals. Through this structure, 813 total resident physicians receive GME training with 433 in the

HCSD hospitals. LSUHSC-S residency training programs are accredited within its university teaching hospitals and some targeted, approved partner-training programs. Through this structure, LSUHSC-S is currently training 536 residents.

According to LSU, the proposed partnerships between HCSD hospitals and private hospitals will continue the current New Orleans residency structure with their new partners. LSU has indicated that the partnerships will ensure access to a greater number of patients than the HCSD hospitals provide and strengthen their GME residency experience.

The details of the residency transition for 6 of the 7 HCSD hospitals are still in development through Memorandums of Understandings outlining the parameters of Cooperative Endeavor Agreements (CEAs) between the following 6 HCSD hospitals and proposed private partners: Interim LSU Hospital - University Medical Center in New Orleans, Leonard J. Chabert, University Medical Center in Lafayette, Walter O. Moss Medical Center, Earl K. Long/Our Lady of the Lake Medical Center, and Bogalusa Medical Center. Negotiations between LSU and proposed private hospital partners are ongoing, and LSU will not release specific information on proposed CEAs between LSU and potential private hospital partners. As such, many factors affecting the proposed health care redesign and GME remain unanswered without access to proposed CEAs.

The following issues and factors will not be known until the CEAs are finalized between LSU and proposed private hospital partners:

Ownership of Residency Slots: The state and LSU currently own and control residency slots. Without access to proposed CEAs, it is unclear who will own and control residency slots under the proposed health care redesign. There is a risk that LA could lose residency slots to other states if LSU and private hospital partners do not meet CEA requirements or either party chooses to end CEAs.

Payment of Residency Stipends and Resident Supervision Costs: LSU currently pays residency stipends and resident supervision costs with funds mostly derived from operation of state hospitals. LSU will continue to pay residency stipends and resident supervision costs under the proposed health care redesign. However, LSU will contract with private partner hospitals for payment of residency stipends and supervision costs for patient care in the proposed health care redesign. If the proposed public private partnership fail, and LSU is unable to find alternative private hospital partners, LSU will have no funding source for residency stipends and resident supervisory costs. LSU must pay these costs even if private hospitals cannot or will not reimburse LSU.

Patient Care Costs: Private partner hospitals will incur additional patient care costs because resident physicians will likely see a large number of uninsured and indigent patients. Without access to proposed CEAs, it is unclear how private partner hospitals will fund additional treatment costs incurred for uninsured and indigent patients under the care of resident physicians practicing in private partner hospitals.

Accreditation Issues: Residency training programs require that resident physicians treat a certain volume of patients. In the state's current system, much of this resident patient volume consists of uninsured and indigent patients. As mentioned above, private hospitals will incur additional costs to treat these uninsured and indigent patients. As such, private hospitals may face economic incentives to provide less care to uninsured and indigent patients. Residency programs may risk loss of accreditation if resident physicians do not treat enough patients in their medical training.

Community Pilots for Early Childhood Network
Mary K. Drago, Education Section Director

The state appropriated approximately $256 M in FY 13 through the Dept. of Education (DOE), Board of Elementary & Secondary Education, Dept. of Children & Family Services and the Dept. of Health & Hospitals from various means of financing for early care and education services for children. The funding is associated with programs such as Early Head Start, Head Start, Early Steps, LA-4 and other public school Pre-K classes. There has been concern about the varying quality, costs and access to these services, prompting the enactment of Act 3 of 2012, the Early Childhood Package. Act 3 requires the state to develop a comprehensive and integrated delivery system for early childhood care and education so there are unified standards, enrollment and funding by 2015. In the future, funding for programs receiving state or federal dollars will be based on performance.

The DOE is proposing 5 pilot networks for implementation of the Early Childhood Package, and will provide support to the pilots from 7/1/2013 to 6/30/2015. The pilots will be selected in Spring 2013. According to the DOE, each network will be comprised of one or more school districts and have a not-for-profit or governmental lead partner that will serve as the fiscal agent. Each pilot will be awarded from $80,000 to $250,000 to help develop the infrastructure for the assessments and enrollment processes, and coordinate resources of the network partners. It is anticipated the department will use dedicated 8(g) funds from the LA Quality Education Support Fund to provide the awards to the pilots. The pilot networks will agree to do the following: identify children (0-5 years of age) in need of services; adopt development and learning standards; participate in assessments; implement a unified enrollment process for all families; and provide data to support a statewide early childhood information system.

GENERAL GOVERNMENT

Capital Outlay Funding Limitations and Use of CCC Tolls
Deborah Vivien, Economist

Capital outlay projects are paid through the Capital Outlay Escrow Fund (COEF). Deposits into the fund include bond proceeds, cash, SGR, Statutory Dedications and Federal funds. In the past, there has been sufficient cash on hand and borrowing capacity to keep lines of credit funded between bond sales, even if the funds were not originally designated for those projects. In other words, cash on hand might be used temporarily for other projects but replenished with bond proceeds or other means at a later date. However, at this time, there is little money in the COEF beyond authorized cash lines of credit (about $27 M for DOTD projects and $68 M for Facility Planning) to allow cash flow, and it appears that the debt limit will soon constrain future borrowing capacity. SGF revenue from the 2007 and 2008 surpluses were deposited into the COEF providing liquidity when bond proceeds were running low, which is a major reason why this funding issue has not appeared in recent years. However, through the issuance of cash lines of credit, the surplus funds have now been depleted to the point that the necessary liquidity is no longer available. Because of the lack of cash flow and limited borrowing capacity brought about by decreases in state revenue, when available cash is now used to fund lines of credit for projects unrelated to that cash, replenishment may not occur in a timely manner. Thus, projects originally specified to be completed with funds deposited into the COEF may go unfunded.

One example of this occurrence is the recent transfer of a portion of the trust fund balance of toll collections from the Crescent City Connection (CCC), which was deposited into the COEF in January 2013. The CCC tolls were deposited into a trust to pay bonds related to the CCC. Tolls that accumulated in the trust after the bonds were paid as of 12/31/2012 ($31,278,965) were disbursed to the following funds: Capital Outlay Escrow Fund ($11,208,737), DOTD Operations ($12,788,759), and the Crescent City Transition Fund ($7,281,469). According to Act 866 of 2012, the CCC tolls in excess of those required to pay the CCC indebtedness as of 12/31/2012 had a specific purpose. The first $4 M would be appropriated for use by DOTD to fund the ferry service formerly operated by the CCC Division within DOTD. The balance was to be appropriated through the newly created Crescent City Transition Fund for use by DOTD under the advisory of the New Orleans Regional Planning Commission for lighting and maintenance of the approaches and connecting arteries. In January 2013, 77% of the toll trust fund balance was transferred to the DOTD budget and COEF to cover existing operating expenses and capital projects identified by DOTD as being related to the CCCD.

Once these toll funds were deposited into the COEF, they were used with other DOTD funding and for all DOTD projects. As stated above, typically, these funds are replaced as needed with either bond proceeds from additional bond sales or with cash. However, new bond issues appear to be constrained by the debt limit and it is doubtful that cash is available to replace the funds if they are needed.

Note: Per Act 866 of 2012, the first $10 M collected in new tolls (after 12/31/2012) will be deposited annually into the Crescent City Capital Projects Fund and may be used to secure bond funding. If there is no underlying guarantee or payment by the state, this would not be considered Net State Tax Supported Debt and therefore not impacted by the debt limit. These bond proceeds could be used to fund allowable CCC projects, some of which may be those projects that were not able to be completed with old toll money, though these projects technically would have been funded twice using this mechanism.

Cash Balance Plan – Social Security Equivalency Test
J. Travis McIlwain, General Govt. Section Director

In the Fall 2012, the Division of Administration (DOA) (through its contract attorney Baker Donelson) submitted a request to the Internal Revenue Service (IRS) on whether or not the Cash Balance Plan (CBP) as it was enacted in Act 483 of 2012 is an equivalent retirement program to Social Security. The current Defined Benefit Plan (DBP) is considered a social security equivalent plan. Thus, all state employees participating in the traditional state pension plan do not pay the Federal Insurance Contributions Act (FICA) tax nor does the state pay the employer portion of the FICA tax (6.2% employee portion/6.2% employee portion, 12.4% total).

In its letter to the IRS, the DOA contract attorney argues that the CBP meets the equivalency test under the defined contribution components. One of the test components requires that allocations to the employee's account (exclusive of earnings) must equal at least 7.5% of the employee's compensation. The DOA contract attorney argues the CBP meets this requirement due to the fact that member's account will be credited with an amount equal to 12%. However, the CBP could be considered a type of DBP with some defined compensation plan components. Nebraska is the only other state in the country with an existing CBP (since 2003) and its participating members pay into social security. In addition, Kansas enacted legislation creating a CBP, which becomes effective in 2015. All of the Kansas participating CBP members will contribute to FICA as do its current DBP members.

If the plan is not considered a social security equivalent plan, then the state and its CBP participants will be required to pay the FICA tax. Due to this plan rolling out to newly hired employees on 7/1/2013, the DOA has requested an expedited ruling from the IRS. Although no social security equivalency for the CBP has been ruled on by the IRS to date, the DOA anticipates the plan going into effect on 7/1/2013 regardless if a ruling has been issued. The DOA anticipates a Spring/Summer 2013 ruling.

Note: There may be an indeterminable fiscal impact if the IRS rules that the CBP is not a social security equivalent retirement plan. If the CBP begins in July 2013 and the IRS ruling is completed after the plan has begun, the retirement systems believe the 12.4% will be retroactively due from the time at which the ruling is made back to 7/1/2013 (enactment date of CBP). For example, if employee John Doe starts an entry level job making $2,500/month ($30,000/year) and the ruling is issued in January 2013, the systems believe the employee and state will be required to contribute $930 each to SS for back FICA tax due from July 2013 to December 2013. The DOA believes this will not be an issue as they anticipate a ruling prior to 7/1/2013.

For example, if the plan goes into effect on 7/1/2013 without a ruling, based upon the latest actuarial valuation of the LASERS, CBP participating individuals will be contributing 8% and the state will be paying 27.8% (normal cost – 2.3%, UAL portion – 25.5%). If the IRS rules that the CBP is not a social security equivalent plan, then the state and employee will be required to pay the FICA tax. Thus, the cost of the CBP is higher than originally anticipated for the employee and the state. CBP participating individuals will be contributing 8% and paying the 6.2% FICA tax (14.2% total), while the state will paying 34% (2.3% - normal cost, 25.5% - UAL, 6.2% - FICA). For context, the total employer contribution projected in FY 14 for the traditional rank & file defined benefit participants as projected in Fall 2012 by their actuary is 31.3% for LASERS (25.5% UAL/5.8% employer normal cost). *Essentially, if the IRS ruled against social security equivalency for the CBP, it will cost the state more on an aggregate basis than the existing traditional rank & file LASERS DBP.*

FY 12 Calculated Surplus
Greg Albrecht, Chief Economist
Travis McIlwain, General Govt. Section Director

At the October 2012 JLCB meeting, the Division of Administration (DOA) reported a preliminary FY 12 year-end budget surplus of approximately $143.3 M. However, at the January 2013 JLCB meeting, the DOA reported a FY 12 year-end surplus of approximately $113.2 M, which is approximately $30.1 M less than originally anticipated. The majority of the difference is due to $25.2 M of pending fund transfers associated with Executive Order BJ 2011 – 25 (December 2011) that have not taken place to date and $4.95 M of Average Wholesale Price (AWP) legal settlements that have been collected by the Attorney General, but have not been officially transferred into the SGF.

Executive Order BJ 2011-25 was signed in December 2011 in an effort to resolve the FY 12 mid-year budget deficit problem of approximately $251.3 M. Approximately $38.2 M of this FY 11 SGF problem is funded by cutting various statutorily dedicated appropriations and transferring these funds to the SGF. As mentioned above, $25.2 M of these transfers has not taken place due to lack of funds for the State Treasury to transfer. Because the Executive Order has not expired, these resources should be transferred into the SGF. However, based upon the past fiscal year's revenue collections and expenditures of these Statutory Dedications, the excess funds may not be available for the State Treasury to transfer. The majority of the funds not transferred are from the Transportation Trust Fund (TTF – Regular) in the amount of $24,418,675. These anticipated excess funds resulting from the FY 11 mid-year reduction plan never materialized. In fact, even after the $24.4 M operating budget reduction in TTF – Regular in December 2011, DOTD did not expend up to appropriated budget authority due to lack of revenue collections. In addition, the TTF – Regular prior year cash carry over into FY 13 was approximately $0.9 M, while the 5-year average of prior year cash carry over into the next fiscal year has averaged $68.5 M (FY 08 - $79.2 M, FY 09 - $54.8 M, FY 10 - $104 M, FY 11 - $53.9 M, FY 12- $50.6 M, FY 13 - $0.9 M). *See Alan Boxberger's write-up in this edition of Focus on the Fisc for details concerning the lack of TTF resources available for transfer.*

Act 597 of 2012 provides for the transfer of legal settlement proceeds from 6 identified AWP legal cases listed in the Act to be transferred into the SGF (effective in FY 12). According to the DOJ, the total amount of these 6 cases is $27.25 M of which $4.95 M will essentially come from DOJ's settlement proceeds.

Act 597 also required the Consensus Revenue Estimating Conference (REC) to promulgate FY 12 actual revenue collections. The treasurer is then directed to transfer the difference between actual collections and those officially forecast for FY 12 on 4/24/2012, up to a maximum of $204.7 M into the Budget Stabilization Fund. This language effectively pays back any unnecessary amount that was withdrawn from the Fund late in FY 12 to support the FY 12 budget. The amount of excess collections subject to the provisions of Act 597 is $125.5 M. To date, the REC has not yet addressed this issue, and this excess is now a component of the FY 12 year-end surplus.

Traditionally, the REC recognizes and designates surplus balances as nonrecurring revenue. Funds so designated become subject to the constitutional provisions for use of officially designated nonrecurring money: 25% to the Budget Stabilization Fund, and various forms of debt retirement and capital outlay. The administration had indicated that it wanted to use $94 M of these excess collections to help resolve the current fiscal year federal Medicaid funding problem that impacted the FY13 budget shortly after its enactment.

Note: After the FY 12 prior year surplus had already been calculated, the DOJ/State Treasury transferred $3 M of its $4.95 M into the SGF. To date, the remaining portion to be transferred from these 6 cases is $1.95 M.

