

Senator Walter Boasso

- St. Bernard Parish Chamber Meeting 2-18-2004

Budgetary Pie Charts

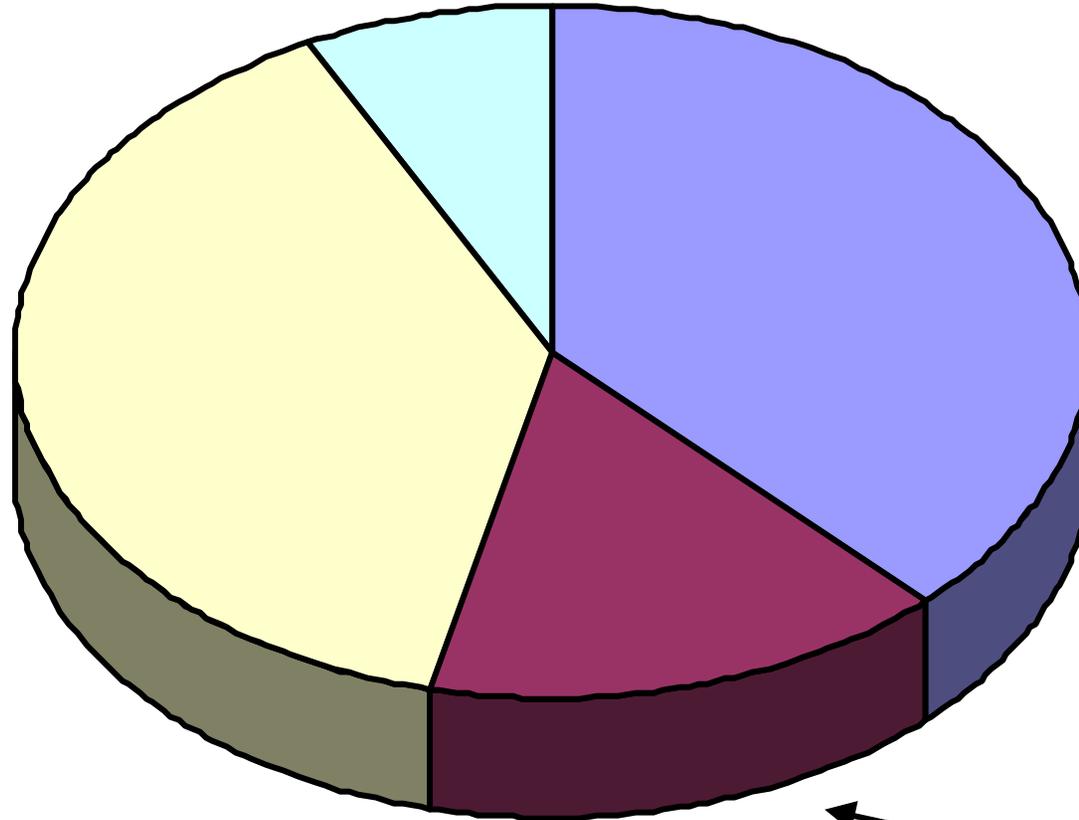
Financial Data

Total Means of Finance FY04 — \$16.8 b.

Self-Generated
7%
\$1,248 m.



Federal
38%
\$6,372 m.

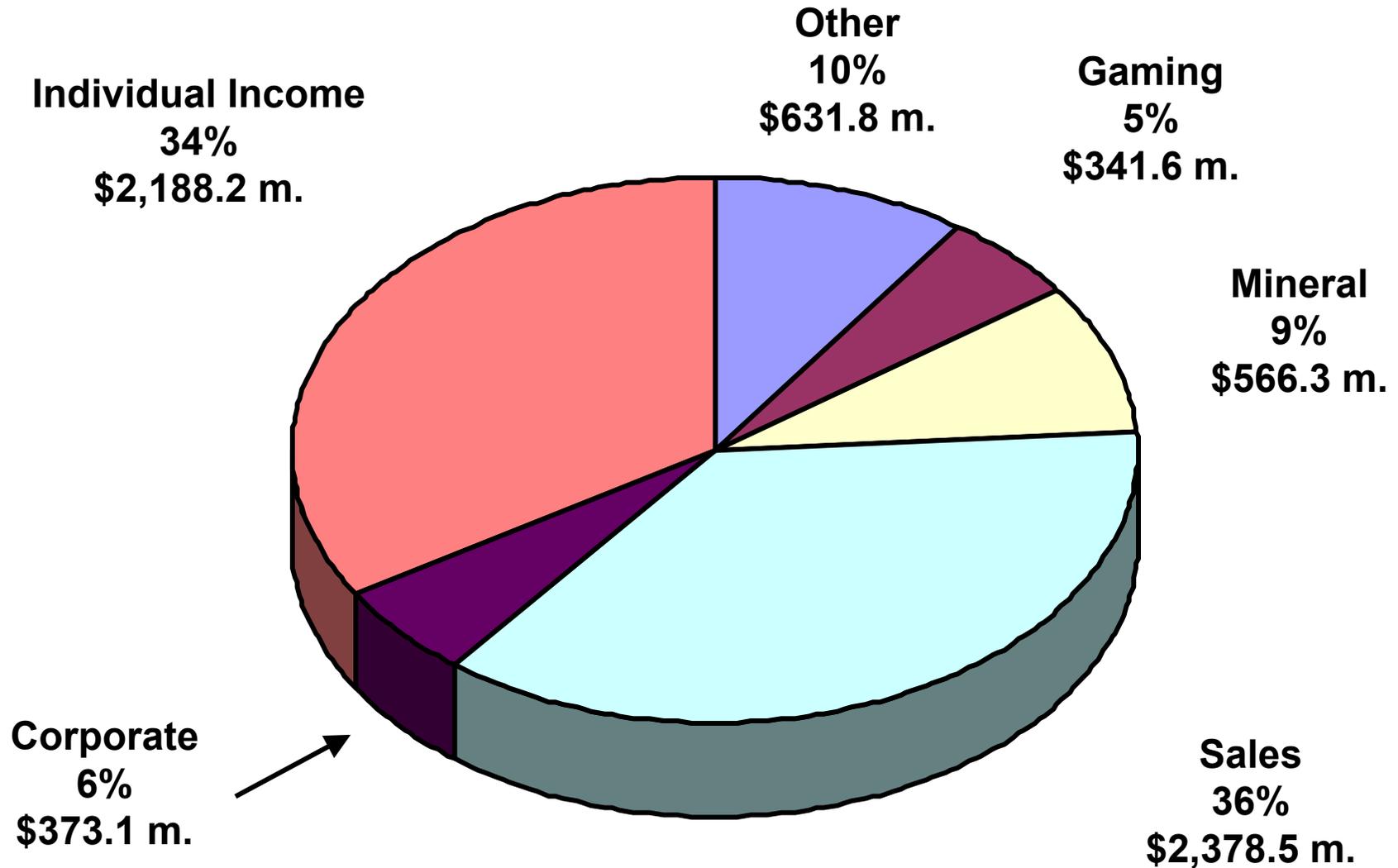


General Fund
39%
\$6,537 m.

