FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback.

I would like to take the opportunity to wish you and your family a Merry Christmas and Happy New Year. This is the last newsletter before the end of the calendar year. Look for the first newsletter of 2014 to be published prior to the release of the FY 15 Executive Budget Recommendation.

John D. Carpenter

FOCUS POINTS

Tax Amnesty 2013, Preliminary Summary

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The Department of Revenue (Department) has reported preliminary information regarding the 2013 tax amnesty program. A three-phase amnesty program was enacted in Act 421 of 2013. The amnesty is to be offered in the fall of each of the three years 2013 – 2015. The first phase was offered from September 23 – November 22 of this year. Participants were offered a 100% waiver of penalties and a 50% waiver of interest in this first phase. In the 2014 phase, the Act provides for waivers of 0% of interest and 15% of penalties, and in the 2015 phase the waivers offered are 0% of interest and 10% of penalties. Table 1 below summarizes the program's collections performance as reported by the Department through December 10, 2013.

As is typical with broad tax amnesty programs, the bulk of the collections are corporate taxes; 83.6% of the reported total collections. These are of particular interest because they typically reflect ongoing tax disputes that are likely to be collected in future periods. The likelihood of collection is the primary motivation for participating in the amnesty program in the first place. The participant receives the benefit of penalty and interest waiver while the state receives an acceleration of payments from future periods into the current period. This is basically what amnesties are understood to do, shift receipts from future periods into the current period. Consequently, future period receipts are negatively affected.

(Table 1)

Share of Total $	Tax	Accounts	Cash As Payment	Tax Credits As Payment	Total Payments
0.9%	Severance Tax	60	$3,949,711	$0	$3,949,711
83.6%	Corporate Income & Franchise Taxes	7,811	$296,964,495	$65,046,360	$362,009,639
8.7%	Individual Income Tax	39,392	$35,888,734	$1,808,329	$37,627,715
6.0%	General Sales Tax	2,864	$25,788,020	$1,058	$25,787,811
0.01%	Various Excise Taxes	69	$64,108	$0	$62,760
0.8%	Non-REC Taxes	20	$3,415,661	$0	$3,415,661
100.0%	Total Program	50,216	$366,070,730	$66,855,748	$432,853,297

Also of particular interest with this amnesty program is the Department's acceptance of tax credits as payment of amnesty liabilities. Over 15% of total reported program payments and nearly 18% of corporate payments were accepted by the Department in the form of tax credits. Regardless of the program exceeding a target level of receipts, this seems at odds with the primary motivation of the program to collect resources to support the state budget. The Department indicates that under R.S. 47:1675(H) tax credits can be used to pay any outstanding tax liability and consequently payment with credits could not be refused. Tax credit payments are not cash resources that can be

directly used to support budgeted expenditures, and it is not clear that their extinguishment via amnesty payment translates into greater net tax receipts in future periods.

Other interesting aspects of the program are the numbers of participating tax accounts. Total participating accounts are over 50,000 and are a proxy for the number of unique taxpayers participating. The largest number and share of accounts involves the individual income tax while that tax comprises a relatively small share of the total program's receipts; 78% of accounts but less than 9% of payments. In contrast, a relatively small share of accounts involves corporate tax while easily comprising the largest share of program receipts; only 16% of accounts but nearly 84% of receipts. This contrast in shares between business and households extends to the balance of participation. Much of the program's collections other than corporate tax are also associated with businesses in that they comprise the failure to remit taxes as part of the business enterprise, even if those taxes are ultimately paid by individuals for example, personal income tax withholdings and general sales taxes. In the table above, only about 29% of all accounts are businesses while over 90% of the program's total collections are associated with business entities. Individuals or households comprise 71% of participating accounts but are responsible for less than 10% of total receipts. Amnesties can clear the books, or provide a "fresh start" as promoted by the Department, for a lot of individuals and households but the goal of collecting material amounts of resources to support the state budget is achieved by the participation of businesses and corporations.

Also, average payments implied by the reported data are not likely to be meaningful. In typical programs the bulk of corporate receipts will be received from a small number of participants, with much smaller average payments made by the remainder of participants. Due to the larger number of accounts, the average for individual income tax payments may be somewhat more meaningful but is still likely to be skewed by the participation of a few relatively large accounts. While a distribution of payments by size for each tax involved in the program was not available, the Department's data for the program overall confirms this distributional characteristic of tax amnesties in general. Just twenty-seven payments (.033% of payments) were over $1 M per payment and comprised nearly 71% of all payments.