Inability to Withdraw Transportation Trust Fund (TTF) Proceeds (FY 12 Deficit Reduction Plan)
Alan Boxberger, Fiscal Analyst

Pursuant to the FY 12 mid-year deficit reduction plan approved by the Joint Legislative Committee on the Budget (JLCB) on 12/16/2011, the LA Department of Transportation & Development's operating budget realized a reduction of $24.4 M of TTF-Regular expenditure authority. These funds were to be used to offset SGF reductions pursuant to R.S. 39:75(C)(2)(b), wherein the Governor may, with approval of the JLCB, exercise a 5% reduction in Statutory Dedications in order to offset any projected deficit caused by changes in the state's revenue forecast.

The State Treasury attempted to withdraw $24.4 M of TTF cash during FY 12 pursuant to R.S. 39:75(C)(2)(e). However, actual TTF revenue collections during FY 12 did not equal or exceed the department's budget authority after the deficit reduction action. Accordingly, the state treasurer was unable to withdraw the cash due to non-collection of revenues.

The State Treasury reports that it interprets Executive Order BJ 2001-25 and subsequent JLCB action on the mid-year deficit reduction to be open-ended. Thus, the State Treasury will continue monitoring TTF revenue collections in perpetuity until such time as it is able to extract the assigned $24.3 M in TTF for deposit into the SGF. This action can be done in whole, if revenues exceed appropriation authority by more than $24.3 M, or incrementally over a number of fiscal years if excess collections fall below the $24.3 M threshold. The withdrawal can also occur in any fiscal year wherein departmental expenditures fall below the appropriation authority assuming sufficient revenues support the withdrawal. Barring additional legislative or executive action to eliminate the obligation, the $24.3 M charge against the TTF will be carried forward as a legal obligation of the department until such time as there is sufficient cash to fully liquidate the balance due. *Based upon FY 12 revenue collections and expenditures, it appears that this $24.3 M transfer may not take place in FY 13 or in future fiscal years unless DOTD collects TTF revenues in excess of current expenditure authority.*

Act 597 Action Not Materialized (Update)
Travis McIlwain, General Govt. Section Director

In the January *Focus on the Fisc*, the LFO indicated that there were approximately $281.4 M of funds bill resources that have not been transferred to the SGF, Medical Assistance Trust Fund (MATF) or Overcollections Fund that have been appropriated in FY 12 & FY 13. Based upon updated information provided to the LFO by the State Treasury, to date there are approximately $278.4 M of funds bill resources that have not been transferred to the SGF, MATF or Overcollections Fund that have been appropriated in FY 12 & FY 13.

Act 597 transfers approximately $258.5 M from various resources into the SGF. *To date, there is approximately $67.7 M (or 26%) of resources that have been transferred into the SGF for expenditure*. Some of the significant funding items ***not*** transferred include: $56 M – Risk Management's Self-Insurance Fund; $10 M – Proceeds from NOAH sale; $1.95 M – Proceeds from 6 Average Wholesale Price (AWP) settlements *(State Treasury received $3 M from the Department of Justice in January)*; $78.3 M – bond repayments; and $10 M – FEMA Reimbursements.

Act 597 transfers approximately $79.5 M from various resources into the MATF. *To date, there is approximately $42.9 M (54%) of resources that have been transferred into the MATF for expenditure*. Some of the significant funding items ***not*** transferred include: $20 M – Ernest Morial Exhibition Hall Authority; $25.9 M – bond repayments; and $6.7 M – various fund transfers.

Note: A large portion of the $42.9 M transferred into the MATF comes from collecting $38 M of Average Wholesale Price (AWP) legal settlements. Act 13 (HB 1) only appropriates $22 M of these resources from MATF within DHH.

Act 597 directs the state treasurer to transfer $41.1 M into the Overcollections Fund. *To date, there is approximately $6.1 M (15%) of resources that have been transferred into the Overcollections Fund for expenditure.* The significant funding item not transferred includes: $35 M – Sale/lease of NOAH. In addition to NOAH, Act 597 directs the state treasurer to transfer proceeds from the sale of the former DOI building site, excess receipts over $10 M from FEMA reimbursements and excess receipts over $56 M from the Self-Insurance Fund. These additional items have not taken place and are not currently included in the FY 13 operating budget.

Note: To the extent these Act 597 resources do not materialize, the FY 13 SGF budget could finish the fiscal year in a deficit posture unless expenditures are reduced or another resource is identified.

Bond Premium Replacement
J. Travis McIlwain, General Govt. Section Director

One of the major funding sources supporting the FY 13 budget is an approximately $68.2 M bond premium received at the end of FY 12. In its monthly Fiscal Status Statement presented to the Joint Legislative Committee on the Budget (JLCB), the Division of Administration (DOA) "nets" this revenue source against the FY 13 debt service payment. Thus, the current projected debt service payment (as presented in the Fiscal Status Statement) is approximately $235.4 M as opposed to the actual projected FY 13 payment of approximately $304 M. This bond premium resource will likely require additional SGF or another unidentified source funds in FY 14 in order to pay the projected FY 14 General Obligation (GO) debt service payment. According to the latest GO debt service payment schedule for FY 14, the anticipated payment is projected to be $324.7 M. This projection is subject to change as some of the debt instruments have variable interest rates.

Included within the FY 14 Continuation Budget, the DOA is assuming an additional SGF need of approximately $90 M for GO debt service payments in FY 14, which equates to an FY 14 payment of approximately $324.7 M. The additional $90 M is calculated as follows: $68.2 M – replacing bond premium revenue with SGF (discussed above); $21.9 M – additional SGF need to meet current projected FY 14 debt service payment, which is ultimately projected to increase from $304 M in FY 13 to $324 M in FY 14 (see table below).

FY 13 Funding Resources:	
FY 12 Bond Premium	$68.2 M
FY 13 SGF	$235.4 M
Total Projected GO Payment	$303.6 M
FY 14 Potential Funding Resource:	
FY 14 SGF	$324.7 M
FY 14 Projected GO Payment	$324.7 M

Based upon the tables above, the FY 14 GO Debt Service Payment will require approximately $90 M more in SGF resources than what is currently being allocated in the current year, FY 13. The DOA has accounted for this in the FY 14 Continuation Budget.

Note: The FY 14 recommended SGF for GO Debt Service is approximately $338.9 M. According to the Executive Budget documents, the DOA is including an additional $14.2 M for an anticipated bond sale in FY 14. The LFO is in the process of gathering additional information relative to this information.

Transfers from the LA Self-Insurance Fund
Charley Rome, Fiscal Analyst

The LA Office of Risk Management (ORM) maintains a self-insurance fund to pay for liability claims against the state and to cover damages to state buildings and property. LA also procures insurance from private insurance companies for liabilities and damages against the state exceeding certain thresholds.

In FY 11 the Legislature transferred $119 M from the state's self-insurance fund to other funds for uses unrelated to paying insurance claims. Act 597 of 2012 authorized transfer of an additional $56 M from the state's self-insurance fund to the SGF for uses unrelated to paying insurance claims. The $56 M transfer from the self-insurance fund in FY13 has not taken place at the time of this publication due to ongoing litigation between the state and some insurance companies related to state insurance claims disputed by these carriers.

These transfers from LA's self-insurance fund may threaten the state's ability to pay for disaster related projects to repair and replace state assets and facilities in the future. Transfers from the state's self-insurance fund jeopardize funding of disaster related state projects in the future because the Federal Emergency Management Agency (FEMA) offsets federal disaster payments to LA by amounts of insurance claim proceeds paid to LA by the state's private insurance carriers for such disaster related projects. As such, amounts transferred from the fund may not be available to pay for disaster related state projects in the future.

The LFO is unable to identify which state disaster related projects might face funding shortfalls in the future with information currently available. Furthermore, the LFO is unable to determine when state disaster projects may face funding shortfalls due to transfers from the state's self-insurance fund with information currently available. The LFO has requested detailed information from ORM to ascertain which state disaster project might be affected and when they might be affected. ORM has not provided the information requested by the LFO at the time of this publication. The LFO will provide future updates relative to information obtained from ORM and impacts to state disaster related projects in the future.

HEALTH & HOSPITALS

Correctional Care
Stephanie Blanchard, Fiscal Analyst
Jennifer Katzman, Fiscal Analyst

Corrections Expenditures and Process: The amount budgeted for health care in the Department of Corrections (DOC) in FY 13 is $45,313,460. This funding is allocated to each of the 8 facilities. Pharmacy operations are budgeted by region (LA State Penitentiary and Elayn Hunt Correctional Center). The amount budgeted for pharmaceuticals in FY 13 is $4,404,689 and is included in the total health care budget.

For Local Housing of State Offenders, the per diem of $24.39 per offender per day is a flat rate paid for operational costs. Local Housing of State Offenders is budgeted $1.5 M for extraordinary medical expenses in the local facilities, and for Orleans Parish Prison only, local housing is budgeted $2 per day for medical cares and $7 per day for psychiatric care at the prison.

In FY 12, there were 21,606 DOC hospital or telemedicine visits. Of this amount, 15,300 were scheduled specialty visits, 1,948 were emergency visits, 811 were emergency room admissions, 210 were elective admissions, and 3,337 were telemedicine appointments. Scheduled specialty visits include visits to specialist's clinics and/or diagnostic testing. Elective admissions include scheduled surgeries. Telemedicine appointments occur on-site with the use to technology, instead of having to go off-site. This information does not include the Local Housing of State Adult Offenders in local correctional facilities.

Access to Care and Clinical Services is a service that provides access to health care, routine and emergent on a daily basis by the DOC. This service is provided on designated days and times throughout the week at each facility. Primary care physicians are also available either on-site or on call.

HCSD Expenditures & Process: For the 7 HCSD hospitals and the prisons and jails in the south, all requests for routine appointments or tests are routed through the HCSD Central Prisoner Scheduling Office (CPSO). CPSO reviews all requests for appropriateness and to assure all pre-testing and information is complete and to determine if the initial evaluation can be done using telemedicine or whether a clinical or hospital visit is required. Depending on this determination, CPSO will schedule the necessary appointment via telemedicine or refer to the closest clinic. In FY 13, the total cost for the prisoner telemedicine program at HCSD is about $900,000. The budget provides for the physician providers from the School of Medicine, the physician's clinical staff, the technical staff and network that the telemedicine clinics require to operate, and some of the costs of the review functions at the CPSO. According to HCSD, the total number of telemedicine visits in 2012 was 4,573. As a result of the telemedicine clinics, which started in FY 10, the total number of prisoner face-to-face visits has decreased by 6,563 at the HCSD hospitals and clinics. In FY 12, $29,230,763 in SGF was expended on prisoner care at HCSD, and there is currently $26 M in prisoner health care costs projected for FY 13. As these costs are unallowable for reimbursement through Medicaid or DSH, they are 100% state funded.

Southeast LA Hospital (SELH) Privatization Update
Jennifer Katzman, Fiscal Analyst

On 12/3/2012, a cooperative endeavor agreement (CEA) was signed between DHH and Meridian Behavioral Health Services for the continuing operation of SELH in Mandeville beginning 1/2/2013 through 1/1/2016. SELH was originally scheduled to close in FY 13 due to an allocated cut as a result of the federally mandated FMAP reduction. In anticipation of closure, 60 intermediate adult beds transferred to Central LA State Hospital (CLSH), 34 to Eastern LA Mental Health System (ELMHS), 8 to River Oaks Hospital, 8 to Community Care Hospital, and 8 to the Bogalusa Medical Center in October of 2012 (118 beds total). DHH conservatively estimated an initial SGF savings of $555,893 ($1.6 M total MOF) as a result of personnel reductions. As a result of privatization, OBH anticipates that SELH's budget will be reduced as follows in FY 14:

	FY 13 Appropriated	FY 14 Requested
SGF	$9,088,467	$5,578,849
IAT:	$38,066,523	$0
Medicaid	*$2,000,000*	*$0*
UCC	*$35,436,523*	*$0*
Other	*$630,000*	*$0*
SGR	$3,146,893	$0
Federal	$681,247	$438,119
Total	**$50,983,130**	**$6,016,968**

Note: In the FY 13 mid-year cut, $8 M in IAT from UCC was transferred to ELMHS & CLSH in order to fund the transferred beds. The $6 M requested for FY 14 is to make continued payments on ORM premiums, OGB retiree insurance, and maintenance under landowner liability (e.g. underground storage tanks for water, fuel & diesel) and for 6 T.O. that are performing continuing maintenance and close-out. This will result in an overall reduction of approximately $37 M to OBH in FY 14.

Under the CEA, Meridian staffs the remaining 58 beds including: 16 acute adult beds, 22 acute adolescent beds, and 20 adolescent DNP (Developmental Neuropsychiatric Program) beds at SELH. As a result of privatization, the following classified 547 T.O. were eliminated from state employment as of 1/2/2013:

* 51 probational positions (3 were terminated or resigned prior to 12/9/2012)
* 328 permanent positions (2 individuals resigned prior to 1/2/2013)
* 35 vacant positions
* 133 positions were transferred to ELMHS & CLSH (only 40 were filled)

According to DHH, of the employees laid off, Meridian rehired 125 former SELH employees. Under the CEA, Meridian receives payments for Medicaid services via the Statewide Management Organization (SMO) under the LA Behavioral Health Partnership. The state will also pay Meridian a per diem rate of $581.11 for uninsured patients not covered under Medicaid, Medicare, or a commercial payor and for service costs not fully covered by the SMO. The average cost per day at SELH before privatization was approximately $826, which generates a savings of $244.89 per patient/per day, or a maximum of $5.2 M annually if Meridian maintains a 100% daily census of uninsured patients.

LSU Hospital Reductions & Partnerships Update
Jennifer Katzman, Fiscal Analyst

LSU intends to partner with community and private providers to eliminate the need for hospital bed and service reductions (originally estimated at approximately $59.3 M SGF). Currently, there is a Memorandum of Understanding (MOU) in place with the following private non-profit hospitals (the "lessees") for the HCSD hospitals listed below:

* University Medical Center (UMC) - Lafayette General (Lafayette)
* Interim LA Hospital/University Medical Center (ILH) - LA Children's Medical Center (New Orleans)
* L. J. Chabert (LJC) - Ochsner Health System & Terrebonne General Medical Center (Houma)
* Earl K. Long (EKL) - Our Lady of the Lake (Baton Rouge)
* W.O. Moss (WOM) - Lake Charles Memorial (Lake Charles)

According to the MOUs, each private organization will lease and operate the state facilities via a cooperative endeavor agreement (CEA) to be signed by March 2013. The MOUs with UMC, ILH, and LJC were amended on 2/1/2013 in order to delete the milestone payments owed by the lessees to LSU in FY 13. According to LSU, due to high attrition in the hospitals resulting from the hospital partnership negotiations, LSU's costs are lower than anticipated and it will no longer need the milestone payments in FY 13. The MOU with Our Lady of the Lake (OLOL) emphasizes amending the current CEA that has been in place since February 2010 in order to make the move from Earl K. Long (EKL) to OLOL by 4/15/2013 instead of November of 2014. This MOU also contemplates that the operation of all of EKL's outpatient clinics will now be undertaken by OLOL. The LSU Board of Supervisors approved the MOU between WOM and Lake Charles Memorial on 2/1/2013. There are currently no MOUs developed between private partners and Washington/St. Tammany Regional Medical Center or Lallie Kemp Regional Medical Center. According to testimony by LSU before the Joint Legislative Committee on the Budget (JLCB), it is LSU's intent to retain Lallie Kemp as a safety net hospital and not lease it to a private partner. The LFO will continue to monitor current and future partnerships as they develop.

