



“Streamlining Louisiana 2010”

“The recommendations impact almost every area of state government from state employees and state contracts to privatization of state services and improving productivity in state agencies with less state dollars.”

From Commission on Streamlining Government Press Release, 12/8/09

Last session the Legislature passed Act 491 establishing the Louisiana Commission on Streamlining Government. The ten-member Commission was tasked with suggesting ways “to streamline government in order to overcome the projected severe revenue reductions occurring through 2012 and to ensure that available state tax dollars are being spent efficiently and effectively.” At the time of the legislation, the state was facing a projected \$1 billion state budget shortfall for the 2010 fiscal year and a possible \$2 billion shortfall for the 2011-2012 fiscal year when one-time federal stimulus dollars will be gone. In December an additional \$248 million of mid-year budget cuts was announced.

The Commission held its initial meeting in late July and established five Advisory Groups. Over the next four months the advisory groups held forty-six public hearings on proposals and the Commission conducted public hearings in Monroe, Alexandria, Shreveport, Lake Charles and Harahan. Initial cost-cutting suggestions came from state agencies themselves at the request of Commissioner of Administration Angele Davis, a member of the panel.

Cost Savings The Louisiana Streamlining Commission released its final list of 238 approved recommendations on January 4th. While not originally tasked with a specific dollar goal, Governor Jindal requested that the panel find \$802 million in savings. While some recommendations deal with federal funds or have “to be determined” as the estimated savings, Commission Chairman, Sen. Jack Donahue, (R) Mandeville, says by his calculations of those with fiscal notes, savings total “about \$600 million.” Some recommendations are administrative and can become part of the governor’s budget while others will require legislative action. Gov. Jindal says he will implement two-thirds of the proposals in his budget due February 15.

Sen. Donahue hopes to introduce packages in the 2010 Session that begins at the end of March to continue moving the process forward. “I think that the state of Louisiana needs to have clear cut priorities and I’d like to have these recommendations be in alliance with those clear cut goals.” A separate cost control panel established last session to suggest ways to cut and streamline higher education will release its recommendations in February. The taxpayer cost for the Commission was approximately \$20,000 which included per diem payments to its legislative members.

Why such large shortfalls?

While various factors, including declining sales tax revenues and oil and gas revenues, contribute to the projected multi-year budget deficit, the most significant cause is a decrease in the state’s federal health care funding for Medicaid recipients. In October 2009, the state’s Federal Medical Assistance Percentages (FMAP) rate dropped from 72% to 67.6%, meaning the state must make up the cost difference. The rate will drop again to 63.1% in October 2010. The decrease in the state’s FMAP rate will cost Louisiana an estimated \$700 million, with the state seeing the full impact in January 2011.

According to the Commission on Streamlining Government, the dramatic decrease is due to a faulty federal formula that claims that from 2005 to 2007, Louisiana’s per capita income increased by 42%. The Commission feels the analysis unfairly cites all sources of income, including federal recovery assistance administered after the severe 2005 storms. U.S. Senator Mary Landrieu (D), came under fire in November for voting to allow debate in the Senate on its health care bill after securing \$100 million to go towards the Medicaid gap. Landrieu noted on the Senate floor that the estimated \$100 million would be worth about \$300 million to the state.

Analysis With the state facing a projected \$3 billion shortfall over the next two years, Robert Travis Scott, Capitol Bureau Chief of the *Times Picayune* says that many legislators may look at the Commission recommendations and ask, “Where’s the real meat that we can cut? Where’s the fundamental new perspective that we could put on state government operations?” Scott says that if the expectation of the Streamlining commission was to fundamentally restructure the way government works, “then I think you’d have to say that it didn’t fulfill that goal.” Sen. Donahue was disappointed that the panel was unable to dig more deeply into individual programs due to some agencies not providing details in a timely manner. “I felt like the Commission didn’t receive information on purpose” [he told the Press Club](#) of Baton Rouge.

Jim Brandt, president of the Public Affairs Research Council of Louisiana says “I think it would have been our preference to see a broader sort of mandate that includes the revenue side; tax cuts; tax exemptions as well as the expenditure side.” The few tax-related recommendations prohibit tax or fee increases to deal with current shortfalls (#233) or suggests that any future excess state revenue should become a recurring tax cut (#221). It’s the opinion of Mark Ballard with *The Advocate* that “much of the nearly \$1 billion shortfall in the 2010 budget is the result of tax cuts passed during the past few years.”