Finally, with the release of preliminary data, an approximation of the disposition of program receipts can be made. Total program participation was nearly $433 M. Deducting the nearly $67 M of payments made with tax credits results in $366 M of cash resources that can be used to support expenditures. The Department of Revenue retains nearly $63 M; the dollar equivalent of penalties and fees waived by the program in order to maintain operations. In addition, program costs must be covered as well. These costs have not been finalized but have been reported to be as much as $14 M. Thus, $289 M may be available for the rest of the state budget. The FY 14 budget already appropriates $200 M of amnesty receipts to support of the Medicaid Program, leaving roughly $90 M yet to be allocated. Those funds would stay in the 2013 Tax Amnesty fund until disposed of by the legislature. The REC has not yet considered any of these amnesty receipts.

GENERAL GOVERNMENT

Act 420 of 2013 Update

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Act 420 of 2013 provides for the transfer of various funds and resources into either the Overcollections Fund and/or SGF for FY 14 appropriation. Table 2 represents outstanding Overcollections Fund transfers. The specific items that have changed from last month to this month are additional hospital lease payments received in the amount of $11.2. To date, of the $37.9 M of various fund transfers anticipated to be transferred into the SGF, none have occurred. Act 420 of 2013 specifies that such SGF fund transfers will not occur until the FY 14 appropriations have been met. Table 3 shows where the FY 14 Overcollections Fund resources are currently appropriated.

FY 14 OC Fund Rev. Sources (Table 2)	Anticipated	Collected & Transferred To Date	Left to Collect
FY 14 Beginning Balance	$22,688,497	$22,688,497	$0
Hospital Lease Payments	$140,250,000	$27,269,009	$112,980,991
Legal Settlements	$64,771,871	$0	$64,771,871
Sale of Pointe Clair Farms	$12,000,000	$0	$12,000,000
Sale of Baton Rouge State Office Bldg.	$10,250,000	$0	$10,250,000
Sale of Southeast Hospital Property	$17,840,000	$0	$17,840,000
Sale of Wooddale Towers	$350,000	$335,325	$14,675
Sale of Hart Parking Garage Property	$2,180,000	$0	$2,180,000
Sale of Various WLF Properties	$2,000,000	$2,000,000	$0
Sale of Greenwell Springs Hospital Property	$0	$0	$0
Sale of Pines Campus Property	$0	$0	$0
Sale of Southern Oaks Addiction Recovery Property	$0	$0	$0
Sale of Bayou Region Property	$0	$0	$0
Sale of MDC Apartment Property	$0	$0	$0
LDR Fraud Initiative	$20,000,000	$0	$20,000,000
Excess FEMA Reimbursements	$19,950,000	$0	$19,950,000
LDR SGR	$13,132,881	$11,941,920	$1,190,961
Go Zone Bond Repayments	$28,284,500	$11,591,755	$16,692,745
Excess IAT/SGR	$10,000,000	$0	$10,000,000
LA Housing Corporation	$2,000,000	$0	$2,000,000
Self Insurance Fund	$16,000,000	$0	$16,000,000
LPAA	$5,000,000	$5,000,000	$0
LA Fire Marshal Fund	$1,988,106	$0	$1,988,106
2% Fire Insurance Fund	$2,358,715	$0	$2,358,715
Beautification & Improvement of the City of New Orleans City Park Fund	$48,298	$0	$48,298
Compulsive & Problem Gaming Fund	$57,071	$0	$57,071
DOJ Legal Support Fund	$585,598	$0	$585,598
Incentive Fund	$4,000,000	$0	$4,000,000
Marketing Fund	$1,000,000	$0	$1,000,000
Mega-Project Development Fund	$11,300,000	$0	$11,300,000
New Orleans Urban Tourism & Hospitality Training in Economic Development Foundation Fund	$25,019	$0	$25,019
Penalty & Interest Fund	$1,541,440	$0	$1,541,440
Riverboat Gaming Enforcement Fund	$8,605,392	$0	$8,605,392
Transfer from fund to SGF	($5,000,000)	$0	($5,000,000)
TOTAL	$413,207,388	$80,826,506	$332,380,882

