Bobby Jindal
Governor

Paul W. Rainwater
Commissioner of Administration

STATE OF LOUISIANA

Executive Budget

Fiscal Year 2011-2012

Joint Legislative Committee on the Budget

March 11, 2011

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Introduction and Overview

- Preserving Louisiana's economic progress
- Addressing the shortfall while reducing reliance on one-time revenue
- Reducing the size and cost of government
- Transforming government to improve services
- Protecting funding for education and health care, improving outcomes

Louisiana's Economic Progress

Recent recognitions of Louisiana's progress include:

- In December, *Business Facilities* magazine recognized Louisiana as the 2010 State of the Year because of our recent business climate reforms, business development success throughout the year, innovative incentive programs, economic growth strategy, and world-class workforce training program, Louisiana FastStart.
- *Business Facilities* also named Louisiana FastStart the nation's best workforce training solutions program.
- *Site Selection* magazine recently released its annual "Governor's Cup" rankings, and Louisiana's national economic development projects ranking improved 12 spots to 3rd best in the U.S. The ranking was Louisiana's highest ever in the 23-year history of the "Governor's Cup" project rankings.

Louisiana’s Economic Progress

- For the second consecutive year, *Southern Business and Development* named Louisiana “Co-State of the Year,” noting that we attracted more significant business investment and job-creating projects per capita than any other state in the South, two years in a row.
- Pollina Corporate Real Estate released its rankings of top states for business; and Louisiana earned the first-ever Most Improved State designation based on its improved ranking from 2008 to 2010. In just two years, Louisiana jumped 20 spots in the ranking of best states for business (from 40th to 20th).

Credit Rating Agencies Maintain 'Stable' Louisiana Outlook

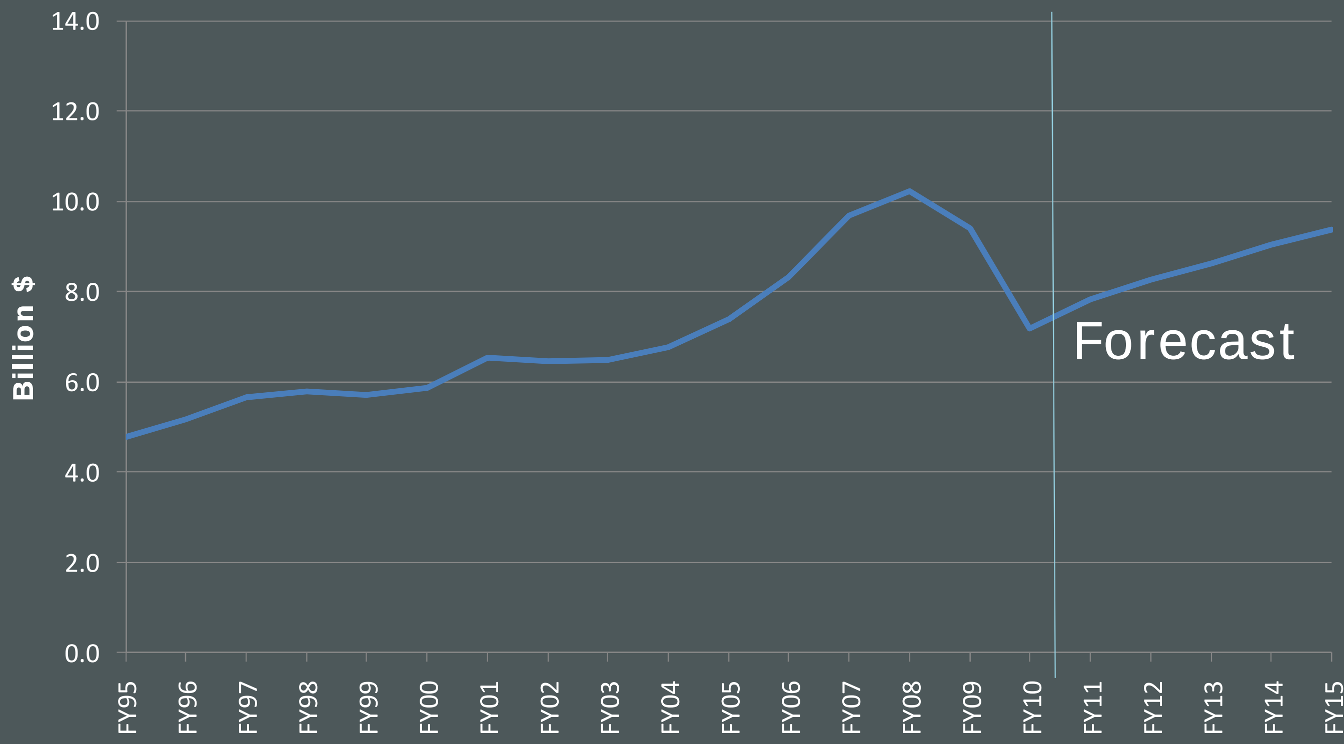
Fitch assigns "AA" rating to GO Bonds, citing:

