

This plan resolves the prior year deficit of FY15 as well as the recently recognized deficit of FY16 without layoffs or reductions to higher education. The reductions presented in this plan total \$487.3 million.

### Adjusted Revenue Forecast

REC adjusted its official revenue forecast for FY16 downward on November 16th, from \$8.85 billion to \$8.48 billion, a reduction of \$370 million from the State General Fund.

The reduction is the result of several factors. First, data for the first part of this fiscal year indicate that corporations claimed more tax credits than usual, including through amended tax returns from prior years. This would allow corporations to take advantage of the tax code prior to the changes that went into effect on July 1, 2015. The updated FY16 forecast projects \$588 million in net collections, up significantly from the \$300 million in net collections in FY15, but lower than the \$790 million REC previously estimated for FY16.

Secondly, oil has recently hovered around \$45 per barrel, in contrast to the \$61.70 per barrel projected in the prior official May REC forecast for FY16. REC mineral revenue estimates are based on weighted averages of price projections from the best available sources: Moody's Investors Service, the federal Energy Information Administration (EIA) and the Louisiana Department of Natural Resources. At the time the prior estimate was made, it was conservative in relation to industry projections. While severance tax collections are down, they are relatively in line with REC's prior FY16 forecast to date; however, the projections were adjusted to reflect that revenue collections will trend down to reflect current prices. On the other hand, the decline in oil prices has dramatically reduced royalties received for oil pumped from State lands, with projected collections of \$228 million in contrast to the \$307 million in the prior forecast.

Thirdly, although the State has experienced significant economic growth over the last eight years, the wide-ranging effects of the current oil downturn are also visible in individual income and sales tax collections. Until the oil market stabilizes, revenue impacts will likely not be isolated to severance and royalty collections. Furthermore, individual income tax withholding, which drives 70 percent of individual income tax revenue collected at this point in the fiscal year, was pushed into November data because the month of October ended on a weekend.

### Mid-Year Deficit Context

The long-standing budget practice of dedicating revenues to individually protected funds results in a misalignment of fund balances and appropriations. In the current year, there were nearly \$300 million in excess fund balances that were not appropriated for FY16.

The state has also received additional revenues from the Transocean Settlement and FEMA's adjusted reimbursement match rate for Hurricane Isaac expenditures to mitigate agency operating impacts.

This mid-year deficit elimination plan proposes reductions that will balance the budget and resolve both the FY15 (\$117 million) and FY16 (\$370 million) shortfalls.

**Reduction Plan**

This plan proposes **\$487.3 million** in potential solutions through targeted reductions in contracts, travel and operating services, as well as strategic program reductions identified in discussions with agencies. Overall, this plan includes:

- >> **\$149.7 million** of strategic operational budget reductions to agencies.
- >> **\$277.7 million** of excess fund balances not appropriated in the FY16 budget.
- >> **\$31.7 million** of additional revenues (Transocean, FEMA, pending FY15 sweeps).
- >> **\$28.2 million** from the Budget Stabilization Fund.

**High-Level Summary of Proposed Reductions**

Department	Amount
01. Executive Department	(8,428,626)
03. Veterans' Affairs	(500,000)
04. Elected Officials	(5,336,603)
05. LED	(8,428,541)
06. CRT	(472,747)
07. DOTD	(49,172,803)
08. Public Safety	(5,120,720)
09. DHH	(339,900,405)
10. DCFS	(418,633)
11. Natural Resources	(1,751,573)
12. Revenue	(27,472)
13. DEQ	(4,619,053)
14. Workforce Commission	(1,174,400)
16. Wildlife and Fisheries	(4,252,308)
19. Higher Education	-
19. DOE & Special Schools	(1,818,981)
Statewide	(55,854,653)
	<b>(487,277,518)</b>

**Detailed Overview of Mid-Year Solutions**

To the maximum extent permissible, undesignated balances in excess of appropriations from statutory dedications and other accounts have been used to restore reductions to appropriations from those funds.

For example, the Audubon Golf Trail Development Fund appropriation to CRT has been reduced by \$600 as part of the mid-year solution, but the Fund's prior balance and excess revenues are sufficient to fully restore the \$600 to CRT, so that there is no net reduction or operational impact arising from this adjustment.

We did this in all funds, except those whose funding

- provides pass-through support to local entities;
- provides critical services for children, the elderly, or disabled individuals;
- is legally obligated, such as through a deed of donation;
- is indistinguishably intermingled with Federal Funds; or
- is excluded from such use by the State Constitution

**\$277.7 million** of such replacement funding mechanisms are used within this proposal to restore budget balance while minimizing operational impacts to the agencies and the stakeholders they serve.

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**Executive Office**

Reduction of one vacant administrative position.

**Mental Health Advocacy Service**

\$37,836 expenditure freeze savings in personnel services.

**Division of Administration**

\$382,837 savings in personnel services.

\$117,163 savings in operating services, supplies and contracts.

\$500,000 from anticipated excess rebate revenue from the P-Card program administered by State Travel.