While Scott commends the Commission for developing a helpful starting point, he says that at the end of the day it’s going to be “the new budget environment driving the downsizing of state government more than probably the Streamlining Commission itself.” Donahue says the panel plans to continue to offer recommendations until the Commission expires in 2012.

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Robert Travis Scott,
Times Picayune Capitol Bureau Chief

Streamlining Commission Recommendations

The Louisiana Commission on Streamlining Government recommendations are divided among 6 categories:

1-Governmental Reform, 2-Budget Reform, 3-Healthcare And Social Services, 4-Education, 5-Public Safety, and 6-Economic Development, Transportation, and Infrastructure. Highlights of suggestions from some of these various categories follow.

To see the complete list of 238 recommendations, visit the panel’s website: <http://senate.legis.state.la.us/streamline/>.

Privatization Of Services

Developmentally Disabled The Commission looked for opportunities where the state could save money by outsourcing some of the services it currently provides. Recommendation 10 would privatize and consolidate the state’s centers for the developmentally disabled. According to the Department of Health and Hospitals (DHH), the average annual cost for a developmentally disabled individual to receive services in a publicly-operated facility is \$170,000 while a privately operated facility receives an average of \$70,000 per client. The Legislative Fiscal Office calculates for every 100 individuals transferred to a private developmental disability center, DHH could see annual savings of \$9 million. Currently DHH operates 6 centers with a total average occupancy of 1100 at an annual cost of \$210,789,280.

Due to mid-year budget cuts of \$108 million DHH, has begun to act on this recommendation and will close 31 community homes for the developmentally disabled. Some 336 state employees will lose their jobs and 156 residents will be moved.

Jim Brandt with the Public Affairs Research Council of Louisiana cautions that “Privatization is really not a panacea.” Brandt says that it should be explored but that recently when the Department of Corrections wanted to outsource their food services the lowest bid still came back \$1 million more expensive than what the state is already spending on it.”

Charity Hospital System Usually a sacred cow, the Commission “chewed around the edges” of the Charity System in recommendation 167. It suggests that DHH and the LSU Health Sciences Center should pursue the idea of outsourcing acute and inpatient care for public hospitals to community hospitals using the Huey P. Long Medical Center in Alexandria as the first evaluation site. Vice Chairman Martin who lives in Alexandria, says, “We have plenty of hospital capacity in central Louisiana as do other communities and I feel that the outsourcing of the acute care and inpatient care to those hospitals ...is a lot better situation than we have now.” The Commission recommends a renewed investment be made in outpatient and primary care access.



Reduce Number Of State Employees

Recommendation 215 would reduce the number of state workers by 5% or approximately 5,000 workers per year for the next three years. This could amount to a total projected savings of \$750 million according to Commission Chairman Donahue.

A November 2009 study by the Legislative Auditor ranks Louisiana 13th among the 50 states for the ratio of state employees per 10,000 residents.

Leonel Hardman with the American Federation of State, County and Municipal employees (AFSCME) says that, *"If we're going to look at state employees and the number of state employees in the state of Louisiana, let's start at the top."*

During Governor Jindal's first year in office the number of state employees increased by nearly 3% among workers earning more than \$40,000. According to the *Times-Picayune*, *"In the elite category of state workers with salaries of more than \$100,000, the state's payroll grew by \$96 million in one year."*

Times Picayune Capitol Bureau Chief Robert Travis Scott recently told LPB, *"I think what we've seen under the Jindal administration in the second year is a pulling back on the reins. I think they've gotten back a little more control on the number of employees and it seems to have stalled and maybe even fallen back a little."*

State Contract Scrutiny and Reduction

Recommendations 166 and 172 call for a review of state contracts for outside services and a reduction of contract costs by 10% each year.

Governor Jindal has said that reducing state contract costs by 10% a year is too rigid to be practical.