- Louisiana has made progress toward increased economic diversification
- State's financial management has been solid
- Continued timely action to maintain budget balance and maintenance of solid financial balances

Moody's Investment Service assigns "Aa2" rating, citing:

- State's strong financial position and healthy liquidity in recent years
- State's speedy responses to downward revenue projections
- Healthy economic measures relative to the nation
- An improved business environment and active economic development plans

State General Fund Revenue



Addressing the $1.6 Billion Shortfall, Reducing Reliance on One-Time Dollars

Balanced Approach: Spending Reductions, Holding the Line on Increased Costs, Maximizing Available Funds

Major reduction and savings areas include:

- Department-by-department strategic reductions to the existing operating budget: Approximately $410 million
- Reductions across the executive branch by annualizing FY 11 midyear cuts: Approximately $110 million
- Reducing more than 4,000 fulltime positions across the executive branch: Approximately $96 million
- Protecting MFP total funding at more than $3.3 billion, but not funding certain increases anticipated at continuation, such as state employee "merit" raises; absorbing inflationary costs, with reductions to others: Approximately $200 million
- Reducing projected General Fund increases at continuation through funding efficiencies: Approximately $225 million

Addressing the $1.6 Billion Shortfall, Reducing Reliance on One-Time Dollars

Reducing reliance of one-time revenues for recurring expenses by more than $1 billion

One-time money utilized in the current fiscal year (FY 11): $1.6 billion

For FY 12:

One-time revenues for recurring expenses:	$474 million
Recurring revenues to address one-time *expenditures*:	$57 million
Net total of one-time revenues for recurring expenses:	$417 million

COMPARISON: FY 10-11 Budgeted to FY 11-12 Executive Budget

(Totals Including Additional Funding Related to Hurricane Disaster Recovery)

(Inclusive of Contingencies) (Exclusive of Double Counts)

	As of 12/01/2010 Budgeted 2010-2011	Executive Budget 2011-2012	Executive Budget Over/(Under) Budgeted	Percent of Change
GENERAL FUND, DIRECT	$7,735.5	$8,264.2	$528.7	6.84%
GENERAL FUND BY:				
FEES & SELF-GENERATED REVENUES	$1,722.1	$1,959.2	$237.1	13.77%
STATUTORY DEDICATIONS	$4,675.0	$3,731.9	($943.1)	-20.17%
INTERIM EMERGENCY BOARD	$1.1	$.0	($1.1)	-100.00%
TOTAL STATE FUNDS	$14,133.7	$13,955.3	($178.3)	-1.26%
FEDERAL FUNDS	$11,921.4	$10,975.0	($946.3)	-7.94%
GRAND TOTAL	$26,055.0	$24,930.4	($1,124.6)	-4.32%
TOTAL POSITIONS	82,208	72,109	(10,099)	-12.28%

NOTE: Positions are authorized, not filled positions. For Higher Education, 6,004 T.O. that are funded from 100% Restricted Funds are now reflected as off-budget for FY12. Dollar amounts are represented in millions.

FY12 Net Adjustments in Authorized Positions

Executive	-55	Children & Family Services	-313
Veterans Affairs	5	Natural Resources	0
State	-18	Revenue	-18
Justice	-23	Environmental Quality	-42
Lt. Governor	-4	Workforce Commission	-28
Treasury	-2	Wildlife & Fisheries	0
Public Service	0	Civil Service	23
Agriculture & Forestry	-41	Retirement Systems	0
Insurance	-2	Higher Education	-862
Economic Development	-4	Other Education	-24
Culture, Recreation & Tourism	-65	Dept. of Education	-28
DOTD	-30	Health Care Services Div.	-286
Corrections	-918	Other Requirements	0
Public Safety	-184	Ancillary	-173
Youth Development Services	-58		
Health & Hospitals	-945	**TOTAL**	**-4,095**

Position Reductions to Date

- Following prior reductions of 6,362 fulltime, appropriated positions through budgetary actions, approval of the 4,095 net reduction recommended for FY 12 would mean a total reduction of 10,458 fulltime, appropriated positions—or more than 12 percent—since the beginning of the Jindal administration.