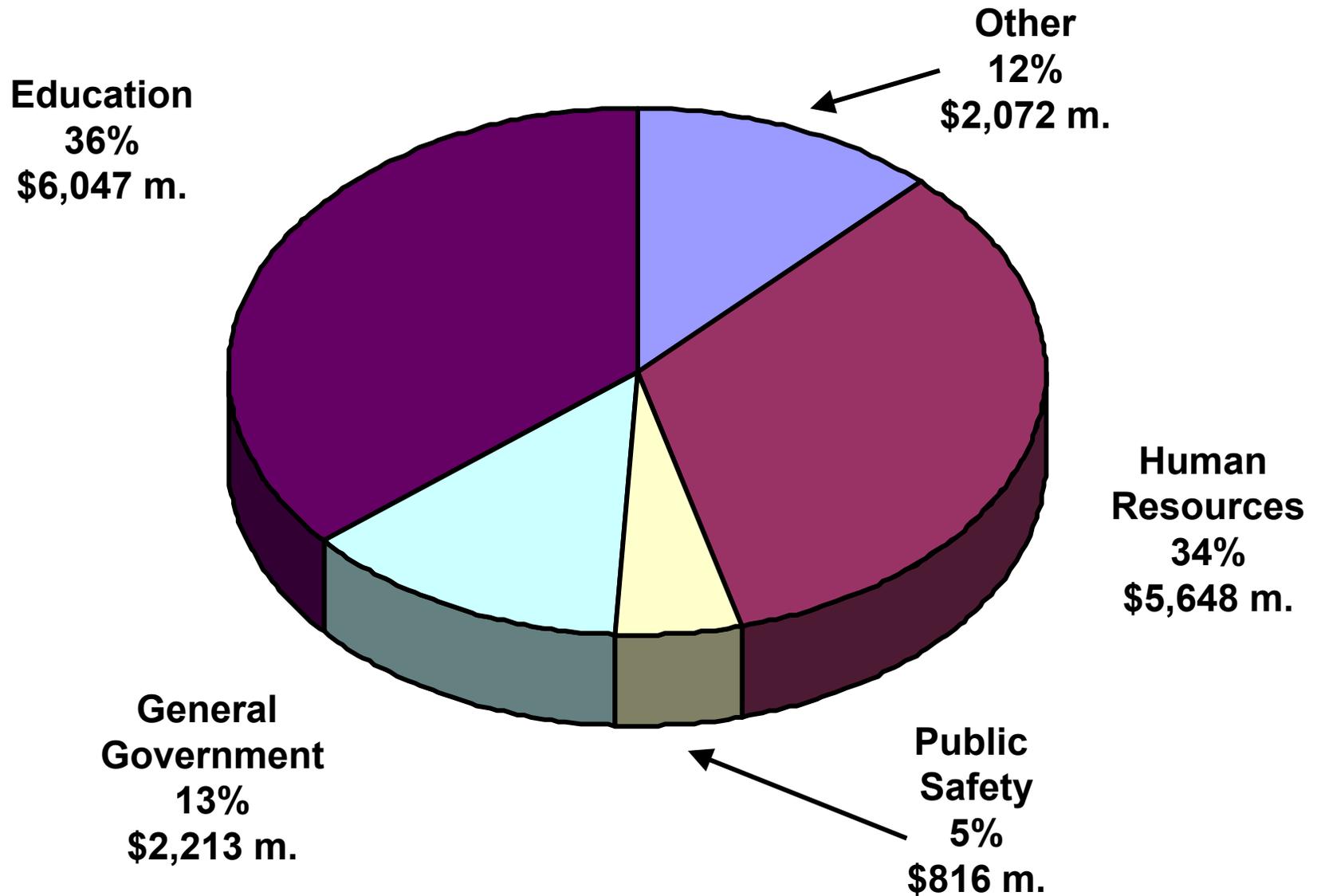
**Statutory
Dedications**
16%
\$2,649 m.



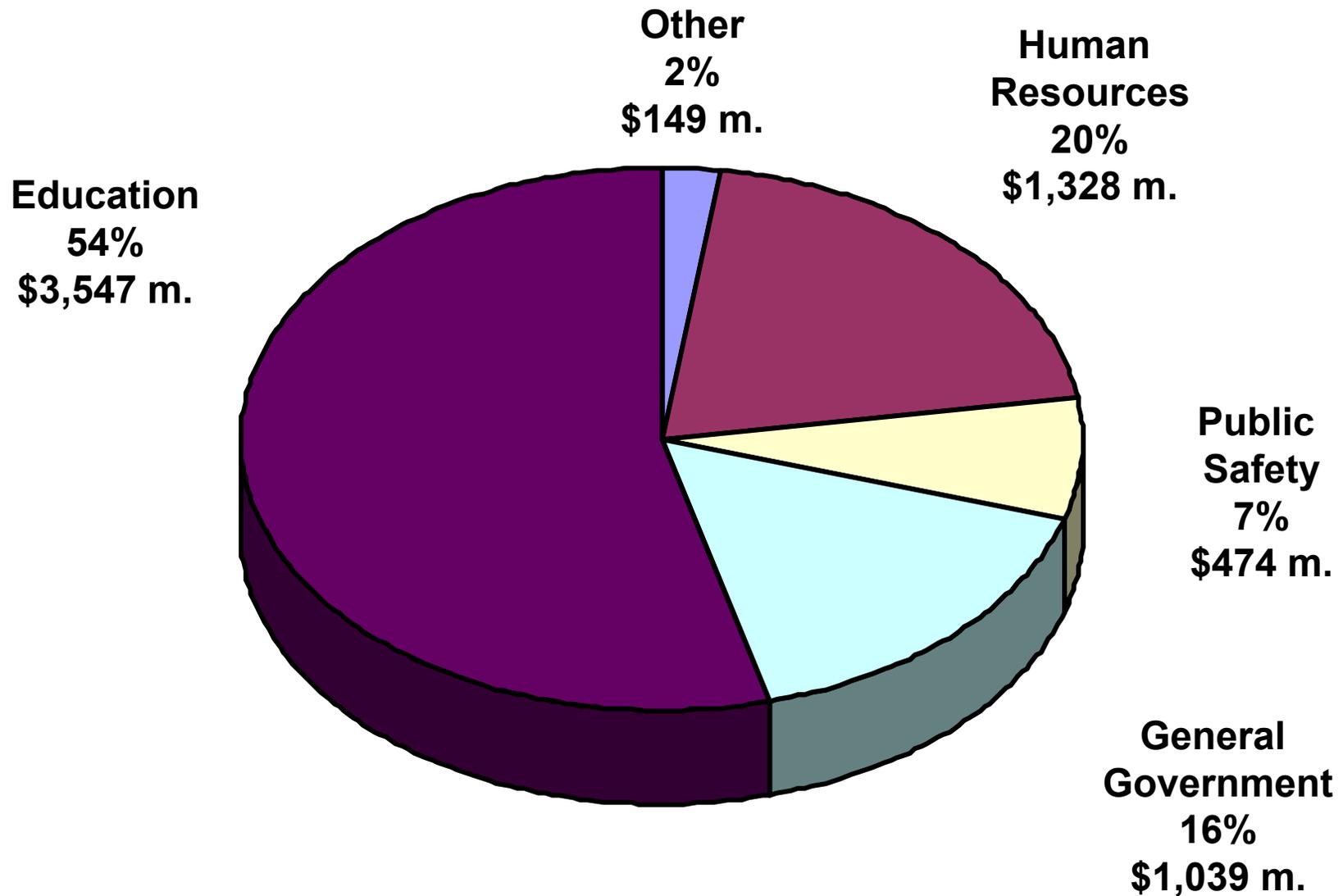
General Fund Revenue FY04 — \$6.48 b.