Schedule (Table 3)	Name	FY 14 EOB
01-111	Governor's Office of Homeland Security & Emergency Preparedness	$21,250
01-112	Military Department	$500,000
04-DOJ	Attorney General	$4,563,971
07-DOTD	Transportation & Development	$36,000,000
08-DPS	State Police	$84,796
11-DNR	Natural Resources (Judgment)	$4,104,286
12-REV	Revenue Department	$3,950,000
19-LSU	LSU Board of Supervisors	$143,575,155
19-LSUHCSD	Healthcare Services Division	$20,000,000
19-SU	Southern University Board of Supervisors	$27,466,779
19-UL	University of LA Board of Supervisors	$103,618,305
19-UL	University of LA Board of Supervisors (Judgments)	$1,333,707
19-BOR	LA Board of Regents	$5,917,489
19-LUMCON	LA Universities Marine Consortium	$977,910
19-LCTCS	LA Technical & Community Colleges Board of Supervisors	$56,709,705
19-BESE	Board of Secondary & Elementary Education	$69,405
20-945	State Aide to Local Governments	$3,720,247
20-950	Judgments/Special Acts	$6,495,602
TOTAL		$419,108,607

Interim Emergency Board Funding
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For the past three fiscal years (FY 12, FY 13 & FY 14), a material funding source supporting the budget has been the SGF portion that would otherwise be allocated to the Interim Emergency Board (IEB) in schedule 22-920 Non-Appropriated Requirements (Interim Emergency Fund). 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. The State Treasury completes this calculation every fall.

The FY 14 calculated IEB allocation, as reported by the State Treasury in November 2013, is $21,908,722, while the amount currently set aside in the FY 14 budget is only $1,758,021. Thus, there is approximately $20.2 M of constitutionally allocated SGF IEB resources supporting FY 14 expenditures. To the extent there were approved IEB requests in excess of the current allocation of $1.8 M, the legislature and/or governor may have to reduce current year SGF expenditures to fund such emergencies or borrow on the full faith and credit of the state to meet an emergency if funds are not available or if the emergency's cost exceeds available funds (Article VII, Section 7(B)).

Prior to FY 12, the Executive Budget Recommendation included the total projected constitutional IEB allocation. However, since the FY 12 budget, the Division of Administration (DOA) now only includes an amount equivalent to prior year expenditures from the Interim Emergency Fund (average board approved expenditures). Due to the provision that the IEB cannot meet during legislative session, in prior years any unexpended IEB allocated funds were utilized by the legislature in that year's supplemental appropriation bill to cover current year needs. 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. *See Table 4 for IEB allocation history for the past 7 fiscal years.*

(Table 4) FY	Constitutional Allocation	Amount Originally Set Aside in Budget	Board Approved Expenditures
2008	$24,840,228	$24,742,843	$7,134,427
2009	$26,969,993	$24,840,228	$5,464,226
2010	$24,335,654	$24,882,639	$839,482
2011	$23,201,112	$24,882,639	$0
2012	$22,618,245	$4,651,624	$1,544,275
2013	$21,770,940	$4,651,624	$746,684
2014*	$21,908,722	$1,758,021	$0

**Through December 2013, the IEB has not approved any emergency funds to be utilized in FY 14.*

One-stop Web Portal
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On the December 2013 Joint Legislative Committee on the Budget (JLCB) agenda is funding in the amount of $2.8 M SGR for the Secretary of State (SOS) to fund the creation of a one-stop web portal for the registration of new businesses. According to the SOS, the portal is a collaborative effort by the SOS, the LA Workforce Commission and the Department of Revenue. The project goal is to create a single website, where new business will be able to file corporate documents with the SOS, secure a state tax ID number from the Department of Revenue and enroll with the LA Workforce Commission for an unemployment insurance account number. The SOS is in the process of awarding a vendor the contract to begin development of the portal with an anticipated go-live date of February 1, 2015. *See Table 5 below for anticipated FY 14 expenditures.*

FY 14 Anticipated One-Stop Shop Web Portal Expenditures (Table 5)	
$1,827,060	Consulting Services for application development
$45,000	Consulting Services for each department to retrofit to new system
$133,623	2 Dell PowerEdge Servers & 1 Dell EqualLogic server
$28,000	Software
$148,690	Miscellaneous office equipment
$53,062	WAE positions from Revenue & Workforce Commission
$600,000	Staff augmentation contract to support current SOS IT systems
$2,835,435	**Total FY 14 Expenditures**