Transforming Government Initiatives

- The **Louisiana Department of Children and Family Services, Department of Health and Hospitals, Office of Juvenile Justice, and Department of Education** are developing a **Coordinated System of Care,** an integrated approach to provide services for at-risk children. This system will leverage $65.8 million in existing state general fund to draw down a total of $101 million in additional Medicaid dollars, providing the state with estimated total state savings of $16.3 million through fiscal year 2013.

Transforming Government Initiatives

- The **Department of Transportation and Development** is undertaking a major departmental reorganization and streamlining of operations, consisting of:
  - Eliminating the Office of Public Works and Intermodal Transportation, consolidating the organization by eliminating the executive position of Assistant Secretary of Public Works and Intermodal Transportation, integrating the staff and functions into other areas of DOTD ($130,000 in savings). Relocating current operations of the Public Transportation Program into the Office of Planning and Programming.
  - Moving legal services and real estate sections to DOTD's main campus on Capitol Access Road, thus eliminating building rental fees ($400,000 in annual savings), and moving the aviation, public transportation, ports, marine, and rail sections to the main campus by July 2011 ($200,000 in annual savings).

Transforming Government Initiatives

- The **Department of Children and Family Services** is continuing to consolidate offices around the state, resulting in reduced leases, travel, and office supplies, at a savings of $2.66 million. In addition, DCFS will reduce 307 positions, mostly through attrition and the elimination of vacant positions, at a savings of $4.6 million in this budget.

Transforming Government Initiatives

- **Louisiana State Police, the Governor's Office of Homeland Security and Emergency Preparedness, and the Office of Juvenile Justice** will consolidate and share back-office functions such as human resources, information technology, and finance for the three agencies. This consolidation will help coordinate similar agency functions and reduce duplicative resources needed to manage them, while achieving estimated savings of $1.2 million and the reduction of 16 positions, and maintaining a high level of service in these areas.
- The **Office of Juvenile Justice** is reducing Day Treatment Services, provided through an alternative school, for a savings of $9.4 million.
- The **Department of Corrections** is expanding technology enhancements to save $1.35 million by expanding use of video court and telemedicine, and by equipping additional prisons with security cameras and shaker fences that will replace manned towers.

Transforming Government Initiatives

- The **Department of Corrections** is converting Dabadie and Avoyelles Correctional Centers to privately operated facilities, in addition to selling the Avoyelles, Allen, and Winn Correctional Centers.
  - DOC will convert J. Levy Dabadie Correctional Center in Pineville from a 580-bed minimum-security state operated prison facility to a privately operated 300-bed minimum security facility. Offender work crews will still be provided to Camp Beauregard and for litter clean up, and most of the offenders transferred from Dabadie will be placed in other work release facilities. The conversion of Dabadie is projected to save the state $4.8 million in State General Fund in FY 11-12, and $5.9 million in FY 12-13. The current cost at Dabadie is $48.94 per offender per day, and the per diem for correctional services under the agreement with the private operator will be at least a 38.7 percent reduction.

Transforming Government Initiatives

- DOC will also convert operations at Avoyelles Correctional Center in Cottonport from a 1,564-bed medium security state operated prison facility to a privately operated facility. The conversion of Avoyelles is projected to result in a savings of $2.6 million in State General Fund in FY 11-12, and $6.0 million in FY 12-13. The current cost at Avoyelles for each offender amounts to $42.82 per day. The per diem for correctional services under the agreement with the private provider will be approximately a 26.4 percent reduction.

- Legislation will be offered to sell Allen, Winn, and Avoyelles Correctional Centers via a competitive bid process for the purchase of the facilities and the correctional operations to ensure that the state receives the most efficient and cost effective services. The Allen and Winn facilities appraised for $32 million each. DOC conducted a request for information in early February, and has received information on the proposed per diem for operating the facilities from seven responders, with per diems ranging from $31.50 to $45.00. Once the legislation for the sales is enacted, a request for proposal will be issued for the sale of the facilities. The highest qualified bidder will be awarded the facility and a 20-year contract.