Commission Vice Chair Martin says that the state's 16,000 contracts deserve more scrutiny. He says the Commission's 4 month turnaround time didn't afford the panel to make more detailed recommendations, *"We didn't have enough time to get into those contracts in Department of Health and Hospitals, the Department of Social Services and the Department of Education close enough to help them set their own priorities."*

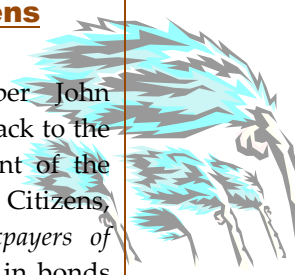
Leonel Hardman with the American Federation Of State, County And Municipal Employees For Louisiana says agencies need to be held more accountable *"to look inside to see whether or not there's somebody inside their organization who can provide that service."*

Cut 2% from all agencies' budgets

Based on a U.S. Department of Labor study that said worker productivity had increased 2%, Sen. Donahue recommended an overall 2% reduction of all budget units each of the next two years. This so-called "productivity gain" in recommendation 80 would result in savings estimated by the Commission of \$124 million per year for each of the next two years.

Governor Jindal has said that a 2% across-the-board budget cut doesn't make sense. Vice Chair Martin feels the recommendation has been mischaracterized. Martin says, *"If you read the recommendation it's that the total budget needs to go down 2% ;not each and every thing. If it's a useless program I want to cut it 100% but if it's really working or needs money I want to increase it. But the overall should be 2% than it was in 2009."*

Phase out the Louisiana Citizens Property Insurance Corp.



State Treasurer and Commission member John Kennedy made recommendation 226 to go back to the system that existed before the establishment of the property insurer of last resort. Kennedy calls Citizens, *"one of the biggest hornswoggles of the taxpayers of Louisiana in my lifetime."* He cites \$1 billion in bonds the state had to issue to keep the company afloat after the 2005 hurricanes. Critics say phasing out Citizens would take decades and in the long run it would add exposure to the state because the private sector would reduce their policy writings." Jindal has said the proposal is unlikely to get his initial support.

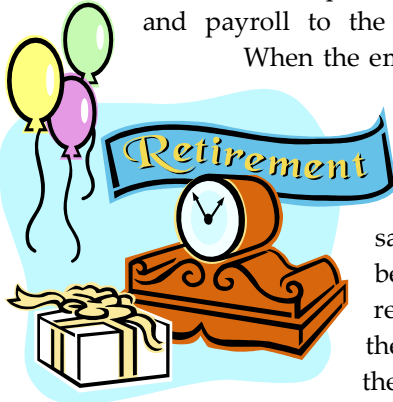
Explore "Full Cost Recovery"

Recommendation 170 attempts to try and get a fair return on services that the state provides that it isn't required to provide. The state has two choices for funding services, licenses, procedures, and permits. Government can tax all citizens equally if the benefit is for the public at-large, or it can charge the actual cost to the consumer if the benefit is for the user only. Under "full-cost recovery" citizens pay the exact cost for governmental services that benefit them as a consumer, no more, no less. Governor Jindal says the recommendation will not get his blanket backing.

Commission Vice Chair Roy O. Martin says the recommendation is an attempt to recoup fair compensation for certain services. For example, he cites that the Department of Revenue offers "letters of ruling" or basically legal advice for taxpayers – at no charge. Martin says, *"It's not a recommendation that is supposed to be viewed as an across the board fee increase."*

Change the State Retirement System

Recommendations 177 and 227 would make the state's four retirement systems more like private pension plans by moving them towards defined contribution plans. The state currently offers defined benefit plans where the employee and the state contribute percentages of paychecks and payroll to the retirement system.



When the employee retires their benefits are "defined" by a formula based on years served and salary averages. The benefits last a retiree's lifetime and the state guarantees them. The concern

over the present system has to do with the amount of debt the state has accumulated over the years to pay out benefits. Currently this "accrued unfunded liability" is \$16.8 billion.

Streamlining Commission Vice Chairman Roy O. Martin, III says "A defined benefit plan can run an enormous deficit. It's one of the reasons General Motors is no longer General Motors any more, it's run by the government." Martin supports a defined contribution plan where employees make a set contribution annually into an investment plan and their own retirement investment decisions. When they retire, whatever money the employee has accumulated, based on investment returns, funds their retirement years. The state would not guarantee a benefit.