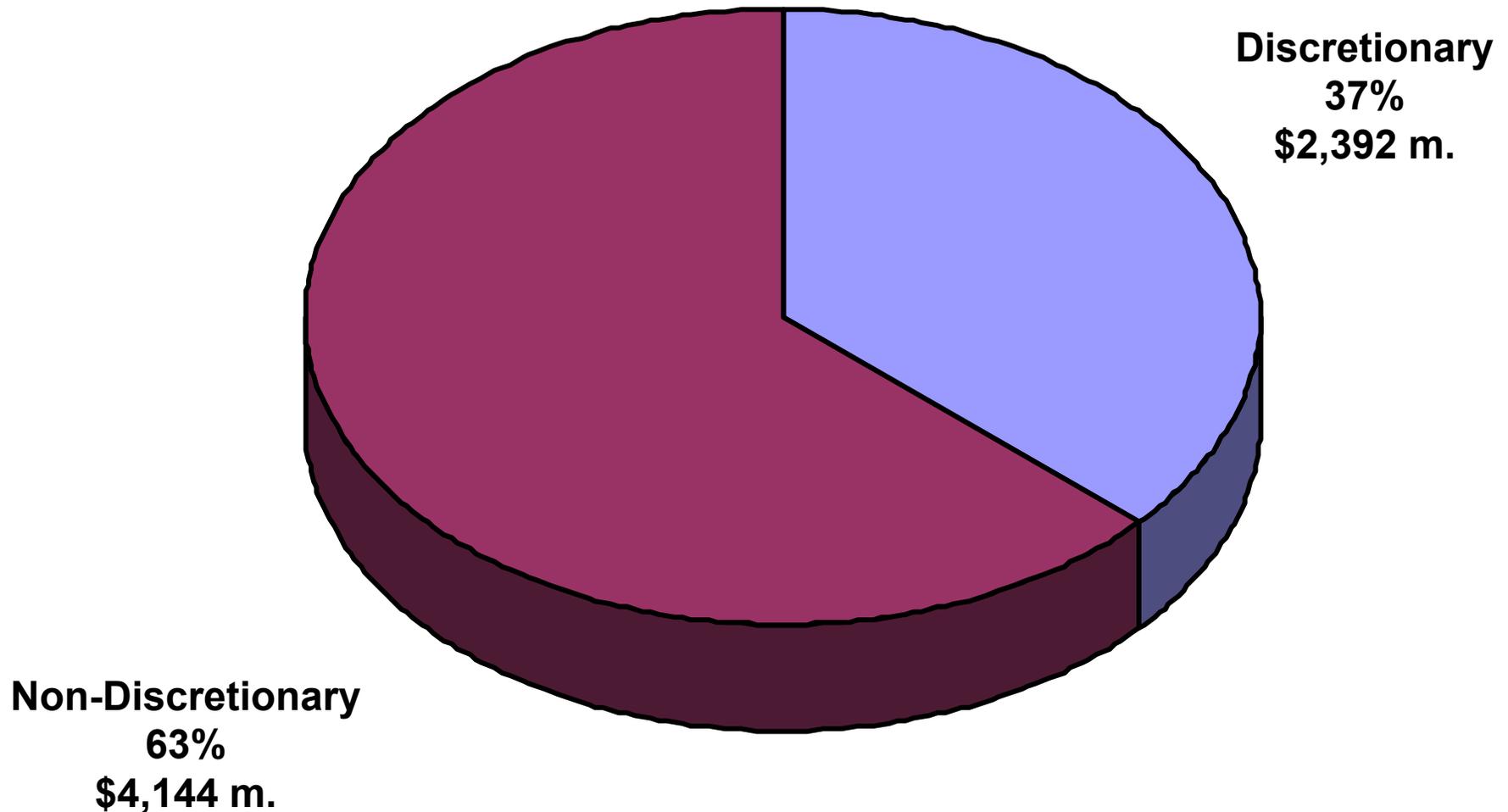
Total Expenditures FY04 — \$16.8 b.