Transforming Government Initiatives

- The **Department of Environmental Quality** relinquished two floors and a large portion of its first floor office space in its Galvez building headquarters for $1.8 million in rental savings in FY12 budget.
- In August, the **Department of Education** began implementing a reorganization plan to downsize the agency and redirect human resources on service, functions, and activities in advancement of nine critical goals, all centered on student achievement, through three consolidated critical goal offices: Literacy; Science, Technology, Engineering and Math (STEM); and Career and College Readiness. Correspondingly, the department's FY 12 budget includes reductions in contracts, travel, and other operating expenses, with cost savings of $2.7 million, while preserving and protecting critical programs.

Transforming Government Initiatives

- The **Department of Public Safety** has increased outsourcing of road skills testing to third party providers at a savings of $817,000, and is outsourcing the OMV International Registration Plan, which will allow for the reduction of nine positions. In addition, the State Police Crime Lab implemented an efficiency improvement project in the DNA laboratory (Lean Six Sigma), which resulted in DNA case turn-around-time being reduced by 50 percent and doubling productivity.

Transforming Government Initiatives

- The **Governor's Office of Homeland Security and Emergency Preparedness** (GOHSEP) is consolidating the state's first responder and emergency management training, through the Louisiana Command College for Homeland Security and Emergency Preparedness. The Command College will be the first of its kind in the country to bring together a flagship university with active homeland security and emergency management personnel to better equip local government to respond to all hazards. The estimated annual savings from this initiative is $300,000.
- The **Department of Revenue** has streamlined operations at its regional offices, collapsing them into three administrative regions serving north and central Louisiana, southwest Louisiana, and southeast Louisiana. Instead of eight regional administrators for statewide customer service, there are now only three.

Transforming Government Initiatives

- The **Louisiana State Employees Retirement System (LASERS)** provides retirement benefits for most state government workers. Currently, employees contribute 8 percent of their pay to cover the future cost of their benefits, while the state contributes an amount equal to an additional 22 percent of employees' pay to cover pension benefits. As such, employees contribute less than 27 percent of the cost of their retirement, while the state's share of the cost exceeds 73 percent.
  - Out of 45 states surveyed, Louisiana ranks third highest in the nation for employer contribution rates as a percentage of payroll, and is one of only 17 states that pay more than 70 percent of the overall contribution towards employee retirement.

Transforming Government Initiatives

- In 1987, employees in LASERS paid over 40 percent towards their own retirement whereas now they pay only 27 percent. To get back to historical norms in terms of employee and employer contribution rates, we are proposing to keep the employer contribution rate at close to the FY11 levels of 22 percent, while the contribution rate for non-hazardous duty employees in LASERS will increase by 3 percent. In FY12, this proposal will save approximately $24 million in taxpayer-supported General Fund revenue that would have to be spent to cover the increased costs of state employee retirement.

Transforming Government Initiatives

- The **Office of Group Benefits** is responsible for providing health care services to state employees and retirees.
  - OGB issued an RFP on February 4 for a financial advisor to assist with assessing the market value of OGB and negotiate on behalf of OGB for the procurement of health care services, including the sale of both the PPO and HMO plans. We plan to continue to provide an HMO and PPO product with the same or better benefit structure of those currently offered. No proceeds from this transaction are included in the FY 12 budget.
  - This partnership will unlock value and mitigate risk by providing the state with instant access to state-of-the-art technology improvements, a higher probability for reduced claims costs, and additional flexibility in program management. More importantly, this partnership will allow the state to focus on oversight as opposed to the day-to-day activity of running a large health insurance enterprise. This transition is expected to result in the reduction of 149 positions, and recurring savings of $10.2 million, which could increase in future years.

Transforming Government Initiatives

- The **Office of Group Benefits** will adopt the “Employer Group Waiver Plan” (EGWP) methodology and transition from a fiscal year to a calendar year. As an EGWP, OGB will receive reimbursements of up to 67 percent of prescription drug costs for retirees enrolled in Medicare, increasing the amount of funding OGB receives from the Centers for Medicare and Medicaid Services (CMS) by an estimated $31.5 million per year. Approximately $8 million of this increased funding is attributable to a federal catastrophic reinsurance program built into the EGWP. However, in order to be eligible for this funding, the plan must be based on a calendar year.