Staff Augmentation Contract
Due to four existing SOS IT staff beingDue to 4 existing SOS IT staff being shifted to this portal project, the SOS is requesting $600,000 of funding to be utilized to increase an existing staff augmentation contract for support of SOS's in-house application Commercial Online Registration Application (CORA) and assisting with the phase I of Uniform Commercial Code online filings. With the launch of Uniform Commercial Code (UCC) phase I online filings in January 2014 and portal development beginning in January 2014, the SOS wants to have full CORA support as UCC and CORA are integrated IT systems. The SOS is proposing that the existing contractor (GRC) increase its total contract value through a contract amendment by $600,000 in order to provide CORA and UCC support while existing SOS IT staff work on the portal project. GCR was the vendor that originally assisted the agency in the development of CORA and UCC phase I online.

Revenue
According to the SOS, funding for this project will be provided by fee increases pursuant to Act 316 of the 2013 Legislative Session. Act 316 provided for various fee increases for domestic corporations, limited liability companies, nonprofit corporations, foreign corporations, trade names, trademarks and service marks. According to the SOS, collections are $1,330,668 higher from July 2013 to November 2013 than from the same timeframe last year (July 2012 to November 2012). Thus, the agency is on track to collect the additional anticipated SGR as a result of Act 316. Based upon current actual collections, the SOS is on pace to collect $3.2 M of additional fee collections. Note: Any unexpended SGR will revert to the SGF at the end of the fiscal year.

Future Fiscal Year Impact
Approving this BA-7 request will obligate the SOS to approximately $2.1 M to $2.4 M in annual maintenance expenditures for the overall portal in subsequent fiscal years. According to the approved DOA IT-10, anticipated subsequent fiscal year overall maintenance expenditures are as follows: FY 15 - $2.5 M, FY 16 - 2.2 M, FY 17 - $2.2 M, FY 18 - $2.1 M.

After the portal is completed, the additional staff augmentation services (mentioned above) from GCR will no longer be needed. Thus, based upon anticipated subsequent fiscal year maintenance costs of approximately $2.2 M per year and current increased collections from enacting Act 316, the SOS will likely be collecting approximately $600,000 to $800,000 more than total cost of the portal in future fiscal years. At this time the SOS has not indicated to the LFO what those revenues will be utilized for in future fiscal years. However, to the extent this portal is successful and additional state agencies are included, these additional revenue collections may be utilized to fund the inclusion of the additional agencies. As shown in Table 5, the SOS is paying $45,000 for retrofitting Revenue and the Workforce Commission's IT systems to this portal. The specific costs associated with bringing another state agency online with the portal are not known at this time. In addition, as new state agencies are brought online with the portal, portal maintenance costs will likely increase on an annual basis.

Public Tag Agents, Driver's License Renewals & Staff Reductions
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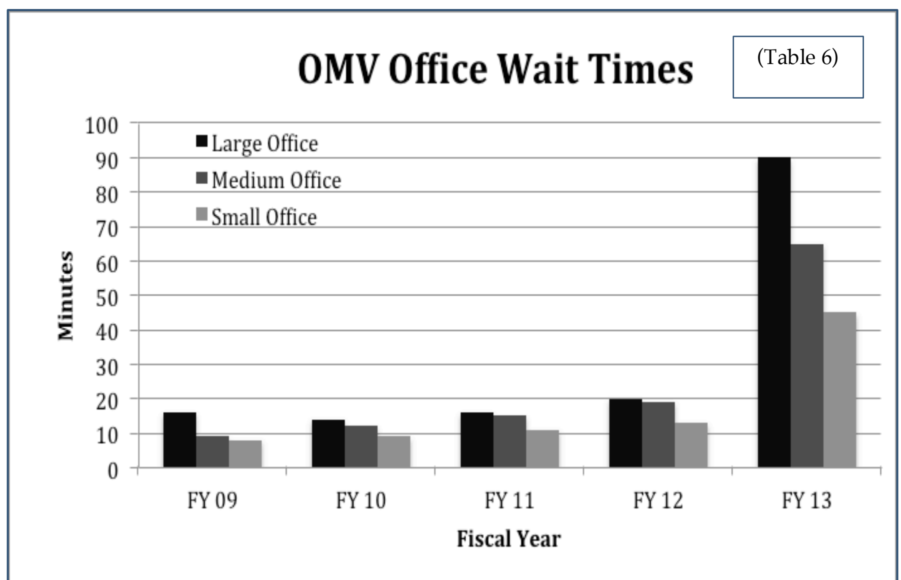
A proposed administrative rule change by the Office of Motor Vehicles (OMV) would allow Public Tag Agents (PTAs) to process driver's license renewals. Customers that use PTAs for this service will pay the renewal fee plus a convenience fee (up to $18). PTAs are located across the state and are currently able to perform vehicle registrations, reinstatement of insurance cancellations, and receive and process title applications, in addition to other duties.