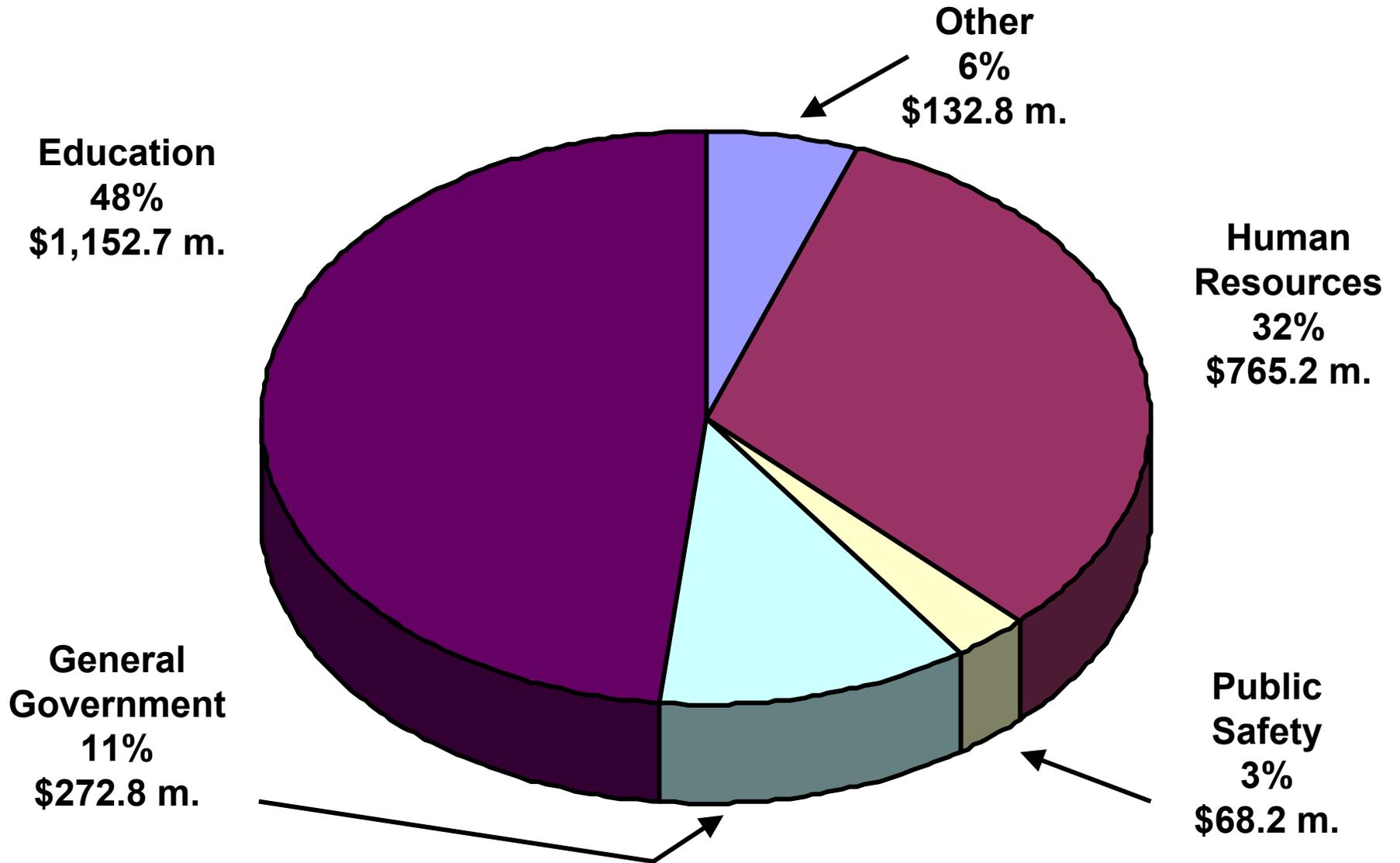
General Fund Expenditures FY04 — \$6.54 b.



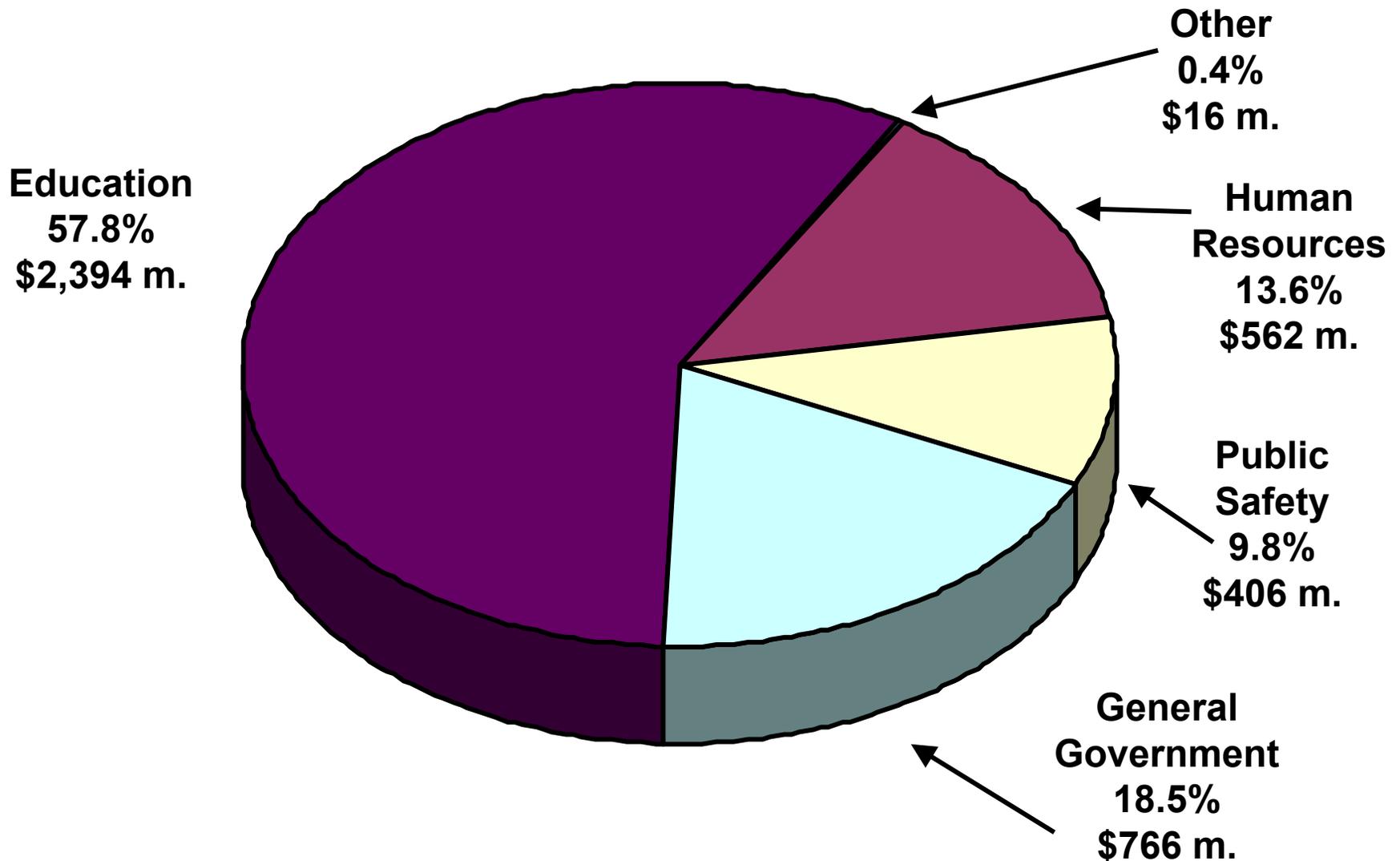
Discretionary/Non-Discretionary General Fund Expenditures FY04 — \$16.8 b.