Senator "Butch" Gautreaux Chairman of the Senate Retirement Committee is concerned with the risks involved. "People that lacked the sophistication to make those judgments on how their retirement moneys are going to be invested; can be taken in by somebody like Madoff and lose everything and I think we do a disservice to our state employees opening up that door."

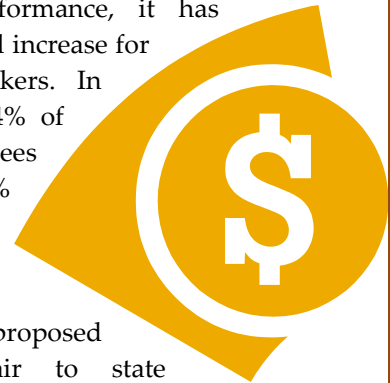
Gautreaux also says the move would require the enrollment of state workers into Social Security, increasing what the state currently pays in payroll contributions while still not addressing existing liability. "So you're going to pay 7½% in Social Security and you're going to pay something towards that new contribution plan. You still have that accrued unfunded liability," Gautreaux says, "We're looking to cut costs in state government; not increase costs and frankly that's what going to a defined contribution plan would do."

Manager To Employee Ratio

Recommendation 235 calls for a 1:10 manager to employee ratio. According to the 2009 Legislative Auditor's report, Louisiana's overall average ratio of supervisor to classified staff in executive branch state agencies is one to four. The report further revealed that 22% of supervisors in state agencies manage only one person. Commission Vice Chair Roy O. Martin, III notes that "The way that the Civil Service is setup, the more employees you have underneath you the more money you can get. That is counterproductive to efficiently using taxpayer's money for salaries."

Merit Pay Increases

Recommendation 189 would prohibit merit pay increases if an employee's annual performance only "meets expectations." Under current Civil Service rules, all classified employees receive a "merit pay" raise of 4% annually if they meet or exceed expectations. While the system was designed to incentivize staff performance, it has evolved into an annual increase for nearly all state workers. In Fiscal Year 2009, 98.4% of classified employees were eligible for the 4% merit pay raise, according to Civil Service.



Hardman feels the proposed prohibition is unfair to state workers, "If they're coming to work every day, doing what is asked of them to do, and based on the yearly evaluation it is determined that they deserve a merit raise, let them have it. They're not asking for you to give them anything free." On December 9, 2009, the Civil Service Commission adopted new pay increase rules -3% for those who meet expectations, 4% for those who exceed expectations, and 6% for those with outstanding performance. The Governor has rejected the plan saying it offered too lucrative a pay raise for outstanding workers and gave too little flexibility to agencies in determining employee pay.

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Streamlining Commission Vice Chairman Roy O. Martin, III

OTHER RECOMMENDATIONS.


Public Safety.

Recommendation #143: Ensure that more prisoners are educated upon release.

Opponents say this is an additional cost and should not be a high priority during the current fiscal crisis. Proponents say that the move will reap savings in the future by helping to reduce the state's incarceration rate – the highest in the world. The state spends approximately \$540.43 million to incarcerate 40,100 people every year.

Economic Development, Transportation, and Infrastructure

Recommendation #139: Eliminate four state ferry routes.

The recommendation that the Department of Transportation and Development eliminate the Melville, White Castle, Reserve and New Roads ferry routes could save \$6.1 million. The Commission recommends re-directing these dollars to road and bridges construction and maintenance. 

Why is Healthcare and Higher Education always at risk?

Higher education and Healthcare typically are hardest hit when budget cuts are made because of the amount of their funding that is not protected by state law. Over the years, Louisiana has placed more and more funds off limits from cuts. Currently approximately 400 "dedicated funds" totaling around \$3.7 billion are protected either by the state constitution or statute.

Last session Senate bills 2 and 267 established a regular review and flexibility in addressing statutorily-dedicated funds. Commission recommendation #24, seeks to speed up the timeline for the review.



Please watch "Streamlining Louisiana 2010" on *Louisiana Public Square* airing Wednesday, January 27th at 7 p.m. on LPB.

Let us know where you think the state should cut to save money!

Visit www.lpb.org/publicsquare and comment.