New Criteria for the Family Flexible Funds (formerly Cash Subsidy Program)
Patrice Thomas, Fiscal Analyst

The mid-year deficit reduction decreased $170,280 in SGF from the Flexible Family Fund Program (FFFP). The program provides a small stipend of $258 per month to assist families with children with severe or profound disabilities to offset the extraordinary costs of maintaining a child in their own home in the community. The budget reduction implements new eligibility criteria for the FFFP. Previously, the only criteria to receive Flexible Family Funds (FFF) was having a severe or profound disability as outlined in R.S. 28:451.1-455.2. Under the new criteria, children whose family income exceeds 650% of the Federal Poverty Level (which is an annual income of almost $150,000 for a family of 4) will no longer be eligible for the program. Also, children who receive home and community-based Medicaid waiver services (Children's Choice or NOW) will no longer be eligible for the program. Therefore, children receiving waiver services will not be able to receive both waiver services and FFF. These changes apply to children currently receiving FFF as well as to new children applying.

The Office for Citizens with Developmental Disabilities (OCDD) reports that there are 1,563 slots offered for FFF. As of January 2013, 1,287 families were receiving FFF and 276 slots were vacant. Before implementation of the new criteria, OCDD estimated that approximately 55 families will become ineligible to receive FFF under the new financial eligibility criteria or that will choose to forego the FFF to stay in a waiver slot ($170,280 = 55 families x $258 per month x 12 months). So far, a total of 34 families have become ineligible to receive FFF. Another 87 families previously receiving FFF did not submit the required financial documentation to qualify under the new criteria. Therefore, a total of 121 children and their families no longer receive FFF. Any savings above the $170,280 generated by implementing the new eligibility criteria in the FFFP will be used to address the waiting list of the program with the 276 vacant slots.

LA Behavioral Health Partnership (LBHP) Status Update
Jennifer Katzman, Fiscal Analyst

Under the LA Behavioral Health Partnership (LBHP), services are managed and coordinated by a single managed care entity known as the State Management Organization (SMO), which was awarded to Magellan Health Services. Magellan is responsible for providing behavioral health services to an estimated 100,000 adults and 50,000 children, including 2,400 in the Coordinated System of Care (CSoC) once the LBHP is implemented statewide in FY 14. The SMO enrolls members in need of services, enrolls Medicaid providers to deliver services, and manage all services for providers.

Services and treatments covered under the LBHP include Early Periodic Screening, Diagnosis, & Treatment (EPSDT) for medically necessary mental health and addiction treatments for children, Psychiatric Residential Treatment Facilities (PRTF) & Therapeutic Group Homes (TGH) for youth under 21, school-based behavioral health services, and adult behavioral health services including major mental disorders and addiction services. Excluded adult populations include: refugee cash and medical assistance programs, tuberculosis populations, Qualified Disabled Working Individuals, alien emergency room services, public and private ICF/MR services, low income subsidies (welfare), family planning, public or private ICF/DD services, or Greater New Orleans Community Health Connection (GNOCHC) services. Also excluded are some adult populations with some other form of insurance that are not dually diagnosed, including Long Term Care co-insured, persons in PACE or Social Security's Supplemental Security Income (SSI) program, adults under LaCHIP Phase IV, and persons with Medicaid coverage of Medicare Part B including Specialized Low-Income Medicare Beneficiaries (SLMB), Qualified Medicare Beneficiaries (QMB), and Qualified Individuals-1. The same exclusions apply for children's populations with the exception of ICF/MR and ICF/DD services for children, which are covered under the LBHP.

In FY 13, there is $384,845,287 allocated in the Medicaid Medical Vendor Payments (MVP) Buy-Ins Program via a selective services 1915(b) Medicaid waiver for the LBHP. However, according to the most recent Medicaid forecast in December 2012, only $333,303,830 in FY 13 total expenditures is anticipated. As a result, there is an estimated $51,541,457 in excess budget authority allocated to the LBHP for FY 13. According to DHH, the reasons for the difference are 2 month's delay in the start-up of the LBHP and slower than anticipated enrollment of residential providers including therapeutic group homes and psychiatric residential treatment facilities. Additionally, the CSoC has not been implemented in half of the planned service regions.

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FOCUS POINTS

Administration Proposes Tax Reform
Greg Albrecht, Chief Economist

The administration is currently exploring various significant changes to the state tax code in preparation for the next legislative session. The centerpiece of these ideas is elimination of the state personal income tax and corporate taxes in exchange for an increase in the state sales tax rate and/or base. Aggregate revenue neutrality is a stated goal. While no specific legislation has yet been proposed, some general observations can be made with regard to the discussion of such a tax swap.

Simply on the basis of official revenue forecasts of net collections, the sales tax and the income/corporate tax are both roughly $2.9 B. Thus, a doubling of the sales tax rate would be required, in the absence of any tax base expansion. This simple tax swap scenario results in an allocation of the tax reductions and increases across three broad groups in the economy: resident households, businesses, and tourists. From a simple static analysis and direct imposition perspective, resident households will benefit from virtually all of the personal income tax reduction and will pay just under half of the sales tax increase. Businesses will benefit from virtually all of the corporate tax reduction and will also pay just under half of the sales tax increase. Tourists will receive no benefit from the income tax reduction, and will pay a small portion of the sales tax increase. Nonresident income tax filers are not included in these observations.

With respect to households only, the distribution of such a tax swap will likely result in a net increase in tax burden on households with less than $20,000 to $30,000 of federal adjusted gross income (nearly half of all filers), while households over that income range will likely face a decreased state tax burden (a little over half of all filers). Results vary depending on factors such as household filing status, where single filers are likely to breakeven between $10,000 and $20,000, joint filers likely breakeven between $30,000 and $50,000, and head-of-household filers likely breakeven between $20,000 and $30,000.

In order to avoid a full four-point increase in sales tax rate, the administration has suggested the possibility of expanding the sales tax base into currently exempt transactions. The Dept. of Revenue Tax Exemption Budget lists some one hundred sales tax exemptions that are reported together as "other totally tax-exempt transactions" on the sales tax form. Individual values are not known but as a group these exemptions are reportedly worth over $800 M of sales tax at the current 4% rate. Subjecting all of these transactions to tax could offset the need for a full one-point of sales tax rate increase. However, this reported value should be viewed cautiously given that it has not been carefully detailed across the many exemptions it reflects. While these exemptions are varied, large portions of their value would likely be represented in areas such as agriculture (feed, seed, and fertilizer etc.), oil & gas activities (drilling rig materials and repairs), and ships & vessels components and servicing. Other material value is likely from sales in the Superdome and other public facilities, sales of newspapers, custom computer software, and purchases by private colleges, among numerous other exempt transactions. To the extent any of these exemptions are eliminated, the necessary sales tax rate increase can be smaller and still generate sufficient revenue to offset the elimination of income and corporate taxes.

A few other sizable exemptions are individually itemized on the sales tax form, and if subjected to taxation could help dampen the overall rate increase. These transactions include the constitutional exemptions of food for home consumption ($334 M), residential utilities ($145 M), and prescription drugs ($239 M), as well as statutory exemptions for business utilities ($300 M), manufacturing machinery ($25 M), and sales for subsequent lease/rental ($10 M). However, the administration has indicated that these exemptions are not being considered as they serve to benefit low-income households and business-to-business transactions.

The administration has also suggested the possibility of expanding the sales tax base into services that are not currently defined in the tax base. This can also allow the tax swap to occur with something less than a four-point increase in the sales tax rate. Subject to numerous specific exceptions, a number of services are already taxed by the state, such as hotel rooms, admissions to amusement, recreational, and entertainment events, parking charges, printing/copying, laundry and cleaning, and repairs to autos & appliances. Additional services that might be newly subject to tax have not been specified, but a review of services taxed by Texas can be informative as to other services that might be considered. With exceptions of its own, services subject to sales tax in Texas include cable & satellite television, data processing, news and other information, various insurance related activities, internet access, credit reporting, debt collection, and various security related activities. The administration does not appear to be considering various areas of professional services such as medical care, legal, accounting, consulting, advertising, credit & financial, real estate, scientific and technical etc. As the economy has become increasingly more service oriented, there is likely substantial service sector tax base; however, a material portion of this base will likely reflect business-to-business transactions and, regardless, it is unlikely that any estimates of potential tax base/receipts can be developed with high confidence levels associated with them.

New revenue has also been suggested by the administration, namely an increase of the tobacco tax on cigarettes; currently, at 36¢ per 20-pack. A specific amount of rate increase has not been proposed, but any additional revenue can offset some of the necessary sales tax rate increase or base expansion. However, such a revenue measure can only offset a portion of the necessary sales tax increase. A $1.00 per pack increase proposed in 2009 was estimated at the time to generate additional revenue equivalent to only 26% of the average yield of one percentage point of sales tax rate. In general, the ability to offset the necessary sales tax rate and base expansions by raising other existing revenue sources seems limited.

In addition, the administration has suggested retaining selected programs that are charged against the gross collections of the income and corporate taxes. Major examples of these programs are the reimbursement of local property taxes paid on inventories ($350 M), the reimbursement of a portion of expenditures made by film productions ($220 M), and the support paid to low income households eligible for the federal earned income credit ($45 M). Numerous such programs are administered by various state agencies, and may be considered for retention, along with other traditional tax exemptions and credits. The administration has not specified what it wants to retain. To the extent any such programs are retained, the necessary sales tax rate increase, base expansion, or new revenue will have to be larger in order to generate more revenue than is being foregone in income taxes so that these programs can continue to be funded.

Along more general lines, the current personal income tax is a progressive tax and the current sales tax is a regressive tax. The two taxes combine to make the distribution of household taxation in LA essentially proportional. Elimination of the income tax will leave a tax system that is regressive with respect to households. The retention of exemptions for home food, utilities, and drugs cannot make the sales tax progressive. These exemptions exist with the regressiveness of the current sales tax. Likewise, retention of the benefit-equivalent of the earned income tax credit does not moderate the impact of higher sales taxes on low-income households. These households receive this benefit now with the current sales taxes, and would receive the benefit in the future but pay higher sales taxes. To ameliorate the impact of the tax swap on low-income households would require additional sales tax exemptions targeted to those households and/or an increase in the low-income tax credit benefit-equivalent. Additional exemptions or expanded benefits will ultimately require additional sales tax rate or base.

With regard to the issues of revenue stability and growth, the research is mixed and many nuances are influential in particular findings. In general, both sales taxes and income taxes move with the economy, sales taxes tend to exhibit less average volatility than income taxes, while income taxes tend to exhibit greater average growth than sales taxes. Much of the stability of sales taxes is attributable to the taxation of residential food and utilities, both of which are exempt in LA. Much of the volatility of income taxes is attributable to the taxation of capital income, which LA has in lower proportion than do other large states that tend to dominate these analyses. In addition, LA is one of the few states that allows full deductibility of federal income taxes paid, which ties us to federal income tax changes and adds to our volatility. Going forward, unless the sales tax base is expanded into many of the service areas mentioned above, including medical, professional, financial, information etc., that reflect the modern economy, it is likely that state revenue growth under a sales tax reliant system will be less than under the current combined sales and income tax system.

Finally, the macroeconomic effects of such a tax swap are likely to be small, if they exist at all. States in general do not really have macroeconomic policy capability. States cannot manipulate the money supply or interests rates, and have to balance their budgets annually. Elimination of income taxes will increase disposable income, but the spending of total disposable income will be subject to higher taxation. Ultimately, aggregate revenue neutrality in sales and income tax receipts implies that effective aggregate demand is largely unchanged. The net impact on the economy is essentially zero. The supply-side effects of greater labor supply and capital formation resulting from lower marginal income tax rates, in this case zero marginal rates, are more appropriately considered in the context of the national economy rather than the low tax and completely open economy context of a small state. To the extent business formation is influenced, businesses and industries react differently to different taxes. Business formation may be positively influenced by the income tax elimination, and negatively influenced by the sales tax increase. Regardless, supply-side effects are long-run effects occurring, if at all, well outside the budgetary planning horizon.

REVENUE

FY 13 Major Revenue Collections Summary Thru December 2012
Greg Albrecht, Chief Economist

December marks 6 cash months and approximately 5 accrual months of collections this fiscal year. Overall, December was a good collections month, practically the first good month so far this fiscal year. On the strength of this one month, the year-to-date growth of both personal income tax and general sales tax were pulled ahead of forecast. While this is obviously a good thing, both of these taxes have been exhibiting a strong monthly seesaw pattern and a single subsequent weak month can pull the year-to-date performance below forecast. A string of good months is necessary to make a trend, and the only trend seen in these revenues so far has been weakness.

Although monthly corporate collections tell us little about annual performance and exhibit wide variation, the only generally strong tax so far this year has been corporate. December was a good month for this tax, as well. The forecast for this tax is modest and generally good monthlies are encouraging. However, 1/2 to 2/3 of these collections arrive in the last quarter of the fiscal year. Thus, confidence in this tax cannot typically be obtained until late in the fiscal year.

Both severance tax and royalty receipts improved in December, as well. The severance collections currently look good compared to prior year, but this is an easy comparison that will get more difficult as we move into the later months of the fiscal year. Current collections levels will not match prior year monthlies and the year-to-date performance will deteriorate towards the forecast. Royalty collections have been weak all year except for December, and will need continued improvement to meet forecast.

Gaming receipts from riverboats, video poker, and slot machines was also improved in December, bringing the year-to-date growth positive and above forecast. Current performance is based on only 2 good months, but the forecast calls for only very modest growth. While these revenues may not disappoint this year, this discretionary spending still hasn't returned consistently.

Overall, after the 12/13/2012 Revenue Estimating Conference downward forecast revision, total tax revenue for FY 13 is expected to drop by 0.9% from FY 12 actual collections, and general fund tax revenue is expected to drop by 1.1%. This is a year-over-year revenue drop expectation, not just a forecast drop for a given year, and is largely due to sub-par performance of the 2 taxes that largely reflect real-time economic conditions, sales tax (household and business spending) and personal income tax (employment and income generation). One good month, not quite mid-way through the accrual fiscal year and one month after the forecast revision, isn't enough to change the current forecast expectation. However, it is a good thing to finally receive some decent revenue performance.