Discretionary General Fund Expenditures By Spending Category FY04



Non-Discretionary General Fund Expenditures By Spending Category FY04



Major Fiscal Issues

Challenges for FY05

As of Feb. 10, 2004

Five-Year Baseline Budget Projections

- The five-year baseline budget projections include the prior year, current year, and next three years.
- The purpose of the five-year budget is to project the fiscal status in the out years.
- The next three years show a shortfall.
- For FY05, the projected shortfall is \$572.9 m. For FY06, the projected shortfall is \$711.3 m., and for FY07, the projected shortfall is \$696 m. These numbers include the loss of sales tax on business items and utilities, \$160 m.

Five-Year Baseline Budget Projections

- The projections clearly do not include any elimination and/or phase out of business taxes on machinery and equipment. The total cost of this reduction in taxes could range from \$80 m. to \$400 m. per fiscal year, depending on which businesses and what types of equipment are included.
- The revenue shortfall projections do not consider the potential loss of the federal funds used in the current fiscal year and anticipated for next year. Louisiana's use of these funds in the FY04 budget are under federal scrutiny.
- The legislature will face some tough choices for FY05 regarding the initiative programs being paid for by the Temporary Assistance for Needy Families (TANF) block grant.
- For FY04, the state has allocated \$117.8 m. for TANF initiatives. For FY05, approximately \$22 m. will be available for use for these initiatives.

Financing Mechanisms in the FY04 Budget Under Scrutiny by the Federal Government

- The FY04 Medicaid budget contains approximately \$233 million in state matching revenues from two funding mechanisms not yet approved for use by the federal government —
 - the intergovernmental transfer of Medicaid Upper Payment Limits (UPL) payments between non-state, public hospitals and the Medicaid program; and,
 - the use of the federal portion of the additional 75% of Disproportionate Share (DSH) cost payments at the state hospitals as state match in the Medicaid program.
- As of now, the federal Centers for Medicare and Medicaid Services (CMS) has not approved the necessary state plan amendments to generate these revenues. Unless the federal government approves these state plan amendments, the Medicaid program will face a shortfall of nearly \$900 million in the current fiscal year.
- To further complicate matters, the use of these same funding mechanisms is planned for FY05. If the mechanisms are no longer possible, the projected deficit for FY05 will grow.
- In any event, the use of the excess 75% of DSH costs will terminate at the end of FY05 requiring an infusion of state matching funds to replace the recycled federal funding in FY06.

Increase in the Cap on Federal Financial Participation in Disproportionate Share Payments

- The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 contained a provision increasing the cap on federal funding of Medicaid Disproportionate Share (DSH) payments to hospitals by sixteen (16) percent.
- For Louisiana, the federal DSH allotment will increase by \$101 million to \$732 million in Federal Fiscal Year 2004.
- If Louisiana can generate the roughly \$40 million in required state matching funds, then the additional \$101 million may be utilized to reimburse hospitals for health care services for the uninsured.
- The Administration is in the process of developing plans to utilize the new federal funds. The JLCB will consider a BA-7 at the Feb. 20th meeting in the amount of approximately \$32 m for a partial restoration to the Charity Hospitals in the amount of \$22.9 m.

Educational Funding Needs

- The cost of bringing Louisiana K-12 teachers' salaries up to the Southern average is approximately \$270 million.
- The cost of bringing higher education funding to the Southern average is approximately \$250 million, which includes about \$54 million to bring instructional faculty pay to the Southern average.
- Combined, these costs total about \$520 million, and even though other states are temporarily suffering budget conditions that are similar if not worse than Louisiana's, their economies are likely to recover faster than ours.
- As their economies recover, they will begin reinvesting in K-12 and higher education, and Louisiana's cost of reaching "average" funding will for these programs will increase.

Minimum Foundation Program (MFP)

- The Minimum Foundation Program (MFP) will require an additional \$71 m. to cover normal growth for FY05.
- The MFP typically grows by an amount in excess of \$50 m. per year. In FY04, funding for the MFP totaled \$2.5 billion.
- It is one of the many reasons why it costs more each year to provide the same level of government services offered in the prior year.

Risk Management Reserves

- Reserves in the state's self-insurance fund have been gradually depleted because of the underfunding of premiums.
- The current reserve balance is approximately \$4 million while the actuarial valuation of outstanding claims approaches \$1 billion.
- Recent district court and appellate court decisions in favor of oyster fishermen who suffered "economic loss" as a result of state sponsored freshwater diversion projects have increased outstanding claims by over \$2 billion.
- Even though some of the claims may never materialize, and the size of these judgments may eventually be reduced, any amount will be detrimental to the state's under-funded risk management program.

Potential Federal Liabilities

- The federal government contends the state owes it approximately \$322 million for violations of federal regulations in the state Medicaid Program for the operation of the Eldercare Program, and an estimated \$240 million for the improper billing of DOTD risk management premiums to other federally funded programs.
- There is also another \$211 million in potential liabilities for DSH overpayments in the Medical Vendor Payments Program.
- The likelihood that the state will ever repay all of these liabilities is remote. Nevertheless, with an aggregate value of \$773 million, even a small percentage recovery by the federal government could wreck the budget.

Rising Transportation Costs

- Revenue generated by the gasoline and special fuels taxes grows at a rate of approximately 1% per year while the cost of highway construction and maintenance increases at an annual rate of 4.5%.
- According to the state Department of Transportation and Development, the state is currently \$9 billion behind in highway construction and maintenance, and the gap widens annually.

State Employee Health Insurance

- The cost of providing health care insurance for state employees, teachers, and retirees is growing at an annual rate of between 13% and 15%.
- The cost of maintaining current benefits grows three to five times faster than general fund revenues.
- As the base cost of this employee benefit increases, the high percent annual growth will accelerate the rate at which this program consumes discretionary revenue.