Currently, there is one PTA driver's license renewal pilot program in Metairie. There is also a hybrid pilot program in Baton Rouge that is staffed with OMV employees to handle driver's license transactions and PTAs to handle vehicle registrations and title change transactions. According to the department, it is anticipated that within a year, ten to fifteen PTAs will be able to process driver's license renewals. The proposed rule to allow PTAs the authority to handle driver's license renewals will give customers another option to receive the service with a reduced wait time, to the extent the customer pays the convenience fee.

PTAs who are authorized to process driver's license renewals, will be required to purchase a camera station for approximately $18,000, which includes annual maintenance and software costs of $3,000. In addition, PTAs will need the following: liability insurance with minimum coverage of $1,000,000, a security system with 24-hour monitoring service, and a video surveillance system that monitors all entrances, the camera station, and the secure supply room.



Public Tag Agents are authorized service providers to the Department of Public Safety and have the authority to collect registration license taxes, as well as applicable sales and use taxes, and to issue registration certificates and license plates for vehicles. PTAs also receive and process applications filed for certificates of title, duplicate certificates of title, and corrected certificates of title, recordation of liens, mortgages, or security interests against motor vehicles, conversions of plates, transfers of plates, replacements of lost or stolen plates and/or stickers, registration renewals, and duplicate registrations.

OMV Staff Reductions Impact

Over the past five fiscal years (FY 09 – FY 13), OMV has seen a 23% decrease in employees and personnel expenditures have decreased by 14%. In FY 09, OMV personnel expenses totaled $36.9 M for 739 employees. In FY 13, OMV employed 568 at a total cost of $31.6 M. During the same period, the wait times at large, medium, and small field offices gradually increased from FY 09 through FY 12, and drastically increased in FY 13 as shown in the table 6. The wait times in FY 09 at the large, medium, and small offices were 16 minutes, 9 minutes, and 8 minutes, respectively. By FY 13, the times had increased to 90 minutes in large offices, 65 minutes in medium offices, and 45 minutes in small offices. Although wait times have increased, the number of walk-in customer transactions and Driver's Licenses/Identification Cards processed has remained steady, with a slight increase in FY 13. To the extent customers requiring a drivers license renewal are willing to pay the added cost of the convenience fee mentioned above, the wait times reflected in Table 6 may be reduced accordingly.

The use of PTAs for registration transactions has steadily increased from 1,108,683 transactions in FY 09 to 1,619,343 transactions in FY 13, with the largest increase occurring between FY 12 (1,290,546 registrations) and FY 13 (1,619,343 registrations). The increase in registrations completed by PTAs can be attributed to the reduction in staff available at OMV locations.

REVENUE

FY 14 Major Revenue Collections Summary Through November 2014 *(Adjusted For Amnesty Receipts)*

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Five cash months of collections have been received since this fiscal year began, with approximately the first month's worth of those collections posted back to FY 13 for certain revenues. Thus, for many revenues, four accrual months have actually been collected for FY 14. Three of these four accrual months have included amnesty receipts. Preliminary data on these amnesty receipts has been backed out of this report to obtain a more accurate assessment of true current collections activity. Since revenue forecasts have not been updated since May 2013, two forecast growth rates are provided to assess current collections performance against. The FY 14 "Implied" Growth Rate is the growth in the 5/15/13 dollar forecast for FY14 now that FY 13 collections are known. The FY 14 "Forecast" Growth Rate is the growth rate as of the 5/15/13 REC, when FY 14 actual collections were not yet known. Major receipts' collection performance so far is:

MAJOR REC REVENUE SUMMARY, FY 2013-14
November 2013, Adjusted For Amnesty Receipts