EDUCATION

Tobacco Settlement Payments/TOPS
Charley Rome, Fiscal Analyst

LA may forfeit some or all of an estimated payment of $137 M from tobacco companies in FY 14 if an arbitration panel finds that the state did not make a diligent effort to regulate cigarettes sales in calendar year 2003 by companies that did not join the Tobacco Master Settlement Agreement (MSA). The state may lose the settlement payment due to a long running legal dispute between tobacco companies and states regarding regulation and taxation of cigarettes sold by companies that did not participate in the MSA.

The MSA includes a dispute and arbitration process where tobacco companies can contest the calculation of payments and the regulation and taxation of cigarettes by states. The MSA also allows for the downward adjustment of annual settlement payments to states if the arbitration process finds that states did not make a diligent effort to regulate and tax cigarettes. The Attorney General is representing LA in this dispute. A panel of 3 retired federal judges will hold LA's hearing in Florida in March 2013.

If the arbitration panel does not rule in LA's favor and the state loses the entire payment for FY 14, the state will need to find an alternative funding source for the following items in FY 14:

1. $41 M for the Taylor Opportunity Scholarship Program (TOPS) from the TOPS Fund. The LA Office of Student Financial Assistance projects that the total TOPS budget in FY 14 will be approximately $204 M, including the $41 M that might be lost from the tobacco payment proceeds.
2. $14 M from the LA Fund used for the Attorney General, the Dept. of Health & Hospitals (DHH) Medical Vendor Payments, and school based

health clinics funded by the DHH Office of Public Health.

3. $82 M to pay bondholders for securitization of 60% of the tobacco settlement income stream as required by Act 1145 of the 2001 Regular Legislative Session.

The MSA arbitration hearing relates only to LA's regulation of cigarettes in calendar year 2003. If the tobacco companies are successful with 2003, they may pursue similar claims for calendar years after 2003. Successful arbitration by the tobacco companies based on additional calendar years could lead to diminishment or forfeiture of tobacco settlement payments in FY 15 and thereafter.

FY 13 Deficit Reduction Impact on Higher Ed
Charley Rome, Fiscal Analyst

According to the Division of Administration (DOA), $10 M of the $22 M in SGF mid-year reduction to higher education will be offset by tuition increases that exceed current budgeted amounts in FY 13. In previous fiscal years, actual tuition revenues exceeded budgeted tuition amounts by at least $10 M per year. However, the actual amounts of tuition that exceed budgeted amounts for FY 13 will not be known until the end of FY 13. Furthermore, the tuition increases by institution may vary significantly from the actual SGF reduction amounts by campus allocated by the Board of Regents based on a fixed 2.579% SGF reduction per campus used by the board.

According to the DOA, savings from a hiring freeze will offset $12 M of the $22 M in SGF mid-year reduction to higher education. Unlike most state agencies, there is no information available to estimate savings from the hiring freeze by campus. The actual savings by campus from the hiring freeze may vary significantly from the actual SGF reduction amounts by campus allocated by the Board of Regents based on a fixed 2.579% SGF reduction per campus used by the board.

For example, one university may receive a $100,000 cut in SGF from Regents, but save $200,000 from the hiring freeze for a net budget increase of $100,000. On the other hand, another university may receive a $100,000 cut in SGF from Regents, but save $50,000 from the hiring freeze for a net budget decrease of $50,000.

Funding needs for K-12 Education in FY 14
Mary K. Drago, Education Section Director

The FY 14 Continuation Budget presented in January at the Joint Legislative Committee on the Budget meeting compares continuation costs of FY 14 to the existing operating budget of FY 13, which contains significant increases for K-12 Education. There is a $30 M increase in SGF related to the mid-year count in the Minimum Foundation Program (MFP) (increase of over 9,000 students), and a $60 M increase in SGF to account for the 2.75% increase to the base per pupil amount in the MFP. However, the 2.75% increase has not been funded in the past several years. There is also an $8 M increase in SGF, which is related to implementation costs for the education reform initiatives mandated by Acts 1, 2 & 3 of 2012. The LFO has requested additional information from the Dept. of Education related to the implementation costs and will make the information available in a subsequent *Focus on the Fisc.*

GENERAL GOVERNMENT

Capital Outlay & Debt Limit Issues
Deborah Vivien, Economist

According to reports made by the State Bond Commission (SBC), funding for projects in the Capital Outlay Bill is in danger of being exhausted due to: 1) the inability to interfund borrow; and 2) constitutional constraint of the debt limit.

<u>*Inability to Interfund Borrow*</u>
As of 1/25/2013, the cash balance of the Capital Outlay Escrow Fund (COEF), into which bond proceeds are deposited, is approximately $272.5 M. The typical use of the fund is approximately $56 M per month, which implies about 5 months of cash available to cover current obligations, but only if all the cash is available to support all capital outlay projects. The sub-funds within the COEF along with the available cash balance (net of known payables) of each are: Dept. of Transportation & Development (DOTD) transportation projects, not including TIMED projects, ($35.9 M); and Facility Planning & Control (FPC) projects within the Capital Outlay Bill under the control of FPC ($57.2 M) and other appropriations, mainly Coastal Restoration ($179.2 M).

As made evident by the balances, the DOTD fund for transportation projects is approaching depletion to cover ongoing projects. Unlike the State General Fund (SGF), the COEF may not have authorization to engage in interfund borrowing, though the final interpretation is not clear. It is possible that a statutory change would explicitly allow interfund borrowing within the COEF to utilize Coastal dollars that may not be needed for a time or have been or will be supplanted with other revenue sources, such as the BP settlement or federal assistance. Should any funds be available for borrowing, they would have to be repaid within the year.

Interfund borrowing issue aside, there will still be a future need to replenish the COEF by issuing more bonds to cover expenditures related to existing lines of credit and any future projects. However, any options concerning bond issuance may face problems because the debt limit is constraining debt capacity below that which will cover all current capital outlay obligations, before consideration of additional bond issuances.

Constitutional Constraint of the Debt Limit

Net State Tax Supported Debt, under which any new issues will fall, is very close to the debt limit, which requires annual debt service not exceeding 6% of taxes, licenses and fees (TLF) as adopted by the Revenue Estimating Conference. Current debt service is $582.7 M and 6% of TLF as of 12/31/2012 for FY 14 was $605.1 M leaving debt service capacity of $22.4 M. A report from the SBC detailing the official net state tax supported debt and the state's capacity in the future is due soon. The report is expected to reflect approximately $250-325 M (assuming a 20-year issue of level debt with the range dependent upon the interest rate) in debt capacity remaining and, as such. There is not enough capacity to fund a new $250 M General Obligation (GO) issue to cover on-going capital outlay projects plus $250 M to cover the State Highway Improvement Fund (SHIF) bonds recently approved for rural highways. However, DOTD has recently announced plans to issue only $100 M in SHIF bonds, which presumably allows a larger issuance of GO bonds, though the SBC has only approved the total $250 M SHIF issuance.

Regardless of the use of bond proceeds, the state will exhaust its debt capacity in covering any chosen combination of debt obligations totaling $250-325 M. In budget discussions, future bond proceeds appear to have been earmarked to accommodate a portion of the mid-year budget cuts, $40 M of which may be funded within capital outlay, and possibly future LED obligations for major projects, though the timing and amounts necessary are not certain. Assuming the SHIF and GO issues are in amounts that will exhaust debt capacity, any additional debt is over the limit, including $7 M in LA Agricultural Finance Authority funding to remedy the Lacassine Syrup Mill obligation and $350 M in rolling GO debt to secure the approved lines of credit, and $800 M to cover past issuance delay (the lines of credit that must be covered outside the rolling $350 M). Cash lines of credit issued but not yet expended through the COEF total about $1 B. In addition, the SBC has already approved $1.1 B in Priority 5 funding in the current year, which allows projects the ability to contract for payment beginning in FY 14, though no money may be expended during the current year. It is not clear how many of these obligations have been or will be made. Once the bond proceeds from the Spring 2013 issue are expended, there will be no ability to issue bonds to cover outstanding lines of credit or any new projects without:

1. An increase in the debt limit, which requires 2/3 vote of the legislature, and can be a negative indicator on the state's bond rating;
2. A recovery in taxes, licenses and fees (TLF) revenue, which is tentative, especially with the uncertainty that might arise from tax reform;
3. Declaring the debt outside the limit, which also requires a 2/3 vote but is also considered a negative indicator for the state's bond rating; or
4. Stopping capital outlay projects until debt can be paid down and lines of credit not previously funded are paid, though the remaining COEF balances do not contain sufficient cash to cover these expenditures in full.

In times past, DOTD projects have benefited from cash payments from budgetary surpluses to cover shortfalls. However, these surpluses have not provided that relief in recent years and any fund balances that could be used for this purpose have been largely extinguished, especially without the ability to interfund borrow.

Other Concerns

Should the state face a reduction in its credit rating, the cost of credit could increase by 75-100 basis points (0.75-1.0% interest rate increase), leading to an even smaller capacity to borrow. Another issue that may increase the cost of bond financing is the issuance of taxable bonds, which may be the case if bond proceeds are utilized for state operating expenses, financing certain projects not eligible for tax exempt financing, or if the individual project spending is greater than 3 years old, which is the requirement for tax exempt bonds. It is estimated that the cost of credit would increase by about the same margin of 75-100 basis points for taxable bonds. However, taxable bonds do provide more flexibility in allowable uses of the proceeds. Finally, the federal government is considering removing the federal tax exemption on municipal bonds for those above a certain income, which would increase the state's cost of borrowing.

FY 13 Mid-Year Budget Problem and Resolution

Travis McIlwain, General Govt. Section Director

After the 12/13/2012 Revenue Estimating Conference reduced the FY 13 revenue forecast by $129.2 M, the Commissioner of Administration notified the Joint Legislative Committee on the Budget of a budget deficit. The Division of Administration (DOA) approved an FY 13 Mid-Year Reduction Plan in December 2012 (Executive Order BJ 2012-24 and

Executive Order BJ 2012-25), which attempted to solve a $165.5 M SGF problem (see below). It is unknown at this point how many of these reductions and/or one-time revenue solutions will be annualized in the FY 14 Executive Budget.

($129.2 M)	REC reduction in SGF revenue forecast
($30.0 M)	MFP underfunding due to October 2012 child count for school year 12/13
($11.4 M)	TOPS underfunding based upon student count
$5.1 M	Calculated SGF available in November after satisfying preamble reductions
($165.5 M)	**FY 13 Mid-Year Deficit Problem in SGF**

Based upon LFO analysis of the FY 13 Deficit Reduction Plan, the overall FY 13 Deficit Reduction Plan was solved by implementing the following budgetary adjustments:

($7.1 M)	Hiring Freeze Savings (BJ 2012-6)
($68.3 M)	Maximization of Other MOF
($40.4M)	Cash substituted for Capital Outlay appropriations (FY 13 Supplemental Bill)
($49.7 M)	Other Reductions/Adjustments
($165.5 M)	**FY 13 Mid-Year Deficit Problem**

$7.1 M of the SGF problem was resolved via the Hiring Freeze Executive Order (BJ 2012-6). *The DOA attributes $12 M hiring freeze savings within Higher Education. See Charley Rome's write-up, "FY 13 Deficit Reduction Impact on Higher Ed".*

$68.3 M was alternatively financed in lieu of SGF reductions. The significant revenue sources utilized are as follows: Anticipated Average Wholesale Price legal settlements ($30.5 M); Higher Ed tuition increase ($10 M); redirection in TANF, which frees-up these funds to be utilized in LA-4 ($7.3 M); SGR from local governments for local share of election costs ($1 M); Dept. of Corrections from excess proceeds from offender canteen sales ($5.5 M); and the Office of Risk Management SGF support to be replaced with Hurricane Katrina proceeds ($11.3 M).

$40.4 M of the SGF problem was alternatively financed by swapping cash in various funds (SGF & Statutory Dedications) in exchange for capital outlay appropriations (General Obligation bond debt). The significant capital outlay swaps include the following: Office of Facilities Corporation Maintenance Fund ($15 M); State Parks Improvement Fund ($4 M); Overcollections Fund/LA Government Assistance Program ($0.7 M); Community Water & Enrichment Fund ($0.9 M); and LED State Commitments ($19.4 M in SGF).

$49.7 M of the SGF problem was resolved by reductions to the following agencies: DOA utility costs ($0.8 M); Military death benefits costs ($0.8 M); Dept. of Corrections ($1.1 M); Office of Juvenile Justice ($4.6 M); Dept. of Health & Hospitals ($20.5 M); Dept. of Children & Family Services ($1 M); Local Housing of State & Juvenile Offenders ($3 M); and SGF Deposits in Schedule 20-XXX ($2.2 M).

Based upon LFO analysis, the DOA has addressed approximately 66% of the mid-year deficit by utilizing one-time resources ($68.5 M – MOF swaps & $40.4 M – Capital Outlay). Therefore, of the $165.5 M FY 13 SGF deficit, the administration is reducing the current year budget $56.8 M.

Capital Outlay Resources (GO Bond Debt) Utilized in FY 13 Deficit Reduction Plan
Travis McIlwain, General Govt. Section Director

The administration is solving 25% of the $165.5 M FY 13 budget deficit problem by swapping cash (from various Statutory Dedications & off-budget funds) in exchange for General Obligations (GO) bond debt in the capital outlay budget in the amount of $40,399,158. Essentially, the budget mechanism that will take place is as follows: 1) SGF is being reduced; 2) The other resource will be appropriated in a like amount; and 3) That other resource will likely be "replenished" with GO bond debt in the FY 13 Supplemental Appropriations Bill (capital outlay section). The specific resources being swapped for GO bond debt include:

$15 M Office Facilities Corporation Maintenance (OFC) Fund - MOF swap that reduces SGF and increases SGR by a like amount, which utilizes funding from the OFC Maintenance Fund (off-budget/non-Treasury Fund). Essentially, the Division of Administration (DOA) is utilizing this off-budget resource in FY 13. The LFO has requested details from the DOA concerning this fund but the DOA has not responded. According to the public testimony, the $15 M from the maintenance fund will be "back filled" with capital outlay GO bond debt. According to Facility, Planning & Control, it is unknown at this time as to what priority funding this resource will be given. These capital outlay adjustments will likely be contained in the FY 13 Supplemental Appropriations Bill during the 2013 Regular Legislative Session. The LFO is uncertain if utilizing these maintenance fund resources violates the bond indenture between the OFC and the bondholders.

