SECURE LOUISIANA'S FUTURE

Select Council on Revenues and Expenditures in Louisiana's Future

FINAL REPORT: *April 1995*

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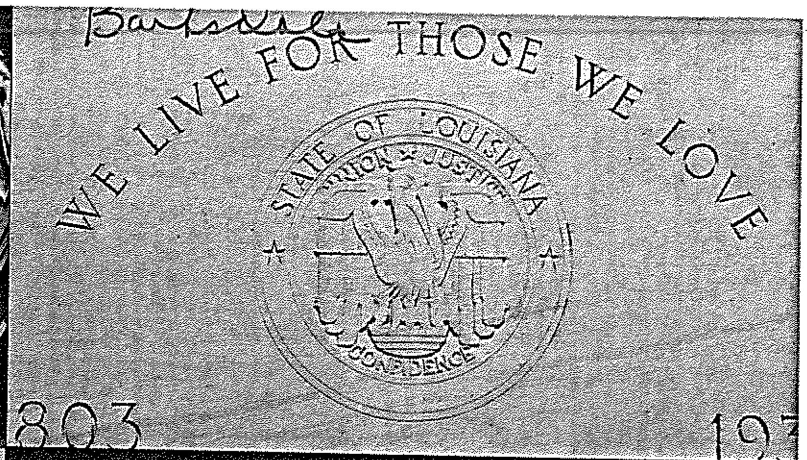

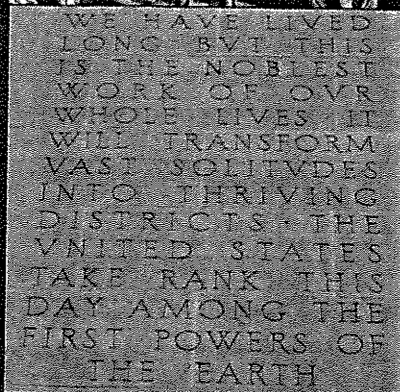

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SECURE Louisiana's Future

TO THE GOVERNOR, LEGISLATURE AND CITIZENS OF LOUISIANA,

On behalf of the Select Council on Revenues and Expenditures in Louisiana's Future—SECURE—we are proud to present this report to you.

SECURE was charged to "develop recommendations to improve the financial future of the state and the general quality of life of its citizens." Over the last two years, we have worked hard to come up with bold and practical strategies to reduce the cost of government, improve its services, and devise a plan to carry our state forward into the 21st century. We believe the recommendations highlighted in this document will build on Louisiana's unique character, determination and sense of humanity to make our state all that we want it to be.

Our work represents the give and take of people from Lafayette, Monroe and Baker, as well as Shreveport, Baton Rouge and New Orleans . . . of people from business and industry, labor, public education and higher education, public service and nonprofit organizations, state and local government . . . of people with divergent backgrounds, interests and points of view. We consider this diversity of perspectives—which resulted in consensus on the package of recommendations included here—the strength of our report.

The scope of our report, like government itself, is vast. It also never ends. Health care and technology, in particular, still need to be analyzed and the task of achieving real results—implementation—still lies before us.

While SECURE has closely studied most aspects of Louisiana state government, it will be up to dedicated and farsighted public officials to fully discover and implement change. We urge you to consider our recommendations for savings, investments and taxes as a package, recognizing that one part without the other will not produce the desired results.

Our work on this project has convinced us that Louisiana can create a better future for our children and for theirs. The SECURE report provides an agenda for realizing that vision. We commend it to you, urging that you join us in implementing real change for Louisiana.

It's our state. It's our future. Let's make it better for all of us.

G. Lee Griffin
Chairman
Chairman, Committee of 100
Chairman and CEO, Premier Bancorp

Samuel B. Nunez, Jr.
Vice chairman
President, Louisiana State Senate

MEASURING UP TO THE CHALLENGE

WE HAVE LIVED LONG BVT THIS IS THE NOBLEST WORK OF OVR WHOLE LIVES. IT WILL TRANSFORM VAST SOLITVDES INTO THRIVING DISTRICTS. THE VNITED STATES TAKE RANK THIS DAY AMONG THE FIRST POWERS OF THE EARTH

MEASURING UP TO THE CHALLENGE

> *"We have lived long, but this is the noblest work of our whole lives... The instruments which we have just signed will cause no tears to be shed. They prepare ages of happiness for innumerable generations of human creatures."*
>
> *Robert R. Livingston, May 8, 1803*
> *Upon signing the Louisiana Purchase*

Nearly 200 years ago, our ancestors met the challenge of their generation by purchasing the Louisiana territory and doubling the size of this nation. Now Louisianians have a chance to show the same foresight and spirit in responding to the pressures of the 21st century.