Revenue Source	Current Month *	% Chg Same Month PY	FYTD (Jul - Jun) *	% Chg FYTD PY cash **	% Chg FYTD PY acc **	FY14 Forecast	FY14 Implied Growth Rate	FY14 Forecast Growth Rate
Income	$184.4	-12.4%	$1,228.0	3.5%	2.1%	$2,786.1	1.2%	3.8%
Sales, General	$213.5	-0.4%	$1,076.9	2.0%	5.4%	$2,656.8	2.9%	3.6%
Corporate	$50.4	1146.2%	$83.7	23.6%	77.6%	$340.0	1.1%	0.0%
Severance	$67.4	-0.7%	$359.5	7.9%	8.6%	$825.2	-2.6%	1.0%
Royalty	$44.3	48.7%	$216.0	24.0%	78.6%	$505.4	3.5%	6.7%
Gaming	$45.3	-0.5%	$238.4	1.2%	1.2%	$610.0	-1.5%	0.0%
Sales, Vehicle	$29.4	15.4%	$151.8	11.1%	10.6%	$379.0	6.6%	7.2%
						5/15/13 REC	FY13 known	5/15/13 REC

* millions of $

** cash = July through June collections, acc = July through June less accrual to prior year

Income tax had a strong finish to FY 13, coming in at a 10.8% growth rate, with much of that occurring during the spring filing/payment period. The 5/15/13 REC captured a good bit of this but performance still exceeded that forecast. Across much of the country this surge has been attributed to the acceleration of income into 2012 in order to avoid federal tax increases effective 1/1/13. This is supported by withholdings collections that finished with a more normal 5.7% growth. This suggests that this surge should not be expected to continue through FY 14. Through November, collections are only 2.1% to 3.5% ahead of prior year, and only the single month of September has shown any outsized growth this fiscal year. Both implied and forecast growth rates for FY 14 are modest, but current collections are already below the forecast growth rate. In addition, the FY 13 surge will have to be controlled for and it will be difficult for collections next spring to exceed those of this past spring. It is possible that the FY 14 forecast will be adjusted downward.

Sales tax experienced a second year of essentially no improvement in FY 13, finishing with only 0.1% growth. This further suggests that the income tax finish is not likely to be a sustained event, and continues to suggest cautious

conditions within households and businesses. Collections through November have been 2.0% to 5.4% ahead of prior year, but this is also essentially due to the month of September. As with the income tax, growth through August was very low, actually a negative 1.6%. Both the implied and forecast growth rates for FY 14 seem reasonable but are not yet supported by a string of actual performance; cash collections to date are below the implied growth rate. Thus, optimism for this tax cannot be projected at this time. Vehicle sales tax finished strong in FY 13 with 10.2% growth (essentially the same as the growth in FY12), and collections through November are 10.6% to 11.1% ahead of prior year, with four of five cash months this year exhibiting strong performance. Households and businesses are not yet done buying vehicles, and low interest rates and industry financing deals are still keeping this narrow big-ticket sector performing strongly. Both implied and forecast growth rates are moderations from the pace of the last two years but are still respectable. There may still be optimism for this tax going forward, but when pent up demand is satisfied, growth in this tax and its absolute level can fall off dramatically.

Corporate tax collections looked very strong through much of FY 13, but then abruptly dropped off in the accrual period at the end of the year, finishing 10.1% behind the prior year and below the modest forecast for the year. Once again the tax proved that the monthly collections say little about what the annual total will be. Both the implied and forecast growth rates for FY 14 are so modest as to seem likely to be beat. However, that was the case in FY 13, as well. Year-to-date growth through November is 23.6% to 77.6% ahead of prior year. Well ahead of the forecast growth rates, but also largely due to the month of November, these collections are unusually strong even without preliminary amnesty receipts backed out. Further amnesty adjustments may occur and inherent uncertainty of corporate collections in general tempers any monthly optimism in this tax.

Severance tax was essentially flat in FY 13 (-0.1% growth), but this was still better than the expectation of a larger drop. Spot oil prices for state crude averaged $109/bbl in FY 13, compared to the forecast price of $94/bbl, explaining much of the good performance. For FY 14, the price forecast is currently $94.85/bbl, providing optimism for the forecast, and through November collections are 7.9% to 8.6% ahead of prior year, but have fallen off the pace of earlier months. The natural gas severance tax rate is lower in FY 14 (11.8¢/mcf) than in FY 13 (14.8¢/mcf) and will temper collections somewhat, but barring a material drop off in oil prices the outlook for severance tax appears optimistic, especially in light of the very modest growth forecasts. Royalty receipts also finished FY 13 better than expected but still down 5.2% compared to the prior year. While gas prices remain weak, they are at least relatively stable, allowing strong oil prices to drive the collections base. Collections through November are well ahead of both implied and forecast growth, and while optimism exists for this revenue as well, it largely depends on oil prices.