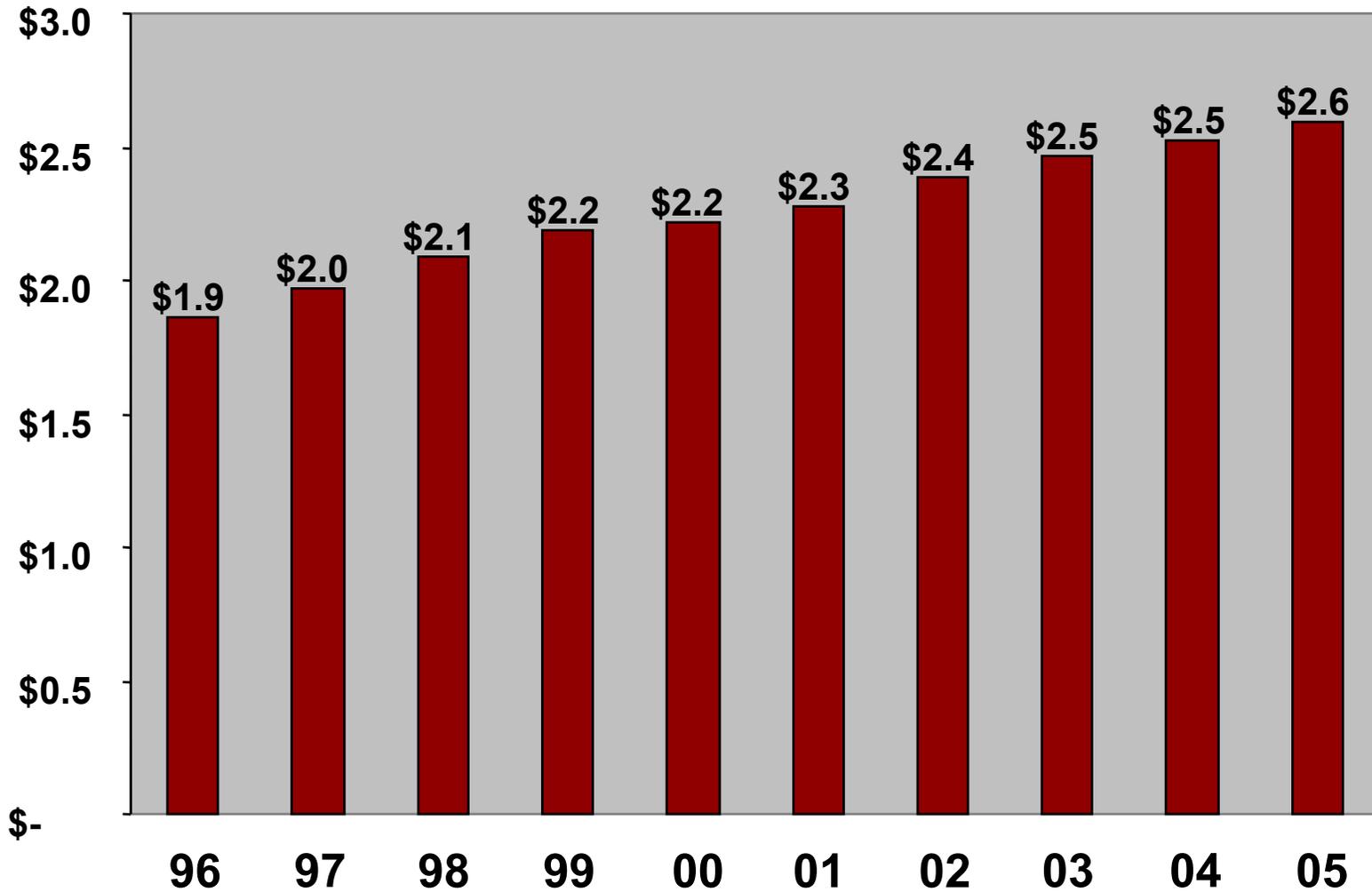
Retirement Systems

- The employee experience account (used to fund cost of living increases for retired state employees and teachers) is running a deficit of \$1.72 billion because of poor investment returns.
- Additionally, the cost of funding the accrued unfunded liability of the State Employees, Teachers, and State Police retirement systems (a constitutional requirement) will increase by nearly \$113 million because of lower-than-actuarially- required investment returns.
- This situation will get worse before it gets better because of the 5-year averaging method used to amortize the retirement systems' gains and losses.
- As a result of the Feb. PRSAC meeting where retirement rates were increased to cover the above mentioned costs, the original continuation budget will be short almost \$41 million in covering retirement costs. The original cont. budget had provided for a \$23 million increase, however, the total increase is roughly \$64.3 million.

The Minimum Foundation Program

FY05 Budget Issues

MFP Expenditures (in billion \$)