For we too are poised at a historic moment in time, a moment that will allow us to create the future we all want:

- A future where more of our children graduate from high school, more go on for a community college or university degree, and best of all, more find good jobs here
- A future where high performance companies choose to locate, expand and invest in Louisiana because we're better than the competition
- A future where safe and vibrant communities give us a sense of place and purpose, security and hope
- A future where citizens, elected officials and state employees work together to make our government a model for other states
- A future where a fair and stable tax structure improves our prospects from one generation to another
- A future where every one of us is proud to say, "I'm a Louisianian"

That's why the state's public and private sectors joined forces in 1993 to create and fund the Select Council on Revenues and Expenditures in Louisiana's Future. The Council, better known as SECURE, was established to give elected officials, public managers, business executives, labor and community leaders and citizens the framework we need to move our state forward and set a positive course for the next century.

Our goal is to define a high quality government that meets people's needs: that is, to determine what kind of education system, economic development approach, health care system, tax structure and organization will take our state where we want to be. It is a daunting—and exciting—task.

We know that SECURE, by itself, cannot solve all of the state's problems. That will require all of us—elected officials, public servants, taxpayers, and the business and labor community—to work together and be willing to put aside any personal interests in order to move our state forward. What we can do is make recommendations to ensure a high performance government that takes advantage of the best practices of successful public and private institutions. To be specific, our role is:

- To suggest a proper system of accountability and authority that will enable voters to measure the performance of our elected officials and other public servants—not to further hamper the ability of our elected officials to govern
- To frame the right answers regarding government structures, systems, procedures and policies—not to settle for the "politically possible"
- To recommend changes that will improve government services, make wiser use of public dollars and enhance Louisianians' lives—not to deal with the objections of those who prefer the status quo
- To look forward to a better functioning future—not to look back and praise accomplishments or assign fault for shortcomings of the past
- To provide the broad brush strokes that will steer elected officials, senior executives and public managers in the right direction—not to prescribe the details of implementation
- To create a culture of change that will focus on the greatest public good—not to fix the particular problem of any individual or group

In other words, SECURE's purpose is to outline, advocate and even demand immediate and continual change.

This report represents our best efforts to fulfill our mission and compose a new vision for the years ahead. It has taken us two years and countless hours of effort to reach this point, and we are proud of the results. The basic strategies and recommendations outlined in the following pages present a thoughtful, practical plan for making Louisiana all that we want it to be.

But the true test of our state is what we do from here. Will we muster the political will to make tough choices? Will we turn SECURE's recommendations into action? Will we make sure that 10 years from now we're singing a different song?

It is up to each and every one of us to make sure the answer to all of these questions is a resounding "yes!"

THE TIME FOR CHANGE HAS COME

Our state is blessed with an abundance of natural riches. Yet in too many of the measures used to define quality of life, Louisiana ranks at the bottom when we want to be at the top, and at the top when we want to be at the bottom:

- 50th in high school graduation rate
- 46th in health of the population
- 46th in per capita personal income
- 2nd in persons living in poverty
- 5th in crime rate

Louisianians have accepted this status quo for too long. We have watched as the state has fallen behind in one dimension after another. We have blamed our elected officials, our business leaders, our history, our culture—and we have thrown up our hands in despair.

The truth is, we are all responsible. Now we must take control of our destiny. We must shape government to meet our standards of quality and efficiency. We must fundamentally change the way we do things to produce different results. And the members of SECURE are convinced there is no better time to start than today.