Gaming receipts from riverboats, video poker, and racetrack slots finished FY 13 at 0.9% growth; modest growth but better than FY 12. Collections accelerated through September, primarily on the strength of riverboats, but fell back in October & November in all three sectors. The riverboat segment of this discretionary spending may be returning to the economy, but improved performance is not evident across the board yet, or from each month-to-month period. However, both the implied and forecast growth rates for all three components are very modest and are currently being beaten on the strength of only one of the components. The outlook depends on sustaining riverboat performance and extending it to the other gaming components.

Overall, collections for FY 13 finished stronger than expected by some $175 M, reflecting 2.6% revenue growth from FY 12. While a positive experience, that growth is actually a deceleration from the growth in FY 12 of 3.8%, and from FY 11 of 8.3%. In addition, the excess collections included some surprise components that may not be sustained in FY 14. The largest gain was in personal income tax reflecting a surge in the spring due to a likely one-time acceleration of income for federal tax purposes. Mineral revenue gains were actually smaller declines than expected and price stability means the outlook is tempered for growth, although there may some upward potential to mineral revenue. The good news on sales tax also involves smaller than expected declines rather than consistent positive growth. FY 13 performance also surprised on the upside in various agency receipts (a catchall for numerous unspecified receipts), which may increase a forecast moving average but cannot be relied upon for a sustained higher level of collections. Premium tax also finished well in FY 13, although new credits were passed in the 2013 session that will affect that tax in FY 14 and beyond. Finally, corporate tax disappointed in FY 13 and cannot be relied upon for growth in FY 14.

As for FY 14, cautious optimism that may have existed in the early months of the fiscal year has largely evaporated with the removal of amnesty data, now that the Revenue Department has reported some preliminary results of the program. Any optimism in the forecast going forward is primarily based on besting very modest growth forecasts. Cautions are not immaterial though, related to still weak sales tax, which is over a quarter of total tax receipts, the questionable sustainability of the spring income tax surge, and always highly uncertain corporate collections. In addition, amnesty receipts overstate underlying activity and dampen forecast expectations. Thus, the revenue outlook is distorted and highly uncertain.

EDUCATION

Decrease in Optional Retirement Plan (ORP) Normal Cost Contribution Rate
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Background
The Optional Retirement Plan (ORP) was created by Act 90 of the 1989 Regular Legislative Session and is a defined contribution plan option for employees of public higher education institutions and boards in LA who would otherwise be members of the Teachers' Retirement System of LA (TRSL) defined benefit plan. ORP operates under the U. S. Internal Revenue Code §401(a) and allows account holders to save and invest their retirement assets on a tax-deferred basis through private carriers contracted with the program. ORP was conceived to enhance recruitment of higher education faculty and staff by providing a retirement benefit with increased portability for participants while keeping them indistinguishable from traditional plan members for the employer and retirement system.

Eligibility to participate in ORP is based on job classification. Academic and unclassified employees of LA public colleges and universities are eligible to participate in ORP. Employees of constitutionally established boards that manage public institutions of higher education are also eligible for ORP. Eligible employees must make an irrevocable election to participate in either ORP or the traditional TRSL defined benefit plan within sixty days of their initial employment date.

Regardless of which retirement plan the member joins, the employer cost is the same. For both, the ORP and the defined benefit plan the employer contribution is made up of the normal cost and the unfunded accrued liability (UAL) payments.

According to the Board of Regents, there are currently 10,060 employees participating in the traditional defined benefit plan and 7,507 members enrolled in the ORP.

Normal Cost Contribution Rates
"Normal Cost" for TRSL is equal to the employer's share of the present value of future retirement benefits that will be paid to employees that are currently attributable to the fiscal year. The TRSL aggregate normal cost has declined from 6.95% of payroll in FY 09 to 5.04% of payroll recommended for FY 15 based on the TRSL valuation report dated 11/5/13. TRSL normal costs have steadily declined since FY 08 due to legislation lowering defined benefit plan costs, changes in member demographics, and changes in actuarial assumptions.