$975,483 Community Water Enrichment Fund - MOF swap that reduces SGF $975,483 and increases budget authority from the Community Water Enrichment Fund by a like amount. These resources were originally appropriated via an approved Joint Legislative Committee on the Budget carry-forward BA-7. The LFO has requested from the DOA whether these local projects have been eliminated or if they

will now be funded in a future capital outlay appropriation (likely FY 13 Supplemental Appropriations Bill).

$733,935 Overcollections Fund - These resources were originally appropriated for the LA Government Assistance Program (LGAP) in FY 13 via an approved carry-forward BA-7. The LFO has requested information from the DOA asking if these local government infrastructure projects have been eliminated or if they will be funded in a future capital outlay appropriation (likely FY 13 Supplemental Appropriations Bill).

***Note:** As of January 2013, the DOA has expended $497,757 from the Community Water & Enrichment Fund and has expended $204,704 from the Overcollections Fund (LGAP). In order for the DOA to utilize the full amounts for the FY 13 Mid-Year Reduction Plan, accounting adjustments (reverse warrants) would be required to put the expended funds back into the appropriate statutory dedication, which would ultimately be replaced with capital outlay bond authority.*

$19,689,740 LED State Commitments - Reduction of $19,689,740 in SGF used to fund business infrastructure commitments. LED will fund these business infrastructure commitments with a supplemental appropriation later in the year or with capital outlay funding if supplemental funding is not available. Of the $59.9 M in total appropriation within LED State Commitments (Schedule 20-931), approximately $25.9 M of funded commitments are eligible capital outlay projects (infrastructure projects). This adjustment essentially gives up the SGF cash in exchange for capital outlay bond authority.

$4,000,000 LA State Parks Improvement & Repair Fund - The mid-year budget reductions include a $ 4 M reduction of SGF and an increase in Statutory Dedications by a like amount. The source of the Statutory Dedications is from the LA State Parks Improvement and Repair Fund. Funding is used for operations of the state parks and will affect the ability of the Office of State Parks to complete major repairs and maintenance. According to the DOA, these resources will be "back filled" with GO bond debt in the Capital Outlay Program.

***Note:** Although the DOA is indicating that the resources being transferred are going to be "back filled" with capital outlay, these projects may potentially end up in the Capital Outlay Bill on an "as needed basis." Thus, it is possible that some of these "back fills" may not actually be funded in the FY 13 Supplemental Appropriations Bill (capital outlay section) and may be pushed off until FY 14 or FY 15.*

FY 14 Continuation Budget (CB)*Travis McIlwain, General Govt. Section Director*

At the January 2013 Joint Legislative Committee on the Budget meeting, the Division of Administration presented the FY 14 CB with a projected SGF imbalance of approximately $1,278,096,671.

The CB is a planning tool that compares projected SGF revenue with projected SGF expenditures necessary to sustain the current year's state operations and service delivery (FY 13) in subsequent fiscal years (FY 14 – FY 17). Projected SGF expenditures attempt to account for employee payroll growth (merit raises, 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 these adjustments are funded each year. However, the CB 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 (EB) 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 CB exercise. Until an EB proposal is submitted in February, the ensuing year's budget is discussed in CB terms.

Below is a table that summarizes the significant SGF adjustments contained in the FY 14 CB. These SGF adjustments may or may not be included in the FY 14 EB proposals. This table lists the major SGF decisions that have to be made during the FY 14 budget development process.

SGF Adjustments	FY 14 Continuation
Performance Increase (Merits)	$26,188,143
Inflation (Medical/General)	$97,931,500
Retirement	$2,534,291
Group Insurance	$4,307,918
Road Hazard Disallowance	$19,764,836
Major MOF Swaps	$626,243,808
State Parks Impro. & Repair Fd ($5,210,907)	
2-yr MV Inspection Sticker ($10,000,000)	
Medicaid FMAP Change ($309,614,569)	
Replace one-time monies in MATF ($218,342,753)	
TOPS Fund ($14,975,579)	
DOE replaces CDBG Funds ($33,100,000)	
NOAH Sale ($35,000,000)	
Medicaid Program Utilization	$64,983,638
OSFA Projected TOPS awards	$31,999,119
DOE Education Reform	$8,000,000
MFP estimated growth	$60,094,272
MFP annualized current year growth	$30,000,000
LED State Commitments	$20,268,235
Debt Service Requirements	$90,029,097
Capital Outlay – LGAP	$8,700,000
Special Acts/Judgments	$24,987,877

Other Various Net SGF Adjustments	$78,733,838
TOTAL	**$1,194,766,572**

Note: Although there is approximately $221.6 M in SGF revenue growth from FY 13 to FY 14, for the purposes of crafting the CB the net revenue growth is actually $52.5 M in SGF due to the inclusion in the FY 13 budget of approximately $155.4 M of Act 597 (Funds Bill) resources utilized in FY 13 that need to be replaced in FY 14. The FY 14 CB assumes the expenditures being supported by these Act 597 resources will continue in FY 14, but with SGF.

Act 597 Action Not Materialized (Update)
Travis McIlwain, General Govt. Section Director

In the December issue of *Focus on the Fisc*, the LFO indicated that there were approximately $305 M of funds bill resources that have not been transferred to the SGF, Medical Assistance Trust Fund (MATF) or Overcollections Fund that have been appropriated in FY 12 & FY 13. Based upon updated information provided to the LFO by the State Treasury, to date there are approximately $281.4 M of funds bill resources that have not been transferred to the SGF, MATF or Overcollections Fund that have been appropriated in FY 12 & FY 13. Thus, approximately $113.7 M of the $380 M has been transferred to date.

Act 597 transfers approximately $258.5 M from various resources into the SGF. *To date, there are approximately $64.7 M (or 25%) of resources that have been transferred into the SGF for expenditure*. Some of the significant funding items ***not*** transferred include: $56 M – Risk Management's Self-Insurance Fund; $10 M – Proceeds from NOAH sale; $5 M – Proceeds from 6 Average Wholesale Price (AWP) legal settlements; $78.3 M – bond repayments; and $10 M – FEMA reimbursements.

Act 597 transfers approximately $79.5 M from various resources into the MATF. *To date, there is approximately $42.9 M (54%) of resources that have been transferred into the MATF for expenditure*. Some of the significant funding items ***not*** transferred include: $20 M – Ernest Morial Exhibition Hall Authority; $25.9 M – bond repayments; and $6.7 M – various fund transfers. *A large portion of the $42.9 M transferred into the MATF comes from collecting $38 M of AWP legal settlements. Act 13 (HB 1) only appropriates $22 M of these resources. For more information on this specific issue, see Shawn Hotstream's write-up on Medicaid in this issue of Focus on the Fisc.*

Act 597 directs the state treasurer to transfer $41.1 M into the Overcollections Fund. *To date, there is approximately $6.1 M (15%) of resources that have been transferred into the Overcollections Fund for expenditure*. The significant funding item not transferred includes: $35 M – Sale/lease of NOAH. In addition to NOAH, Act 597 directs the State Treasurer to transfer proceeds from the sale of the former Dept. of Insurance building site, excess receipts over $10 M from FEMA reimbursements and excess receipts over $56 M from the Self-Insurance Fund. These additional transactions have not taken place and are not currently included in the FY 13 operating budget.
To the extent these Act 597 resources do not materialize, the FY 13 SGF budget could finish the fiscal year in a deficit posture unless expenditures are reduced.

Litigation Expenditures BP Oil Spill Lawsuit
Evelyn McWilliams, Fiscal Analyst

As of 12/31/2012, the Attorney General expended a total of approximately $23.7 M on the Deepwater Horizon Oil Spill litigation.

Approximately $23.1 M of the $23.7 M expended was for professional services contracts. The balance of the expenditures was for overtime ($0.3 M), travel (0.1 M), operating services ($0.1 M) and acquisitions ($0.1 M). The Attorney General paid approximately $15.7 M to 13 contractors for legal services, $6.2 M to a data management contractor and $1.2 M to 2 contractors for expert accounting. Payments for legal services were made to the following contractors: $7,077,753 to Kanner, & Whiteley; $4,151,450 to Usry, Weeks & Matthews; $2,327,621 to Henry Dart; $633,706 to Shows, Cali, Berthelot & Walsh; $385,400 to Marten Law; $329,823 to Greenfield Advisors; $312,917 to the Faircloth Law Group; $231,096 to Galloway, Johnson, Tompkins, Burr & Smith; $176,000 to Celia R Cangelosi; $27,013 to Spears & Spears; $27,259 to Nicholas E. Flores; $21,400 to Heller, Draper, Hayden, Patrick & Horn; and $5,706 to the Edwards Law Group. Emag Solutions received $6,226,423 for data management services. Legier & Company was paid $911,502 and the Theriot Group was paid $244,704 for expert accounting.

According to the LA Attorney General's Office, Louisiana and Alabama are the only parties currently involved in the Deepwater Horizon litigation. The Attorney General's Office states that Mississippi and Florida have chosen to stay out of the litigation for now and that Texas has little at stake in the matter so Texas likely could handle its litigation in house. The LFO spoke with the Alabama Attorney General's Office regarding how Alabama was providing for its Deepwater Horizon litigation expenses and was told that Alabama was utilizing in-house attorneys.

Collections into the Oil Spill Contingency Fund originate from fees, taxes, penalties, judgments, reimbursements, charges and federal funds collected under the provisions of Chapter 19, "The Oil Spill

Prevention and Response Act" (R.S. 30:2451). Since current collections into the Oil Spill Contingency Fund are not sufficient enough to provide for existing appropriations, the Treasurer's Office seeded the fund with SGF. The SGF seed will eventually be paid back when a settlement or other collections into the fund are received.

$5 M Super Bowl Incentive Pymt. to the Saints
Travis McIlwain, General Govt. Section Director

The New Orleans Saints and the state signed a new contract in April 2009 to keep the team in New Orleans through 2025. The agreement will ultimately save the state an estimated $280 M over the life of the new contract compared to the previous contract. However, the contract requires the state to make an incentive payment to the team if New Orleans hosts a Super Bowl. Pursuant to Section 4.6 (Super Bowl Incentive) of the contract, the state is required to pay the New Orleans Saints $5 M for each Super Bowl that is played in New Orleans. Pursuant to the contract, this $5 M incentive payment is due at the conclusion of the fiscal year in which the game is played. The 2013 Super Bowl is scheduled in New Orleans on Sunday, 2/3/2013. Thus, based upon the Section 4.6 of the contract, the state owes the New Orleans Saints $5 M by 6/30/2013 (last day of FY 13). At this time, the Division of Administration does not know how this payment will be made. The LFO assumes this appropriation will likely be included in the FY 13 Supplemental Appropriations Bill, but is unsure of the source of funds that will ultimately be utilized for such payment.

LA 1 Toll – Leeville Bridge
Alan Boxberger, Fiscal Analyst

The LA Legislative Auditor's Office released an audit report on 11/28/2012, citing ongoing financial and operational difficulties surrounding the collection of tolls by the LA Transportation Authority (LTA) on the LA 1, Leeville Bridge. Included among the audit findings were technical issues that resulted in previous year toll revenue losses. The auditor additionally issued an opinion that toll revenues are likely to be insufficient to make scheduled bond payments in the future, which may result in a need for additional funds appropriated by the Legislature.

The LTA and DOTD are exploring options to address the projected potential shortfall of toll revenues necessary to achieve debt service coverage requirements in the bond's rate covenant. Under the originally scheduled, graduated toll increase, a 20% increase in the toll began on 1/1/2013. The minimum toll rose from a minimum $2.50 for a 2-axle vehicle to $3. The maximum toll for the largest 18 wheel vehicle trailers increased from $12 to $15. A toll consultant report commissioned during 2012 suggested tolls might be required to more than double in 2013 (+108%) in order to make increasing base payment requirements against the debt service, which is back loaded.

At the 12/21/2012 meeting of the LTA, DOTD officials indicated that they've initiated efforts to refinance the existing Transportation Infrastructure Finance & Innovation Act (TIFIA) loan and consolidate the bonds into a new TIFIA loan for $174 M. If this effort is able to achieve a favorable interest rate, the department believes the existing toll revenue schedule and built-in increases will provide the requisite 1.3 times debt service coverage. To this end, the LTA voted to allow the toll increase to proceed at its normal 20% incremental increase in January 2013, until results of the consolidation loan effort are known. In the event there is insufficient toll revenue generated in 2013 or 2014 to achieve debt service requirements, the department may be forced to seek funding through legislative appropriation. The potential exposure to the state is estimated at $1.43 M in calendar year 2013 and $1.12 M in calendar year 14.

Louisiana Real ID
Alan Boxberger, Fiscal Analyst

The Federal Real ID Act of 2005 created federal standards for state driver's licenses and ID cards to be accepted by the federal government for official purposes, as defined by the Secretary of Homeland Security. Those purposes currently include boarding commercially operated airline flights, entering federal buildings and gaining access to nuclear power plants. While originally scheduled for full implementation by 5/11/2008, a series of actions by numerous states, as well as non-clarity on requirements and inability by some states to provide rapid implementation, resulted in a series of deferments to the beginning date.

LA adopted Act 807 of the 2008 Regular Legislative Session, directing the Dept. of Public Safety and Office of Motor Vehicles to not implement the provisions of the Real ID Act. At that time, state costs were estimated at $10 M to $12 M for implementation, with additional funding needed for annual maintenance costs. Since original passage of the Federal Real ID Act of 2005, at least 24 other states have also passed legislation denying or restricting full implementation of the ID requirements. While LA is not implementing the full features of Real ID, it continues to make incremental changes to enhance security features through developing technologies and processes.

On 12/20/2012, the Dept. of Homeland Security (DHS) announced that 13 states had achieved Real ID standards and that it was issuing a temporary deferment to the remaining states, effectively granting an additional extension beyond the existing 1/15/2013, deadline. The temporary deferment did not have a specific termination date, but DHS indicated that it would develop and publish a schedule by early fall of 2013 for the phased enforcement of the Act's statutory prohibitions to ensure that residents of all states are treated in a fair manner. Due to the large number of states with current legislative or administrative barriers to implementation, the likelihood of significant enforcement activity is uncertain.

Truancy & Assessment and Service Center (TASC) Program Reduction
Evelyn McWilliams, Fiscal Analyst

The $331,563 mid-year reduction in the administrative cost for the TASC Program will result in the termination of outcome evaluation and monitoring of local TASC sites by the LSU School of Social Welfare's Office of Social Service Research & Development (OSSRD). OSSRD is responsible for monitoring and evaluating 16 operating TASC sites in 25 parishes and reporting this information to the legislature. The TASC Program was created in statute in 1998 to prevent students from dropping out and diverting at-risk youths from crime.