**Department of Military Affairs**

\$572,000 expenditure freeze savings from Executive Order BJ 2015-11.

**Louisiana Commission on Law Enforcement**

\$25,000 expenditure freeze savings from Executive Order BJ 2015-11.

**Department of Economic Development**

\$5,300,000 State General Fund reduced from two projects not requiring funding this year.

\$1,228,548 reduced from the Louisiana Mega-Project Development Fund.

**Department of Transportation and Development (DOTD)**

\$1,438,331 reduced from excess fees and self-generated revenues from the Buy Back Program within the DOTD Operations Section, in which DOTD is able to regularly cycle through specialized heavy equipment before it exceeds its useful life through the OSP LEAF financing program. At the end of use by DOTD, the seller buys back the equipment from DOTD. These payments are received as self-generated revenue.

**Department of Health and Hospitals (DHH)**

\$132.6 million State General Fund replaced with Federal Funds in the Medicaid program, including carryforward of funds from 2015, and excess authority in the DSH program from 2012. Also, DHH has determined that the privatization of West Jefferson Medical Center will not require the State General Fund which had been appropriated to it in the event that the HSD-CPE means of finance incurred a deficit.

\$126.2 million State General Fund savings from implementing additional Medicaid fraud identification initiatives, including extending the Bayou Health payment review period from 7 days to 21 days. This will give the DHH Program Integrity Section increased time to verify the legitimacy and accuracy of payments due for adjudicated claims, reduce potential for fraudulent transactions, and reduce the need for recoupment of improperly disbursed funds through "pay and chase".

\$53.5 million State General Fund in additional revenue from Medical Assistance Trust Fund (MATF) from tax revenues that exceeded projections.

\$23 million State General Fund replaced with Amnesty funds in the Medicaid program. \$50 million had previously been budgeted by the State, but REC recognized additional revenue to the Amnesty program based on Louisiana Department of Revenue projections.

\$3.3 million of expenditure freeze savings from Executive Order BJ 2015-11, including through delaying hiring certain frozen positions, and adjusting discretionary expenses to stay within allocated resources.

**Department of Children and Family Services (DCFS)**

\$384,674 savings from freezing 11 vacant T.O. positions in the Administration and Support Program, and 7 vacant T.O. positions in the Community and Family Services Program.

**Department of Natural Resources (DNR)**

\$871,250 State General Fund savings within purchasing of supplies and special services, streamlining inspection procedures and placing greater emphasis on electronic resources to attain efficiencies.

\$529,841 reduced from (1) the Oilfield Site Restoration Fund as a result of savings in contractor usage for financial and other specialized services, as well as prioritization and scheduling of projects; (2) from the Fisherman's Gear program to align the timeline to payment of claims; and (3) State General Fund personnel attrition savings.

\$264,630 State General Fund savings from the hiring freeze, attrition in personnel services, reduced travel, reduced use of contract attorneys, and postponing implementation of computer enhancements.

\$85,852 State General Fund personnel savings from attrition and increasing permit analysts' workload.

**Department of Environmental Quality (DEQ)**

- \$1,349,683 reduced from the Environmental Trust Fund from attrition and statewide consolidation savings.
- \$823,657 reduced from the Motor Fuel Underground Tank Fund from attrition and consolidation savings.
- \$534,050 reduced from the Waste Tire Management Fund from attrition and consolidation savings.
- \$181,088 reduced from the Hazardous Waste Site Clean Up Fund from personnel and other savings.
- \$5,000 reduced from the Lead Hazard Reduction Fund from attrition and consolidation savings.

**Louisiana Workforce Commission**

- \$821,885 reduced from the Office of Workers Compensation Administrative Fund from efficiencies which have eliminated the need for six vacant positions.
- \$200,000 reduced from the Employment Security Administration Account, by reducing field activities.

**Department of Wildlife and Fisheries**

- \$2,000,000 reduced from the Conservation Fund for savings in operating services and acquisitions.

**Louisiana School for Math, Science and the Arts (LSMSA)**

- \$120,860 State General Fund reduction of duplicate MFP funding outside of the Formula provided in HB 1.
- \$9,323 State General Fund reduction of personnel services savings.

**New Orleans Center for the Creative Arts (NOCCA)**

- \$451,070 State General Fund reduction of duplicate MFP funding outside of the Formula provided in HB 1.
- \$9,896 State General Fund reduction of personnel services savings.

**Department of Education (DOE)**

- \$500,000 saved from the reduction of eight vacant positions in the District Support Program, and one vacant position in the Administrative Support program.

**Statewide**

- \$28,164,341 funding utilized from the Budget Stabilization Fund to avoid any reductions to Higher Education.

\$17,401,603 new revenue resulting from FEMA's recent match rate increase for the State's expenditures from Hurricane Isaac. Expenditures previously reimbursed on a 75-25 basis will be adjusted to 90-10, freeing up 15% for general use. This revenue reduces the extent of operating budget reductions.

\$10,288,709 revenues authorized to be collected in FY15, but whose transfers were not completed at the time of authorization. However, the legal authority for this collection persists until the funds are transferred.