Act 483 (HB 61) of the 2012 Regular Legislative Session created a cash balance retirement plan and mandated participation for all non-hazardous duty members of LASERS and of higher education employees in TRSL hired after July 1, 2013. Based on the valuation of the new plan the employer normal cost rate was set at 1.8% of payroll for those employees for the FY 14. SB 16 of the 2013 Regular Session attempted to increase the employer normal cost rate for ORP plan members. The bill passed the Senate but was not brought to the House Floor for a vote. Additionally, House Concurrent Resolution 2 suspended the implementation of the Cash Balance Plan pending a determination from the Internal Revenue Service (IRS) of the Social Security equivalency of the new plan. On June 28, 2013 the LA Supreme Court ruled that Act 483 (cash balance plan) was unconstitutional.

Additionally, Act 716 of the 2012 Regular Legislative Session required calculation of individualized employer contribution rates for K-12 and higher education plan members for FY 13 and thereafter. The FY 14 higher education normal cost rate is 5.18%. The TRSL valuation report dated 11/5/13 and adopted by the TRSL Board recommends a higher education employer normal cost rate of 3.66% for FY 15, representing a decrease of 1.52%.

The recommended reduction in employer normal cost from FY 14 to FY 15 is due to actuarial assumption changes based upon plan experience. The major actuarial assumption changes for higher education plan members are as follows:

1. Retirement patterns and assumptions were revised.
2. Employment withdrawal/termination rates were higher than expected.
3. Overall salary increases were less than expected.
4. Accrued leave conversions to service credit were reduced in recognition of long-time statutory limits.

Impacts
The reduction in the TRSL normal cost from FY 14 to FY 15 will save the public colleges and universities an estimated $15.9 M in mandated costs for FY 15 due to lower employer contributions to TRSL. The estimated savings is based on FY 14 salary data from the Board of Regents for all higher education faculty and staff participating in both the traditional and the optional plans multiplied by the percentage reduction in the employer contribution from FY 14 to FY 15.

However, the drop in the TRSL normal contribution rate will automatically decrease the ORP employer match rate; $7.8 M of the total estimated savings is associated with ORP participants. This reduction in rates could have a detrimental impact on recruitment of new faculty and staff. Furthermore, a significant reduction in the employer match rate may decrease employee morale and increase turnover of existing faculty and staff.

As an example, the table below reflects the employer contributions made to a member's ORP account over the past six years, as well as the projected receipts for FY 15. The constant salary is reflective of the fact that virtually no merit increases have been awarded at most institutions over this period.

Fiscal Year	Annual Salary	Normal Cost Rate	Employer Contribution
FY 08-09	$68,600	6.95%	$4,768
FY 09-10	$68,600	5.76%	$3,951
FY 10-11	$68,600	5.70%	$3,910
FY 11-12	$68,600	5.97%	$4,095
FY 12-13	$68,600	5.68%	$3,896
FY 13-14*	$68,600	5.18%	$3,556
FY 14-15*	$68,600	3.66%	$2,511

** The TRSL aggregate normal cost has declined from 6.95% of payroll in FY09 to 5.04% of payroll recommended for FY15. Act 716 of 2012 Regular Session requires individual rates for higher education members effective July 1, 2013.*

Information presented by LSU to the legislature during the 2013 Regular Session revealed that LA's ORP is not competitive with defined contribution plans offered by other southern states. LSU's information showed that employer contributions (excluding Social Security) averaged 8%, and ranged from 6.3% to 10%. Furthermore, employers in other southern states contribute an additional 6.2% of payroll for Social Security benefits compared to no Social Security payments for ORP members because TRSL/ORP do not participate in the Social Security program.

Using the salary example above for a faculty member in Texas at a 4-year university; the employer contribution rate for FY 15 is 6.6% or $4,528. Institutions are authorized to offer a local employer supplement using local or other funding sources to bring that rate up to 8.5%, potentially providing an additional $1,166. Finally, the 6.2% Social Security contributions of $4,253 bring the total employer contribution payment to $9,947 for this employee; $7,574 more than the employer contributes in LA.

Maintaining the existing rate rather than moving to the reduced rate for FY 15 would preclude any cost savings for institutions. Increasing the contribution rate to the 2008-2009 rate of 6.95% would raise employer costs nearly $17 M in FY 15.