The TASC Program's administrative budget of $571,163 is composed of $80,000 for the LA Commission on Law Enforcement and $491,163 for the OSSRD. LSU plans to continue to administer the program through the end of this fiscal year. However, OSSRD will no longer be able to provide the outcome evaluation and monitoring to local TASC sites, effective 12/31/2012. LSU will be working on the final TASC report to the legislature and working with TASC directors on a transitional plan. In addition, LSU is helping the TASC sites develop a data collection plan they can use, since the loss of LSU's services implies the loss of the existing data collection capability and database.

This reduction along with LSU's exit from the TASC Program will not effect the TASC funding going to local governmental entities. TASC funding to local governmental entities is not being reduced. Local entities receiving TASC funding will continue to provide the truancy services it is currently providing.

LA State Parks Improvement & Repair Fund
Stephanie Blanchard, Fiscal Analyst

The LA State Parks Improvement & Repair Fund (Act 729 of 1989) is derived from fees and other self-generated revenues from the state parks. The fund is to be used exclusively for improvements and repairs at state parks, subject to annual legislative appropriation. Parks are allocated 50% of the fees and self-generated revenues generated by each park, except for revenues generated through the operation of the wave pool at Bayou Segnett State Park. The remaining 50% of the funds are to be used on the following priority need basis: 1) protection of life and property at existing facilities; 2) general repairs and improvements at existing facilities; 3) addition of new facilities at existing parks; and 4) acquisition of property to expand existing parks.

Since FY 09, approximately $25 M has been diverted from the fund for either operations at a specific park or for statewide operations of the park system. The amounts that have been diverted from the fund are:

FY 09	$582,693	(Act 19 and Act 226)
FY 10	$3,972,784	(Act 10 and Act 633)
FY 11	$922,801	(Act 11)
FY 12	$7,615,924	(Act 12 and mid-year)
FY 13	$7,909,744	(Act 13)
FY 13	$4,000,000	(mid-year)
Total	**$25,003,926**	

The FY 13 appropriation totals $7,909,774 and includes salaries ($7,159,774), other charges ($250,000), and acquisitions ($500,000) for the Office of State Parks (Schedule 06-264).

Each year the Office of State Parks submits a list of over $10 M in projects for consideration and there are approximately 100 projects that have not been funded.

Note: $6.6 M from the fund is appropriated in Act 23 (HB2) of 2012. According to the department, it is anticipated none of the $6.6 M will be expended in FY 13 due to the projected year-end balance of the fund of $1.5 M.

HEALTH & HOSPITALS

Temporary Assistance for Needy Families (TANF)
Patrice Thomas, Fiscal Analyst

As part of the mid-year deficit reductions, the Dept. of Children & Family Services (DCFS) reallocated $3,497,660 in TANF funding to mitigate a SGF reduction in the Child Welfare Program and add funding to the Modernization initiative within the DCFS.

In addition, DCFS redirected $4,655,913 in TANF funding among existing initiatives to LA-4. The TANF initiatives reductions are Family Violence, Community Supervision in the Office of Juvenile Justice (OJJ), and Substance Abuse and Early Childhood Supports in the Dept. of Health & Hospitals (DHH).

The total amount of TANF funds remains $147.6 M with an anticipated carry-forward of $89,508 as reflected in the chart below. Only TANF initiatives impacted by the reallocation are included in the chart.

	FY 13 Appropriated	Reallocation	FY 13 EOB
CORE WELFARE:			
Cash Assistance-FITAP/KCSP	$30,000,000	($1,000,000)	$29,000,000
STEP	$7,157,682	($657,682)	$6,500,000
Modernization	$1,030,041	$469,959	$1,500,000
Administration	$13,500,000	($1,500,000)	$12,000,000
FEDERAL INITIATIVES:			
Community Supervision (OJJ)	$1,800,000	($900,000)	$900,000
LA4 (DOE)	$29,550,000	$4,655,913	$34,205,913
Child Welfare (DCFS)	$30,721,874	$3,497,660	$34,219,534
Family Violence (DCFS)	$4,700,000	($998,413)	$3,701,587
Substance Abuse (DHH)	$3,588,903	($529,445)	$3,059,458
Early Childhood Supports (DHH)	$5,550,000	($2,775,000)	$2,775,000
Homeless (DCFS)	$850,000	($212,500)	$637,500
Abortion Alternatives (DCFS)	$1,400,000	($140,000)	$1,260,000
CORE WELFARE	$51,687,723	($2,687,723)	$49,000,000
INITIATIVES	$78,160,777	$2,598,215	$80,758,992
TOTAL	**$129,848,500**	($89,508)	**$129,758,992**

Community Supervision: As a result of this $900,000 TANF funding reduction, the Contract Services Program in the OJJ may have to end certain private providers contracts within 30 days. Contracts providing services related to prevention diversion, community reintegration and mentor tracing will be reduced or discontinued. The reduction will result in an indeterminable decrease in the number of youths served in the community-based programs.

Family Violence: The reallocation of $998,413 TANF funding from the Family Violence initiative will impact contracts for residential care for family violence victims from community providers. DCFS stated that family violence services are moving away from costly residential care provided by community providers to more productive and less costly community-based services such as short-term hotel stays. A total of 19 community providers that had family violence contracts had their contacts reduced by 16%.

Homeless: According to DCFS, the reallocation of $212,500 TANF funding from the Homeless initiatives will have no impact on services. The Homeless initiative is being moved to LA Housing Corporation that has assumed responsibility for all statewide housing programs.

Abortion Alternatives: DCFS was in the process of creating a Request for Proposal (RFP) for the Abortion Alternative initiative. The initiative primarily provides information and counseling that promotes healthy childbirth and assists pregnant women in their decision regarding adoption or parenting. Since no RFP was awarded, the reallocation of $140,000 in TANF funding is not anticipated to impact services. DCFS still has $1.26 M to expend on Abortion Alternatives in FY 13.

Early Childhood Supports: In the FY 13 mid-year expenditure reduction mandated by executive order BJ 2012-24, as of 2/1/2013, DHH will eliminate the Early Childhood Supports & Services (ECSS) Program as a result of the loss of a total of $2.775 M in federal TANF funding transferred from the Dept. of Children & Family Services (DCFS). ECSS services are currently offered in Orleans, East Baton Rouge, Terrebonne, Lafayette, St. Tammany, and Ouachita parishes. With the loss of the TANF funding, OBH and the human service districts estimate having to layoff the 76 non-T.O. & 1 T.O. position that administer the ECSS Program. Elimination of personnel will save Office of Behavioral Health (OBH) approximately $134,561 in SGF annually in addition to the TANF cut.

ECSS is an infant mental health program that serves children ages 0-5 with mental health disorders and their families. Specifically, it provides support services such as case management to evaluate family risk and engage a multi-agency network to provide necessary family support. It also provides clinical assessments of children and child-caregiver relation-ships, and ECSS provides intervention support to address behavioral and developmental health concerns. It is anticipated that some of these clients will be eligible for similar services under the LA Behavioral Health Partnership (LBHP).

Addictive Disorders Residential Bed: In the FY 13 mid-year reductions mandated by Executive Order BJ 2012-24, as of 2/1/2013, DHH will also close 12 addictive disorders residential beds as a result of the loss of $529,445 in federal TANF funding transferred from the DCFS. The 12 residential beds are being eliminated in Region 6 in central LA. With the loss of the TANF funding, OBH and the human service districts estimate having to layoff the 15 non-T.O. employees that administer the 12 residential beds.

The 12 eliminated residential beds were for women, children, and pregnant women with addictive disorders. According to DHH, Rays of Sunshine, an existing service provider in central LA funded with a Federal Block Grant for addiction services, will primarily absorb the loss of state beds. Otherwise, other contracted residential service providers linked through the LBHP can continue care for women without children. Children are typically provided prevention services through school-based programs for ages 6-12. Children under 6 years of age will have to seek services through their pediatricians.

FY 14 Medicaid SGF Requirement: Continuation Budget (CB)
Shawn Hotstream, Health & Hospital Section Director

The FY 14 Medicaid budget (Medical Vendor Payments) reflects approximately $686 M in SGF requirement in order to fully fund current and anticipated Title XIX claims expenditures based on continuation level funding (not including inflation). For FY 14, the most significant factors contributing to the increase in SGF include the replacement of non-recurring revenue sources, a decrease in the Federal Medical Assistance Percentage (FMAP), and projected utilization increases. Approximately 80% of the $686 M in SGF need is the result of MOF swaps, in which the budget requires additional SGF that is not the result of additional Medicaid expenditures over the base budget. The significant amounts by category are reflected below:

$309,614,569 replaces Federal funds with SGF as a result of FMAP change from a blended 66.58% in FY 13 to 62.96% in FY 14.

$218,342,753 replaces non-recurring revenue sources appropriated in the Medical Assistance Trust Fund (MATF) in FY 13.

-$64,983,638 projected Medicaid Program utilization growth for FY 14.

Note: The SGF need reflected in the CB has not historically been funded at that same level in HB 1. This is mainly due to not funding medical inflation. The FY 14 medical inflation projected in the CB is approximately $79 M, the majority associated with Medicaid. *Additionally, the level of funding that has been appropriated to address some continuation level items is not necessarily funded with SGF, but partially with some other source of revenue usually deposited into the Medical Assistance Trust Fund (MATF) and used as a state match source to draw down federal financial participation.*

Note: The FY 13 revenue sources appropriated in the MATF that are anticipated to have to be replaced with SGF or an alternative means of finance have a match effect (as these funds are used as a state match source to draw down federal financial participation). In addition, the decrease in FMAP will require $218 M in additional SGF (or other means of finance) to draw down federal matching funds. As a result of these funds having a match effect, the total impact of not replacing these funds with some other source of revenue is a reduction of approximately $839 M in Medicaid expenditures in FY 14. This is based on the FY 14 blended Federal Medical Assistance Percentage (FMAP). The FMAP is the federal share of reimbursement for a states Medicaid expenditures.

Note: The FY 14 CB does not address certain adjustments as a result of the FY 13 mid-year cuts. Approximately $30.5 M in SGF was replaced with a like amount of revenue anticipated from the Average Wholesale Price drug settlements. As a result of this MOF swap in Medical Vendor Payments, Medicaid will require a like amount of SGF or alternative revenue source in FY 14 to address base Medicaid expenditures. This revenue has a match effect, and if not replaced will result in a reduction of $49 M in Medicaid expenditures.

Medicaid FY 13 Mid-Year Cut Allocation Solution (AWP Drug Settlements)
Shawn Hotstream, Health & Hospitals Section Director

As part of the FY 13 mid-year cut, the LA Medicaid Program is allocated a SGF reduction of $46.5 M. Of the total cut allocated, approximately 65% is being restored as a result of a Means of Finance (MOF) swap. Specifically, the DHH solved this SGF cut by eliminating or cutting certain programs by a total of $16,010,044, and by replacing $30.5 M in SGF with a like amount of revenues received from Average Wholesale Price (AWP) drug settlements.

The AWP drug settlements are based on lawsuits that alleged that drug manufacturers and publishers of drug prices colluded with intent to increase the published average wholesale price for certain drugs (the AWP is the base price used in purchasing drugs by certain entities). These settlements represent a recovery in Medicaid, and some of these recoveries require a federal portion (federal match on Medicaid reimbursement to providers) to be returned to the federal government. In addition, the AWP mid-year MOF swap appears to be comprised of partial revenues and partial authority, as only a portion of the total AWP revenues appropriated have been received by the Treasury (as of 1/1/2013). *The total amount of AWP appropriated in FY 13 is $52.5 M. As of 1/1/2013 approximately $38 M has been collected, leaving $14.5 M in additional AWP collections required to balance Medicaid in FY 13.*

LSU Hospital Reductions and Partnerships Update
Jennifer Katzman, Fiscal Analyst

In order to partially offset the total funding reductions allocated to the LSU hospitals as a result of the federally mandated FMAP reduction in Medicaid, LSU is utilizing one-time money such as cash reserves and recurring savings such as contract restructuring and utilization of Upper Payment Limit (UPL) funds (approximately $63.3 M in SGF offsets). Furthermore, LSU intends to partner with community and private providers to eliminate the need for hospital bed and service reductions (originally estimated at $59.3 M in SGF).

Currently, there is a Memorandum of Understanding (MOU) in place with Lafayette General, LA Children's Medical Center (LCMC), and Ochsner Health System & Terrebonne General Medical Center (the "lessees") in which each private organization will lease and operate the state facilities via a cooperative endeavor agreement (CEA) to be signed by March 2013. As a result, with the exception of LSU teaching physicians employed by the LSU School of Medicine and on contract to the hospitals, current LSU employees at these facilities will be laid off from state employment before the end of FY 13 once the transaction is closed. However, the lessees will be contractually obligated to consider them for rehire before other interested applicants. The number of rehires and staffing levels at the leased hospitals will be at the discretion of the lessees.

In order to continue services at their current level for the remainder of FY 13, each lessee will make milestone payments to LSU, which will be discounted from their future lease payments. Details on the partnership milestone payment schedules are below:

LJC & Ochsner Health System Partnership	
MOU	$2.5 M
CEA (before 3/15/2013	$1.3 M
Close of transaction (before 6/23/2013)	$1.3 M
Subtotal	**$5.1 M**
UMC & Lafayette General Partnership	
MOU	$2.6 M
CEA (before 3/15/2013	$2.6 M
Close of transaction (before 6/23/2013)	$2.6 M
Subtotal	**$7.8 M**
MCL/ILH & LA Children's Medical Center Partnership	
MOU	$7 M
CEA (before 2/28/2013	$6 M
Close of transaction (before 7/1/2013)	$4 M
Subtotal	**$17 M**
Total	**$29.9 M**

Note: In regards to the current Interim LA Hospital (ILH) in New Orleans, the LCMC will become the sole member of the University Medical Center Management Corporation (UMCMC) Board, which will assume responsibility for the management and operations of ILH until the new academic medical center is built. Upon completion, the UMCMC, under the umbrella of LCMC, will lease and manage operations of the new hospital in New Orleans. LSU is also currently negotiating to make the move to Our Lady of the Lake (OLOL) ahead of schedule in FY 13 in order to maintain a continuum of care for Earl K. Long's (EKL) patients (originally scheduled to move in November of FY 14). While discussions on an MOU with West Calcasieu Cameron Hospital and Lake Charles Memorial Hospital are ongoing for W.O. Moss Medical Center, LSU has yet to enter any other definitive agreements for partnerships. The LFO will continue to monitor current and future partnerships as they develop.