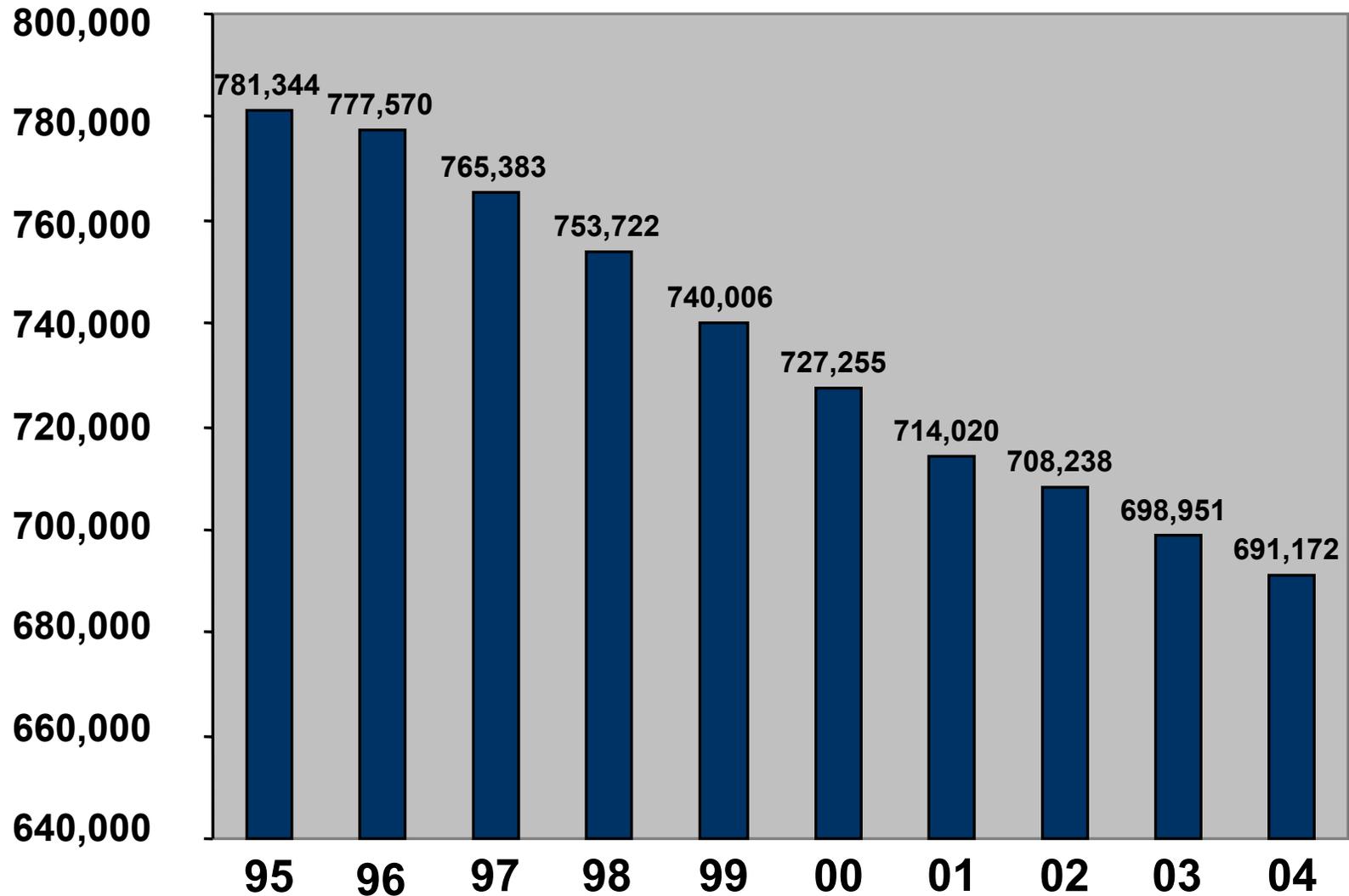


MFP Expenditures

- The Department of Education is requesting nearly \$2.6 b. for the MFP in FY05.
- This represents a 39% growth over the last decade.
- In FY05, the MFP will require an additional \$71.2 m. in State General Fund, due mainly to a “growth factor” determined by BESE.
- Further, the MFP will require another \$142.6 m. in State General Fund in FY05, due to the loss of one-time federal funds.
- Total State General Fund needed for FY05 is \$213.7 m.

Student Enrollment

October 1 Membership



Student Enrollment

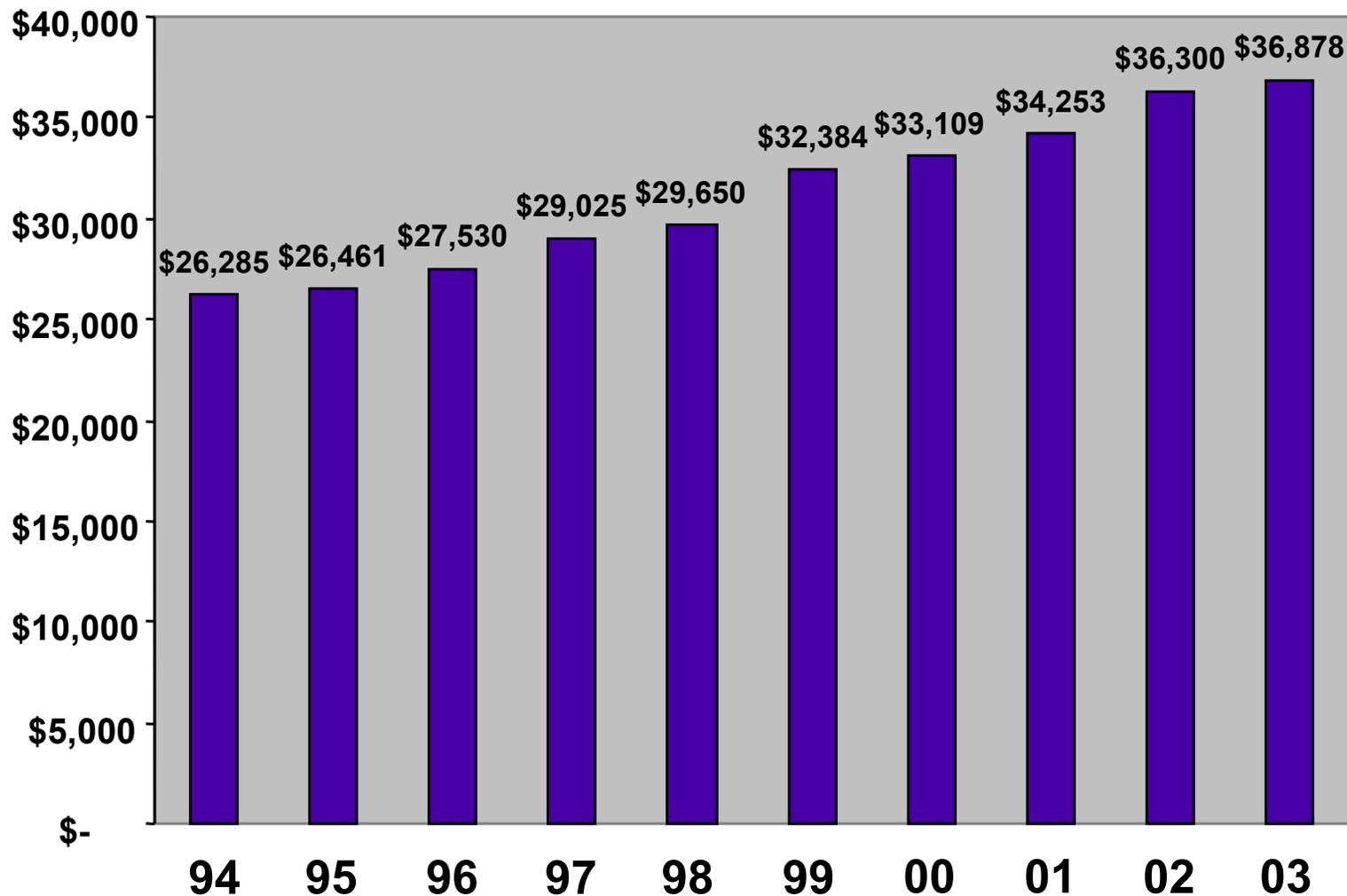
- The Education Estimating Conference is forecasting a statewide public school enrollment of 691,000 in FY05.
- This represents a 12% decline over the last decade.

