

SPECIAL REPORT
Special Legislative Session

Both Hurricane Katrina and Rita have had a negative impact on the financial health of the State of Louisiana. Both hurricanes wiped out eleven years of job growth in the state, and reduced the state population by over 500,000. This year, non-farm jobs will fall by over 59,000, and next year it is estimated that almost 160,000 jobs will be lost.

The loss of jobs and businesses resulted in a loss of state tax and fee revenues. The various state agencies involved in revenue estimation calculated that this fiscal year the state government would take in between 956.7 million to 970.6 million dollars less than originally estimated, and that the next fiscal year the state will be from 624.9 million to 786.1 million dollars less than estimated. As a result of these estimated revenue shortfalls, the Governor took action, as required by the State Constitution, to reduce spending in all State government agencies. This report focuses on the impact that such reductions have on publicly funded Higher Education in Louisiana.

Under Executive Order KKB 2005-82, The Governor reduced the State General Fund Allocation for Higher Education by \$66,599,062. This reduction amounted to a six percent reduction from the original \$1,105,223,718 State General Fund Allocation for Higher Education. Additionally, the Governor, under the authority contained within the State Constitution, further reduced the Dedicated Statutory Fund Accounts by five percent. Dedicated Fund reductions related to Higher Education were:

LSU System Tobacco Tax Health Care Fund	\$1,350,450
LSU System Fireman Training Fund	\$133,585
LSU System Equine Health Studies	\$37,000
Southern System Agricultural Program Fund	\$75,000
Southern System Tobacco Tax Health Care Fund	\$50,000
Southern System Gaming Control Fund	\$2,500
U of L System Calcasieu Parish Fund	\$20,985
LCTC System Higher Education Initiative Fund	\$10,000
LCTC System Calcasieu Parish Fund	\$6,994
Board of Regents LA Quality Support Fund	\$1,927,451
Board of Regents Higher Education Initiative Fund	\$982,109
Board of Regents Health Excellence Fund	\$115,856
Board of Regents Louisiana Fund	\$104,668

Total reductions in Dedicated Statutory Funds for Higher Education were \$4,824,450. The total reduction by Executive Order for Higher Education was \$71,423,160.

Since the Executive Order Reductions did not cover the shortfall in revenue, thus maintaining an unbalanced budget, the Governor, by State Constitutional requirements, called a Special Session of the State Legislature to deal with the issue of revenue shortfall.

Initially, the Governor’s Office proposed to the State Legislature additional reductions in Higher Education. The proposed additional reductions were: \$78,955,221 in State General Fund; \$1,089,314 in the TOPS Program; \$150,00 in Higher Education Debt Service Funds; \$987,000 in Dedicated Statutory Funds; \$3,627,719 in Unexpended Fund Balances. The total additional proposed reductions were \$84,809,254. At that time, the total reduction to Higher Education would have reached \$156,232,414.

Fortunately, the Governor’s Staff, in consultation with the State Legislature, were able to devise a method to deal with the majority of the additional revenue shortfall. The State Constitution requires that the State of Louisiana must maintain what is referred to as a “Rainy Day Fund”. This fund must contain four percent of the revenue generated from taxes and fees per year. The Governor is authorized to take one third of that fund during a crisis, but may not take more funds without a Constitutional Amendment submitted to the voters of the State. However, there is a limit to how much money that can be maintained in the Rainy Day Fund, and when that amount exceeds four percent, the additional revenue is returned to the State’s General Fund. Last year the State generated a surplus in Revenue. Surplus Revenue allocation is within the authority of the State Legislature. By dedicating the entire Surplus Revenue to the State Rainy Day Fund, the Rainy Day Fund exceeded the four percent maximum, allowing additional revenues to flow back into the State General Fund. This maneuver caused the amount of revenue shortfall to drop to less than one third of the original estimation. It was this final shortfall that the State Legislature dealt with during the Special Legislative Session. While Higher Education did suffer further reductions, the amounts of final reductions were greatly reduced by the Rainy Day maneuver.

The final bill passed by the State Legislature reaffirms the original reductions taken by Executive Order, and includes the following additional reductions:

LCTC Unexpended Administrative Fund Balance	\$190,000
LSU System Unexpended Fund Balance	\$2,324,344
SU System Unexpended Fund Balance	\$100,000
Board of Regents Unexpended Fund Balance	\$889,375
LCTC Unexpended Fund Balance	\$114,000
Higher Education Debt Service	\$150,000

These additional reductions totaled \$3,767,719. On a brighter note, the Legislature did provide the Pennington Center with an additional \$500,000 for specialized research. Deducting the Pennington \$500,000 for the above listed reductions means that the final reduction for Higher Education in the bill were \$71,423,160 under Executive Order coupled to \$3,267,719 by Legislative decision, for a grand total of \$74,690,879.

Several “however” should be placed on this narrative. First, it is estimated that losses in tuition fees for Higher Education for this academic year will exceed \$67,000,000. This amount will be over and above the \$74,690,879 reduction. This fee reduction problem will especially impact the University of New Orleans, Southern University in New Orleans, Delgado Community College,

and Nunez Community Colleges. Additionally, the State Government may suffer further revenue losses due to fees and license revenue being impacted by both Katrina and Rita. The State will not have an accurate estimate of fee losses until late December. If State revenue figures remain low, further reductions may be required.

As for the reductions in state funds and tuition for Higher Education, several key decisions have been reached. Rather than just reducing each System's budget by a percentage, the Board of Regents have decided to use the Funding Formula method which allocates funds to Systems based on a per unit student cost. While too complicated to explain here, the decision, in essence, means that the universities and colleges suffering the greatest loss in revenue will be those schools most directly impacted by the two storms. The state remains 46,000 students short of the original pre-Katrina enrollment levels, and those students, for the most part, were in the impacted New Orleans metro area. Basically, this will result in a major fund reduction for the impacted schools, and a lessening of the budget reduction impact on schools not directly impacted by the storms.

In another area which directly impacts Higher Education in Louisiana, the Board of Regents and the System's Presidents have assured the State Legislature that during December they will meet to discuss the future of Higher Education in the State. The loss of student numbers, coupled to the facilities loss, requires that consideration be given to resizing and reconfiguring the current structure of Higher Education in Louisiana. This need for considering changes in the educational structure and priorities was further emphasized in the final budget bill which required that the LCTC System first reduce administrative costs areas before reducing instructional areas or classified employee positions. The Regents assured the State Legislature that when the Legislature convenes for the January Special Session, a report will be prepared recommending changes in program and service structures to deal with a reduced student population and reduced revenues. Such changes may have a direct impact on all aspects of curriculum and instructional offerings.

As a final note, the issue of Financial Exigency is currently at play. Both Nunez and Delgado have notified both classified and unclassified employees of future layoffs and furloughs. The University of New Orleans has also notified both staff and faculty of such a development, and Southern University of New Orleans has already instituted staff reduction plans for classified employees. While the majority of the Systems are seeking to avoid such measures, their success depends greatly on an improving revenue outlook, either through state generated funds or relief from the federal government.

Respectfully Submitted

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