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FOCUS POINTS

Revenue Estimating Conference (REC) 12/13/2012 Meeting
Greg Albrecht, Chief Economist

The Revenue Estimating Conference (REC) met on Thursday, 12/13/2012 and reduced revenue forecasts for the current fiscal year (FY 13) and subsequent fiscal years (FY 14 – FY 17). The state general fund (SGF) forecast reduction for FY 13 was $129.2 M, and $207.1 M for FY 14 budget construction. The FY 13 official forecast now projects a $91.7 M (1.1%) absolute drop in revenue from actual FY 12 collections. While in all years the baseline is reduced, year-over-year growth projections are still positive; beginning modestly at 2.8% for FY 14 and 2.4% for FY 15, before accelerating to 3.8% for FY 16 and 4.7% for FY 17.

With respect to largely SGF revenues, significant downgrades were made to the general sales tax ($173.9 M), the personal income tax ($49 M), royalty receipts ($64.6 M), general fund earnings ($25 M), and severance tax ($10.3 M). Sales tax failed to gain traction all last year and has not done so yet this fiscal year. Household and business spending continues to be cautious, and employment and income performance has resulted in only sluggish personal income tax collections. Mineral revenue is overstated as natural gas prices have stayed subdued and oil prices have stabilized. Finally, declining investable balances combined with historically low interest rates have pushed general fund earnings down significantly.

The one area of upward general fund revision was corporate tax collections. The conference adopted a $184.1 M higher forecast for this tax. The FY 12 finish for corporate was strong and collections performance has been better so far this year. However, caution is advised here due to the volatile nature of this tax and the fact that one-half (1/2) to two-thirds (2/3) is typically collected in the last 3 months of the fiscal year. Another material improvement ($16.9 M) was made to Lottery transfers for calendar year 2012, financing FY 13. This was due to 3 high jackpot games this year and a large transfer of reserves by the Lottery Corporation. Projections fall back to their historical norm without abnormal jackpots and reserve transfers for the out years. Finally, vehicle license tax projections were increased by $20.6 M; all of which will flow into various dedications of this revenue.

After the easy growth comparisons of the first recovery year FY 11 over the trough year of FY 10 (8.3% growth), revenue growth nearly stalled out in FY 12 (3.8% growth, but only 1.4% without late-year surprise corporate and GOZone bond repayment receipts). So far this year, the outlook is for an absolute contraction (-1.1%) before modest but sustained growth returns. While the state is reportedly better off than other states in certain economic metrics, that relatively better performance has not yet translated into sustained state tax revenue growth.

FY 13 Mid-Year Reductions
Travis McIlwain, General Govt. Section Director

At the 12/14/2012 Joint Legislative Committee on the Budget (JLCB) meeting, the committee was notified by the administration of a $165.5 M current fiscal year budget deficit. On the same day, the committee notified the governor that a projected deficit exists as provided in R.S. 39:75(B). The commissioner of administration presented to the committee the administration's plan for eliminating this deficit. The Legislative Fiscal Office (LFO) is in the process of gathering additional information and analyzing these reductions as to the impact to the state. The LFO will provide a detailed report concerning these current year reductions in January.

Act 597 Payback to the Budget Stabilization Fund
Greg Albrecht, Chief Economist

Act 597 of 2012 requires the Revenue Estimating Conference (REC) to promulgate FY 12 actual revenue collections. The treasurer is directed to deposit into the Budget Stabilization Replenishment Fund (newly created by Act 597) the difference between actual collections and those officially forecast for FY 12 on 4/24/2012, up to a maximum of $204.7 M. The treasurer is then directed to transfer these funds into the Budget Stabilization Fund. This language effectively pays back any unnecessary amount that was withdrawn late in the fiscal year to support the FY 12 budget (in response to the April 24 REC forecast downgrade).

Relative to the April 24 forecast for FY 12, SGF revenue collections were $203.8 M greater than expected. After an adjustment for a portion utilized in the FY 12 budget ($78.3 M), $125.5 M of these excess collections are subject to the payback provisions of Act 597. To date, the REC has not yet addressed this issue. Should the REC promulgate the FY 12 actual revenue collections, the treasurer would deposit this amount into the Replenishment Fund and then transfer it into the Budget Stabilization Fund.

Should these funds be transferred into the Budget Stabilization Fund, they cannot be withdrawn unless the constitutional triggers for use of the Fund are met; a reduction in the current fiscal year forecast or a forecast for the next fiscal year that is lower than the forecast for the current fiscal year.

Should these funds not be transferred into the Budget Stabilization Fund, they would presumably become part of the FY 12 surplus balance (estimated at the October meeting of the Joint Legislative Committee on the Budget to be $143.3 M). Traditionally, the REC recognizes and designates surplus balances as nonrecurring revenue. Funds so designated become subject to the constitutional provisions for use of officially designated nonrecurring money: 25% to Budget Stabilization Fund, and various forms of debt retirement and capital outlay.

The administration has indicated that it wants to use $94 M of these excess collections to help resolve the current fiscal year federal Medicaid funding problem that impacted the FY 13 budget shortly after its enactment. These competing claims have not yet been resolved.

EDUCATION

Funding for Education Programs Found Unconstitutional

Mary K. Drago, Education Section Director

On Friday 11/30/2012, 19th Judicial District Judge Tim Kelley ruled that Act 2 and the Minimum Foundation Program (MFP) resolution (SCR 99) unconstitutionally divert MFP and local funds that are mandated to be allocated to public elementary and secondary schools to nonpublic entities. Act 2 of 2012 provides for the expansion of the Student Scholarship for Educational Excellence Program, sometimes referred to as the scholarship program or voucher program and creates the Course Choice Program. The MFP resolution (SCR 99) provides funding for those programs. The state plans to appeal the ruling.

The Student Scholarship for Educational Excellence Program was previously funded by a state appropriation. The program is now funded through the MFP. The average scholarship amount is approximately $5,300, and the total tuition amount to be paid on all of the students' behalf is $25,342,680. The state and local share of the total tuition amount is calculated based upon each district's per pupil allocation determined in the MFP formula. The state's share of this amount is calculated to be $12,342,389 and the local share is calculated to be $13,000,291.

Act 2 also enacted the Course Choice Program, which will begin in the 2013-14 school year. The program allows entities such as online education providers, postsecondary education institutions, and corporations that offer vocational or technical course work to provide courses to eligible K-12 students (BESE approved course 45 providers on December 5th). The program was to be funded using MFP funds allocated to the eligible student's school district to pay the course providers for educational courses provided to students.
If the ruling is not overturned, the state will have to fund these programs from other sources outside of the MFP.

Reorganization of the LSU System

Charley Rome, Fiscal Analyst

The LSU Board of Supervisors (BOS) is evaluating the future structure, leadership, and function of LSU and contracted with the Association of Governing Boards of Universities & Colleges (AGB) to study the matter. AGB prepared reports for the board that considered many factors including consolidation of the LSU System into "one campus" with one chief executive officer for all campuses in the system.

In response to the AGB report, the LSU BOS approved a resolution combining the positions of the LSU System President and LSU A&M Chancellor. In response to criticism of the board's action, the State Attorney General issued an opinion stating that the LSU BOS failed to provide sufficient public notice of their intent to vote on the merger of these positions. As such, the board reconsidered merging these positions on 12/7/2012 and voted to eliminate the LSU A&M Chancellor position. The board assigned the Chancellor's duties to the LSU System President beginning with the appointment of LSU's next System President.

The Southern Association of Colleges & Schools (SACS) wrote a letter to LSU raising concerns relative to LSU's accreditation as a result of merging the LSU System President and the LSU A&M Chancellor. LSU responded to SACS stating that the LSU System President and LSU A&M Chancellor have separate duties and responsibilities carried out by Dr. Jenkins in a combined role.

In November 2012 the LSU BOS adopted a motion describing guiding goals and principles for realigning and reorganizing LSU. The board also voted to form a transition team appointed by Dr. Jenkins to facilitate planning of the realignment of LSU. The transition team's first meeting will be held on 12/19/2012.

GENERAL GOVERNMENT

Act 597 Action Not Materialized

Travis McIlwain, General Govt. Section Director

Act 597 (Funds Bill) enacted during the 2012 Legislative Session played a prominent role in crafting the FY 13 operating budget and the FY 12 budget (FY 12 Supplemental Appropriations Bill). This legislative instrument provided for the transfer of approximately $379.1 M of various resources into the SGF, LA Medical Assistance Trust Fund (MATF) or the Overcollections Fund for expenditure in either FY 12 or FY 13. *However, to date there are approximately $303.7 M of funds bill resources that have not been transferred to the SGF, MATF or Overcollections Fund that have been appropriated in FY 12 & FY 13*. Thus, approximately $75.3 M of the $379.1 M has been transferred to date.

Act 597 transfers approximately $258.5 M from various resources into the SGF. *To date, approximately $42.4 M (or 16%) of resources have been transferred into the SGF for expenditure*. Some of the significant funding items ***not*** transferred include: $56 M - Risk Management's Self Insurance Fund; $10 M - proceeds from NOAH sale; $27.25 M - proceeds from 6 Average Wholesale Price (AWP) legal settlements; $78.3 M - bond repayments; and $9.9 M - FEMA reimbursements.

Act 597 transfers approximately $79.5 M from various resources into the MATF. *To date, approximately $26.8 M (34%) of resources have been transferred into the MATF for expenditure*. Some of the significant funding items ***not*** transferred include: Ernest Morial Exhibition Hall Authority ($20 M); bond repayments ($25.9 M); and various fund transfers ($6.7 M).

Act 597 directs the state treasurer to transfer:
1) $41.1 M into the Overcollections Fund. To date, approximately $6.1 M (15%) of resources have been transferred into the Overcollections Fund for expenditure. *The significant funding items not transferred include $35 M for the sale/lease of NOAH.*

2) Proceeds from the sale of the former DOI building site, excess receipts over $10 M from FEMA reimbursements and excess receipts over $56 M from the Self Insurance Fund. *These additional items are not currently included in the FY 13 operating budget.*

Closure of Phelps Correctional Center

Stephanie Blanchard, Fiscal Analyst

The closing of Phelps Correctional Center (PCC) in DeQuincy on November 1 will result in a net reduction of 169 authorized positions and estimated net savings of $2.6 M in FY 13 and $10.7 M in FY 14. The net savings includes: 1) estimated one-time funding for termination pay and unemployment benefits ($2.8 M) in FY 13; and 2) recurring funding related to the transfer of 942 offenders to a previously closed camp and dorms at LA State Penitentiary ($1,857,514 and 79 positions); the transfer of the Prison Enterprises garment factory to Elayn Hunt Correctional Center ($120,000 and 4 positions); and additional funding for David Wade Correction Center to implement the Prison Elimination Act ($276,796 and 12 positions).

All funding and positions associated with the closure of PCC are being transferred through BA-7 pursuant to Act 13 of 2012 which states that the number of authorized positions may be increased by the Commissioner of Administration when sufficient documentation of other necessary adjustments is presented, and the request is deemed valid.

Bayou Corne Sinkhole

Evelyn McWilliams, Fiscal Analyst

As of 12/7/2012, the state has incurred approximately $5.5 M in expenses associated with the Bayou Corne sinkhole incident. The approximate amount incurred by each state agency is as follows: Department of Natural Resources $4.4 M; Department of Environmental Quality $0.6 M; Public Safety Services (State Police and Liquefied Petroleum Gas) $0.2 M; Wildlife & Fisheries $0.1 M; Military $60,000; Homeland Security $40,000; and DHH Office of Public Health $90,000.

Approximately $4 M of the expenditures for the Department of Natural Resources (DNR) is associated with a contract with the Shaw Environmental Group. The Shaw Group (including its subcontractors) is responsible for planning, testing and drilling activities to determine the cause of the sinkhole. To date, the Shaw Group has submitted invoices requesting payment of approximately $600,000 of its obligated expenses. The DNR also incurred slightly more than $400,000 in personnel expenses and approximately $230,000 in expenses with other contractors responsible for drilling wells and performing testing activities at the Bayou Corne sinkhole.

Reimbursable expenditures incurred by Public Safety Services, Military, Homeland Security and the departments of Environmental Quality and Wildlife

& Fisheries are for personnel costs (salaries and related benefits), travel and operating services such as fuel and supplies.

On 11/8/2012, the Attorney General's Office sent a bill to Texas Brine, the company responsible for the sinkhole incident, requesting payment of $3.5 M for expenditures incurred by the state due to the sinkhole incident. In a follow-up letter Texas Brine requested the state provide it a detailed accounting of the costs incurred by the state. The Attorney General Office is in the process of compiling the requested information.

Office of Group Benefits (OGB)
Travis McIlwain, General Govt. Section Director

On 11/9/2012 the House Appropriations and Senate Finance committees approved the Office of Group Benefits' third-party administrator (TPA) contract with Blue Cross Blue Shield. As testified in committee, the DOA anticipates total net savings of approximately $20 M, while the LFO calculates the savings to range from $11 M to $18.3 M.

Although the anticipated result of this approved TPA is administrative savings, school boards, state agencies and employees will only realize a savings if the OGB Board/Commissioner of Administration actually reduces premiums. At this point in the FY 14 budget development process, OGB's premiums will remain constant when it starts its new plan year on 1/1/2013. Due to premiums remaining constant, any administrative costs savings realized as a result of the new TPA will remain in OGB's fund balance and will not actually be realized by school boards, state agencies and employees.

Hurricane Isaac – 25% State Match
Travis McIlwain, General Govt. Section Director

The Governor's Office of Homeland Security & Emergency Preparedness (GOHSEP) estimates the total (federal & state share) costs to be approximately $161.6 M of which the state will be responsible for 25% (state match), or approximately $40.4 M.

The federal resources associated with this event are paid on a reimbursable basis. At the time of the event, state agencies expend existing funding for emergency response expenditures and then submit a request for reimbursement to FEMA through GOHSEP for the federal portion. State agencies are currently completing the necessary project work-sheets (PW) in order to receive the federal reimbursement.

The commissioner of administration approved a BA-7 request that appropriated the remaining fund balance of the State Emergency Response Fund (SERF). Thus, the total SERF appropriated in the DOA's FY 13 budget is $17,491,175. These resources will likely be utilized to reimburse a portion of the state match requirement of Hurricane Isaac. Although the Military Department and Workforce Commission have had BA-7s approved by JLCB for increased IAT budget authority in order to receive SERF funds from the DOA for their state match portion, to date the DOA has not transferred such resources.

To the extent all $17.5 M in SERF resources currently appropriated in the DOA current budget are utilized for the storm's state match, the state will still have to find another $23 M of resources or state agencies will likely have to absorb these costs.