Student Enrollment

Why does the cost of the MFP keep rising while the student membership is declining?

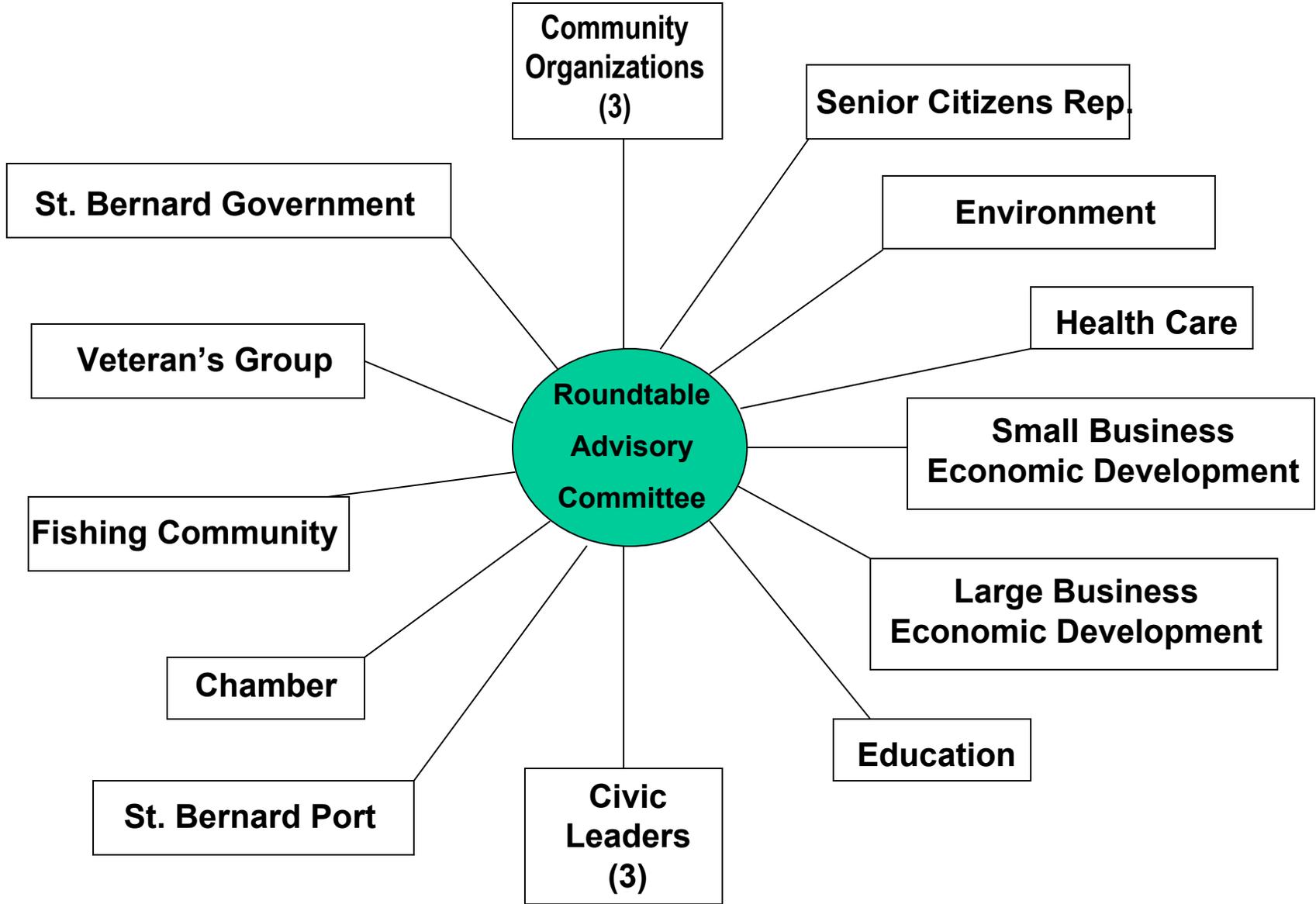
- The MFP's automatic "growth factor" as determined by BESE contributes greatly to higher costs, often outpacing inflation.
- Local school districts have raised their local taxes to support their schools in recent years, thus driving up the MFP's state share of education costs.
- More students have been assessed as having special needs, such as special education or placement in gifted and talented programs. Such students are more expensive to educate, thus driving up the overall cost of the MFP.
- Teacher pay raises and school support worker pay raises have been provided through the MFP in recent years, accounting for over two-thirds of the increase in the MFP.

Average Salary for La. Teachers



Teacher Salaries

- Louisiana has increased pay for public school teachers faster than every Southern state except North Carolina in recent years, contributing to the growth of the MFP.
- Over the last decade, teacher pay has risen 40% in Louisiana.
- Currently, Louisiana's average teacher salary of \$36,878 trails the Southern average of \$40,771. It would take \$270.4 m. for Louisiana to reach the regional average, and \$621.2 m. to reach the national average of \$45,822.
- The MFP resolution requires that 50% of school districts' increased funds — after accounting for enrollment growth — must go toward pay raises. This equates to about a \$350 increase for the current year, or about 1%.



St. Bernard Parish Roundtable Priorities

- Close MRGO
- Overpass in Arabi at St. Bernard Highway
- Continuation of Florida Ave. to Violet
- Parallel parkway on Florida to Paris Rd.
- Business/Industrial Park from St. Bernard Hwy. to 40 Arpent canal in Meraux/Violet area
- Create a version of Bayou Segnette at St. Bernard State Park
- Facilitate relocation of business on MRGO to St. Bernard and Braithwaite
- Redevelop AMAX Facility in Braithwaite
- Expand development of St. Bernard Port
- Work with Nunez and our school system to expand trade school in high school years
- Justification and development of inner harbor lock project
- Develop a plan with our New Orleans area legislators to move our traffic more efficiently in and out of St. Bernard Parish
- Nurture, keep, and expand our current job base
- Attack coastal erosion from a practical approach
- Find a balance between recreational and commercial fisheries

Concurrent Priorities

- Gather all information on what's pending in St. Bernard
- Assembling Roundtable
- St. Bernard Legislative Alliance

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