Education: Increased Flexibility, Improved Outcomes

K-12: Minimum Foundation Program

- The MFP will increase from $3.31 billion in FY11 to $3.38 billion in FY12.
- While funding to other programs has been reduced by 26 percent over the last three years, funding for the state's MFP — the state's largest allocation of education funding — has increased by 6.2 percent, from $3.12 billion in FY 08 to $3.31 billion in FY 11. From FY 08 to FY 11, our state's appropriated student count allocation increased from $4,735 to $5,038 per student, representing a 6.4 percent increase. Taking into account the new dollars committed to the MFP in this budget, the MFP will have increased by 8.2 percent since FY 08.

Education: Increased Flexibility, Improved Outcomes

Investments in K-12 Education

- $29 million for the *Ensuring Literacy for All (ELFA)* program designed to ensure every student is reading and writing at or above grade level by 3rd grade. This benefits almost 222,000 students during 2011-2012 school year.
- $7.2 million for Science, Technology, Engineering, and Math (STEM) allowing 30,000 students to benefit from enriched science and math programs.
- $76 million for Cecil Picard LA4 Early Childhood Program to allow almost 17,000 "at risk" 4-year-olds to be enrolled in LA4 during the 2011-2012 school year.

Education: Increased Flexibility, Improved Outcomes

Investments in K-12 Education

- $3.95 million in TANF for dropout prevention programs (Jobs for America's Graduates and EMPLOY) to allow more than 4,000 students to participate in these programs during the 2011-2012 school year.
- $17.6 million for Career and Technical Education (CTE) to allow almost 170,000 students to benefit from the promotion and integration of career and technical concepts within the academic and counseling framework of schools to prepare them for immediate and successful entry into the workforce or enrollment in post-secondary institutions.
- $21.6 million for High School Redesign to support programs contributing to achieving an 80 percent graduation rate, including Accelerate Student pathway, Attendance Recovery, Credit Recovery, Everybody Graduates, High Schools that Work, Louisiana Virtual School, New Tech Network, and Senior project.

Higher Education: Protecting Funding, Improving Outcomes

Higher Education Funding

- After replacing ARRA, there is no change in funding for Higher Education. This funding does not include $98 million in additional revenues that schools will be able to generate through initiatives included in our Higher Education legislative package for the upcoming session.
- The FY 12 budget provides $82.5 million in funding, which includes $39.9 million in additional new funds, plus $92 million from a proposed constitutional amendment, for total funding of $174.5 million, to fully fund Taylor Opportunity Program for Students (TOPS) awards.
- The FY 12 budget protects funding for Go Grants in the upcoming fiscal year at $26.4 million.

Higher Education: Protecting Funding, Improving Outcomes

Improving Higher Education Outcomes

- **Updating Expectations for Credit Hours.** A change in the tuition cap will discourage excessive class dropping, that sees many students currently sign up for 17 or 18 hours and drop down to 12 hours midway through the semester. This means that schools are paying for professors and classroom space that are not used. Legislation will raise the cap on per credit hour tuition from 12 to 15 hours and also require that schools implement tougher course drop policies. This will help keep tuition affordable while more accurately reflecting the operational costs of schools, providing an additional $74.5 million in revenue.

- **Covering Mandated Costs.** To help meet the ever-growing bill of mandated costs, we have proposed legislation that updates and indexes the Operational Fee, which was designed when it was passed to cover mandated costs by charging an operational fee of four percent of the 2004 tuition. The legislation will set the fee at four percent of the current tuition. This will not cover all increases in mandated costs, but it will generate $13.1 million in revenue for universities.

Higher Education: Protecting Funding, Improving Outcomes

Improving Higher Education Outcomes

- **Supporting Community and Technical Colleges.** Currently, the cost to attend a community college is determined solely by geography. The state's community college tuition is a function of the date when the school was created by the Legislature, so older schools tend to be less expensive than newer ones. Since tuition increases authorized by the Legislature recently have been percentages, these older schools have no way to catch up to other schools.
- In order to bridge this disparity, this legislation will provide the authority to phase in the standardization of community college tuition across the state to that of the highest allowed rate, which is still below the SREB average for two-year schools. The average increase would about $190 per student.
- This reform will be especially important at Louisiana's technical colleges where current tuition leaves a lot of federal dollars on the table. Roughly 70 percent of technical college students qualify for Pell Grants, yet technical college tuition is just 21 percent of the average Pell Grant award. With this legislation, schools will have the authority to phase in an increase to 55 percent of the average Pell Grant, which is still lower than the 62 percent SREB average. An additional $10.7 million in revenue will result from these reforms.