Crescent City Connection Vote (11/6/2012)
Alan Boxberger, Fiscal Analyst

On the November 6th election ballot, voters in Jefferson, Orleans and Plaquemines parishes were asked to determine whether toll collections should continue on the Crescent City Connection Bridge (CCCB) through 2033. The ballot measure passed by a thin margin of 16 votes from a total of nearly 309,000 ballots. Act 865 of 2012 will become effective 1/1/2013, extending toll collections, providing for policing of the bridge and surrounding arteries and creating new statutory dedications earmarked for specific purposes.

Toll collections are estimated at approximately $20.9 M annually. Of this total, the first $10 M will be deposited annually into the Crescent City Connection Capital Projects Fund subject to legislative appropriation for debt service, pay-as-you-go projects, or to match federal project funds. The balance of funds shall be deposited in the Crescent City Connection Toll Fund, to be used subject to legislative appropriation for the operations, maintenance and policing of bridge operations.

The Department of Public Safety & Corrections, Public Safety Services (DPS), shall have the responsibility to provide police functions on the CCCB and along US 90-Z between Interstate 10 and US 90, at a cost not to exceed $2 M annually. The Department of Transportation & Development (DOTD) shall have the responsibility to maintain and light the bridge, in addition to providing toll collections, motorist assistance patrols and administering capitol projects. DOTD is authorized to privatize operations, maintenance and collection of tolls. The New Orleans Regional Planning Commiss-ion (NORPC) is designated as an advisory body with regard to the collection of tolls and prioritization of capitol projects.

DOTD and DPS are currently meeting with NORPC to develop and finalize plans for bridge, police and maintenance operations. A final plan is expected in the near future that will more fully detail department plans for operations and the feasibility of privatizing certain activities. Once the plans are finalized, the departments will require budget adjustments or supplemental appropriations as the FY 13 appropriation only funded ½ year of operations.

On 12/18/2012, opponents of the Crescent City Connection toll renewal filed a lawsuit at the 19th JCD challenging the results of the November 6th election.

Sale of Former DOI Building Site
Travis McIlwain, General Govt. Section Director

Act 597 (HB 822 – Funds Bill) of 2012 provides for proceeds generated from the sale of the DOI's former building site be transferred into the Overcollections Fund. Although Act 597 does not specify an amount, the original version of HB 822 assumed approximately $5 M generated from the sale. *These resources were not built into the FY 13 budget, thus if the state does not sell the property, there would be no FY 13 budgetary impact.* However, to the extent the state does sell this site, the proceeds would likely be deposited into the Overcollections Fund for legislative appropriation either in the FY 13 supplemental appropriations bill or the FY 14 appropriations bill (HB 1) during the upcoming legislative session.

To date, the Division of Administration (DOA) has had 2 appraisals completed with valuations ranging from $2.8 M to $4.9 M. (August 2012 – Cook Moore & Associates $2.825 M and January 2012 – Sharon Pruitt $4.865 M).

The Joint Natural Resources Committee must grant the DOA the ability to sell the property. The meeting to consider this issue was originally scheduled for 11/9/2012, but was canceled. This meeting has not been rescheduled.

LA Public Defender Board Treasury Seed Request Update
Travis McIlwain, General Govt. Section Director

At the September 2012 Joint Legislative Committee on the Budget (JLCB) meeting, the committee approved a BA-7 request in the amount of $250,000 for the LA Public Defender Board for Sexual Offender Assessment Panel (SOAP) cases from the LA Public Defender Fund. Due to the original source of revenue for this fund being SGF deposited annually, there are actually not enough resources available within the fund to fund this request. Thus, the agency and the DOA have requested a $250,000 treasury seed to be paid back via "excess" SGF.

To the extent that those SGF resources are utilized elsewhere during FY 13 and there are no additional FY 13 SGF resources recognized during the fiscal year by the Revenue Estimating Conference (REC), the DOA anticipates reducing other FY 13 SGF resources in other areas of the FY 13 operating budget in order to fully fund these case expenditures. At this time, it is unknown as to what specific FY 13 SGF resources may be reduced.

To date, the State Treasury has received the treasury seed request from the DOA and the LA Public Defender Board, but has not approved the treasury seed request.

Public Service Commission Suit Against the State
Deborah Vivien, Economist/Fiscal Analyst

In June 2010, the Public Service Commission (PSC) filed suit against the LA Legislature and the Administration claiming that the state unconstitutionally swept the accrued balances of the funds of the PSC in the amount of $8.5 M ($4 M in 2009 and $4.5 M in 2010) and placed the money in the general fund for use in any area of state government. The PSC contends that those balances were the proceeds from industry-specific fees (in particular, inspection and utility fees, motor carrier registration fees and telephonic solicitation registration fees) collected under the auspices that the fees were to be used in the regulation and enforcement of industry standards. In transferring these fees to the SGF, the PSC contends that the state treated them as a general tax, which is prevented by the Constitution. The Legislature indicates that the fund balance sweep was an allowable use of these funds. If the PSC is successful in this effort, the state could eventually be required to return hundreds of millions of dollars to these and similar funds that have been swept over the years.

The Attorney General filed exceptions to the case in 19th Judicial District State Court which the PSC opposed. On 2/2/2011, the court ruled that the state did not violate the Constitution in sweeping the funds for use in the general operating budget. The PSC filed an appeal with the 1st Circuit and argued on 11/9/2012 with the judgment currently pending. Either side may appeal this ruling to the State Supreme Court. Regardless of the final outcome of the case, any budgetary impact is expected to be delayed beyond the current budget year due to the appeals process.

Both the state (represented by the Attorney General) and the PSC are using in-house attorneys so there is no additional administrative cost to the state as a result of this case.

The Balance of the LA Mega-Project Development Fund

Deborah Vivien, Economist/Fiscal Analyst

After all appropriations from the fund are considered, along with the addition of accrued interest, the LA Mega-Project Development Fund (MegaFund) balance is $28,431,982 as of 12/4/2012. However, the Department of Economic Development has announced 2 new projects, Benteler Steel and Sasol, Ltd., that appear to be eligible for MegaFund dollars, neither of which has a confirmed cooperative endeavor agreement ready for signature.

Benteler Steel is expected to build a seamless steel tube mill and a steel mill at the Port of Bossier-Caddo creating 675 new direct jobs in exchange for local and state cash and infrastructure incentives of $90 - $100 M plus FastStart training and other program incentives such as Quality Jobs and the industrial Tax Exemption.

Sasol Ltd. will invest $16 B to $21 B and create 1,235 new direct jobs in Westlake, LA near Lake Charles by expanding their existing facility. According to the news release, the state will commit to $135 M in cash and infrastructure incentives, FastStart training, and other programs such as Quality Jobs, Competitive Projects Payroll Incentive and the Industrial Tax Exemption. Obviously, either of these projects would exhaust the remainder of the MegaFund and require additional funding, though neither the fiscal year timing of the impacts nor exact amounts of the incentives are certain since the agreements are not yet finalized or approved by the legislature.

HEALTH & HOSPITALS

Medicaid Outlook

Shawn Hotstream, Health & Hospital Section Director

For FY 13, a portion of the recurring Medicaid budget is financed with approximately $219.9 M in revenue sources that likely will need to be replaced with other means of finance in FY 14. The significant one-time funding sources are as follows:

1) $218,342,753 in Statutory Dedication funding deposited into the Medical Assistance Trust Fund (MATF) that is appropriated in the Private Providers Program. These revenues are used as a state match source to draw federal financial participation in order to pay Medicaid claims. MATF deposits in FY 13 include revenue from Go Zone Bond Repayments, the Earnest Morial Memorial Exhibition Hall Authority, Average Wholesale Price legal settlements, various fund transfers, and various revenues from the FY 12 MATF funds that were "freed-up" and appropriated in FY 13.

2) $1,651,166 in revenue from the New Opportunities Waiver (NOW) Fund appropriated in the Medical Vendor Administration Program in FY 13. Act 481 of 2007 created the NOW Fund, and approximately $50 M of one-time surplus revenues was deposited into the NOW Fund in FY 09.

LSU Hospital Reductions & Partnerships

Jennifer Katzman, Fiscal Analyst

In FY 13, a federally mandated Medicaid FMAP reduction resulted in a shortfall of approximately $859 M to the Department of Health & Hospitals (DHH). As a result, DHH implemented a 10% Medicaid rate reduction ($4.3 M SGF match) and a $122.6 M state match cut to LSU's Uncompensated Care Costs (UCC) allocation ($126.9 M SGF total). This equates to a loss of $202.4 M in federal match, representing an overall reduction of $329.3 M to the LSU public hospital system.

The two LSU systems, LSU-Health Sciences Center (HSC) in Shreveport and the Health Care Services Division (HCSD), implemented the reductions separately. HCSD's allocated share of the $126.9 M in SGF cut is $85.1 M, and LSU-HSC's allocation is $41.8 M. As a result of the cut, LSU has tentative plans to eliminate 224 vacancies from LSU-HSC and approximately 1,500 positions from HCSD. Based on its initial budget reduction scenario, HCSD will reduce services at all hospitals and the number of inpatient and emergency beds from 449 to 303 with the position reductions. In order to partially offset the total funding reductions allocated to the hospitals, LSU is utilizing one-time money such as cash reserves, and HCSD intends to partner with community and private providers to fill the service gap created by hospital bed and service reductions. As of 12/10/2012 there are 3 Memorandums of Understanding (MOU) for public and private collaboration. Ochsner and Terrebonne General Medical Center will partner with Leonard J. Chabert Medical Center, Lafayette General will partner with University Medical Center in Lafayette, and LA Children's Medical Center in New Orleans will partner with the LSU Interim Hospital in New Orleans.

The LSU Board of Supervisors (BOS) initially planned to issue requests for proposals (RFPs) to find private entities to partner in the operation of LSU-S, EAC, and HPL. However, due to time constraints, LSU opted to utilize the LSU Health Sciences Foundation to formulate public/private partnerships for the north LA hospitals.

FY 13 Medicaid Revenue Shortfall
Shawn Hotstream, Health & Hospital Section Director

A provision of the federal transportation bill modified LA's Disaster Recovery Federal Medical Assistance Percentage (FMAP) rate, which resulted in a decrease in federal financial participation by approximately $859 M for FY 13. The Medicaid budget for Act 13 was initially based on a blended FMAP of 71.38% (28.62% state match), however during the state fiscal year (FY 13) the federal formula was adjusted to a blended 66.58% (33.42% state match), which required the Department of Health & Hospitals to solve for this loss of federal funds by implementing over $859 M in cuts or appropriating an additional state match source to draw down appropriated federal match.

The department has recommend a combination approach, and intends to utilize approximately $94 M in surplus revenue to close the approximately $800 M gap in the budget (to the extent these funds are not returned to the Rainy Day Fund). To the extent this $94 M gap is solved with non-recurring revenues in the current year, the $94 M represents a SGF need for FY 14.

New Orleans Adolescent Hospital (NOAH)
Jennifer Katzman, Fiscal Analyst

Act 597 directs the state treasurer to transfer $35 M from the proceeds of the sale of NOAH into the Overcollections Fund for FY 13 expenditures in HCSD. Specifically, the funds will be used to replace SGF utilized for unallowable costs (primarily prisoner care). Act 597 also directs the treasurer to transfer any excess proceeds from the sale into the SGF for general FY 13 state expenditures. However, according to appraisals conducted for the DOA by Argianas & Associates, Inc. and Argote, Derbes, Graham, Shuffield, & Tatje, Inc., the property's market value does not exceed $20.9 M for the land and improvements thereon, including the hospital.

As directed by Act 867, the DOA intends to enter a long-term lease with Children's Hospital in New Orleans for the property. The parties are still negotiating the terms of the lease agreement, including the term period, payment amount, and whether payments on the lease will be upfront or continuing in subsequent years. To the extent the projected funding does not materialize in FY 13, there will be a $35 M shortfall in HSCD's budget for the current fiscal year. Depending on the terms of the lease regarding payment methodology, the $35 M is potentially one-time funding for FY 13, which will result in the need for a like amount of SGF to replace the statutory dedication beginning in FY 14. However, if there are continuing annual payments under the lease agreement, HCSD could potentially receive these payments through a statutory dedication in lieu of wholly SGF appropriations for unallowable costs in subsequent years.

Southeast LA Hospital (SELH)
Jennifer Katzman, Fiscal Analyst

On 12/3/2012, a cooperative endeavor agreement (CEA) was signed between DHH and Meridian Behavioral Health Service of Gainesville for the continuing operation of SELH in Mandeville beginning 1/2/2013 through 1/1/2016. SELH was originally scheduled to close in FY 13 due to an allocated cut as a result of the federally mandated FMAP reduction. DHH conservatively estimated an initial SGF savings of $555,893 ($1.6 M total MOF) as a result of personnel reductions. The LFO is currently researching the future financing structure at SELH and associated payments to Meridian under the CEA to determine the net impact of privatization.

In anticipation of closure, 60 intermediate adult beds were moved to Central LA State Hospital and 34 were moved to Eastern LA Mental Health System in October 2012. Meridian will staff the remaining 58 beds including: 16 acute adult beds, 22 acute adolescent beds (ages 12-17), and 20 adolescent DNP beds (ages 12-17) at SELH. All scheduled layoffs will be completed by 1/2/2013 when Meridian assumes operations. The LFO has requested the number of layoffs after transfers and vacancies are taken into consideration from DHH. As part of the cooperative endeavor agreement, Meridian must interview and consider any current SELH employees for reemployment at SELH.

DCFS Administrative Costs for Hurricane Isaac
Patrice Thomas, Fiscal Analyst

In response to Hurricane Isaac, the Department of Children & Family Services (DCFS) housed 6,353 evacuees in state-run shelters and issued $103,842,960 in Disaster Supplemental Nutrition Assistance Program (DSNAP) benefits to 263,459 households and 587,618 people in the 21 parishes approved for assistance. As of 12/3/2012, DCFS expended $30,588,389 SGF to operate the state-run shelters ($4,452,804) and issue DSNAP benefits ($26,135,585).

DCFS has submitted Project Worksheets (PWs) to the FEMA Public Assistance Program for reimbursement of $3,339,603 for shelter expenditures (75% of

$4,452,804) and $13,067,793 for DSNAP administrative expenditures (50% of $26,135,585). After FEMA reimbursements, DCFS will have unanticipated expenditures of $14,180,993 SGF ($30,588,389 - $16,407,396 FEMA reimbursements) over their existing operating budget as a result of Hurricane Isaac expenditures. It is unknown at this time how DCFS will address the unanticipated expenditures before the end of the fiscal year.

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