STATE OF LOUISIANA

Health Care Funding

- The health care budget for FY 12 is proposed at $8.13 billion – down from the appropriated amount for FY 11 of $8.27 billion, for a total net reduction of $142.8 million, or 1.7 percent.
- The revenue reduction for DHH in FY 12 is largely due to a significant drop in the state's Federal Medical Assistance Percentages Match Rate from the current rate of 79.6 percent to 69.34 percent, which amounts to a $428.5 million need in General Fund to fund the Medicaid program and fill this federal gap.
- To offset the decrease of $130.6 million as a result of the DSH Audit Rule, $35.6 million in General Fund is provided to the 10 LSU state hospitals, as well as $62.4 million from the Upper Payment Limit (UPL) Program and $30 million in savings from the Low Income Needy Collaboration (LINC) model. The reduction in all General Fund revenue sources provided to the hospitals, as a result, is just 4.5 percent.

Health Care Funding

- With the 2012 budget, the state will have successfully paid off two disallowances from the federal government – one related to Medicare Upper Payment Limit (UPL) payments in the nursing home program and one related to disproportionate share hospital (DSH) payments to LSU hospitals.
- The nursing home UPL disallowance of $121.8 million has been settled and was paid in full effective Dec. 31, 2010. The DSH disallowance will cause the state to pay $239 million. By the end of this fiscal year, CMS will have recouped approximately $96 million from Medicaid. The FY 12 proposed budget pays out the remainder of the outstanding DSH disallowance.

Improving Access and Affordability of Health Care

- To transform health care services and improve outcomes, the state is instituting a plan to change the way Medicaid services are delivered from the current fee-for-service system to Coordinated Care Networks – or CCNs. In a CCN, patients are linked to a network that will be responsible for coordinating their care with the goal of ensuring better access to primary and specialty care, while reducing unnecessary ER usage and hospitalizations.
- Under the Making Medicaid Better initiative, Coordinated Care Networks will be set up with the responsibility of managing the care of Medicaid enrollees. DHH has developed two models equally balanced in the CCN effort. The pre-paid CCN is a managed care model in which a health plan receives a monthly fee for each enrollee covered, while also assuming the risk to cover all necessary expenses for each individual's needed core benefits and services. The entity handles authorizations and claims payments directly.

Improving Access and Affordability of Health Care

- The shared-savings model is an Enhanced Primary Care Case Management plan in which the network receives a monthly per-member fee to effectively coordinate care, with opportunities for providers in that network to share in the resulting cost savings.
- This budget reflects full implementation of the CCN reform before the end of FY 12 with the first "Geographical Service Area" phased in on January 1. A pure comparison of costs, after transition costs, for claims from a fee-for-service model to a coordinated care model shows savings for the partial year implementation is about $24 million, and savings from coordinating care grow considerably in FY 13 to $135.9 million.

Protecting Critical Health Care Services

- This budget proposes no cuts in Medicaid private provider rates, no reductions in eligibility, nor elimination of services.
- The FY 12 budget also incorporates $139 million ($49.5 million of which is state General Fund) to cover the carryover increase in utilization costs from FY 11. DHH projects that without the funding for this carryover utilization increase, physicians, specialists and hospitals could lose significant amounts of money from the Medicaid program. For example, if this utilization funding was not included, hospitals could lose (all in total dollars) $31 million, nursing homes $26.9 million, pharmacists $32.5 million, physicians $14.1 million, *Early and Periodic Screening, Diagnosis and Treatment* (*EPSDT*) $8.1 million, and long-term personal care service providers $6.1 million. Additionally, programs that support independent living for the elderly and citizens with developmental disabilities would be threatened as the NOW and Elderly and Disabled Adult waivers alone could stand to lose as much as $16 million combined.

Budget Information Online

Budget and Supporting Document

www.doa.louisiana.gov/opb/pub/ebsd.htm

Online State Spending Database

www.latrac.la.gov