All the forces are in place to make a difference that will reverberate for years to come:

- A comprehensive plan to reinvent our future, as outlined by the recommendations in this report
- A public involvement and information effort
- A package of specific legislation to back up our recommendations

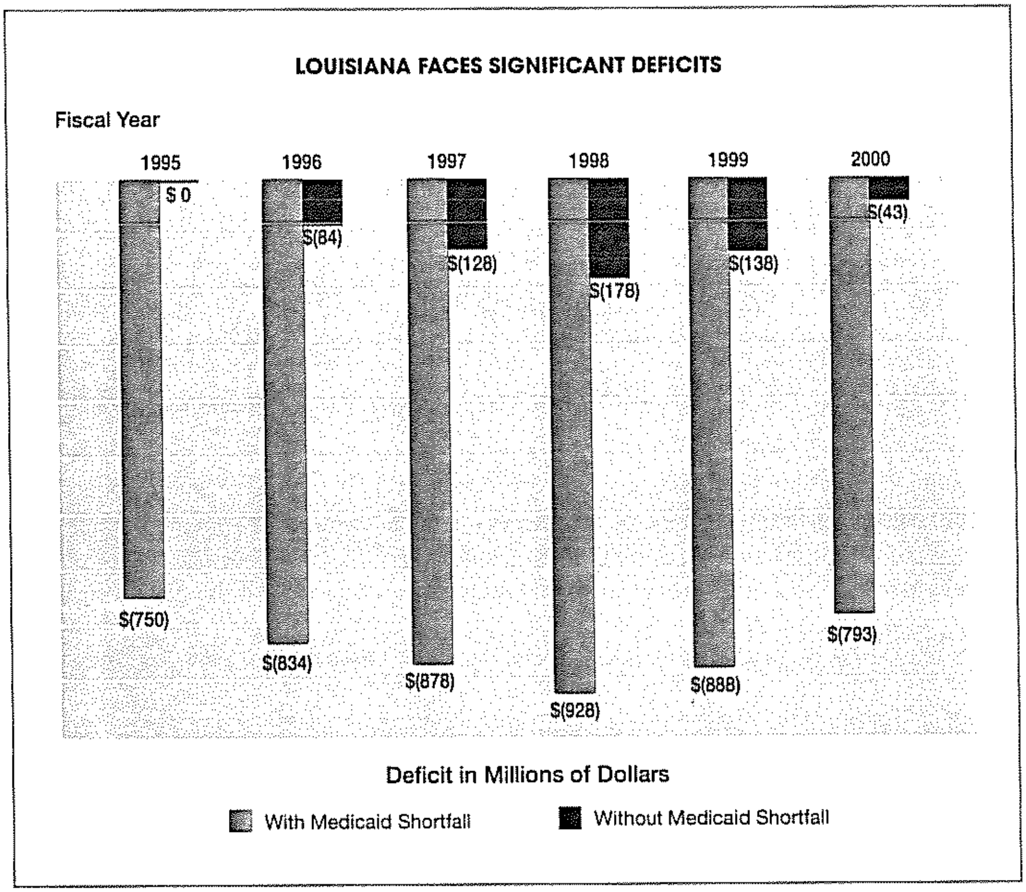
At the same time, the problems of the past have caught up with us, forcing us to change our ways. The state simply cannot afford to continue in the same direction any longer. Why? Let us explain.

LOUISIANA'S TWO FISCAL CHALLENGES—TODAY AND TOMORROW

Louisiana's fiscal challenges are significant and complex. We have two principal problems:

- We need to find enough general fund monies to balance our budgets during the next five years, and
- We need to find additional general fund monies to invest in our high priority needs and services

SECURE understands that the state constitution requires a balanced budget and the last two general fund budgets technically produced a surplus. But when we look at the total picture—including debt, the unfunded accrued pension liability, judgments against the state, the impending loss of a huge amount of federal Medicaid funds—it is clear that the state is living beyond its means.



(EXHIBIT 1)

Current budget projections show that if the state continues on its present course, we will face a continuing deficit. Even without the $750 million Medicaid shortfall looming on the horizon, we face a budget deficit. With Medicaid, it's a disaster. Assuming the usual 4% increase in state expenditures, forecasters estimate deficits of $43 million to $178 million in 1996-2000 without Medicaid; when Medicaid is included, the figures jump to $790 million to $930 million.

The state's decision makers deserve credit for taking positive steps in recent years to address the state's financial future, including:

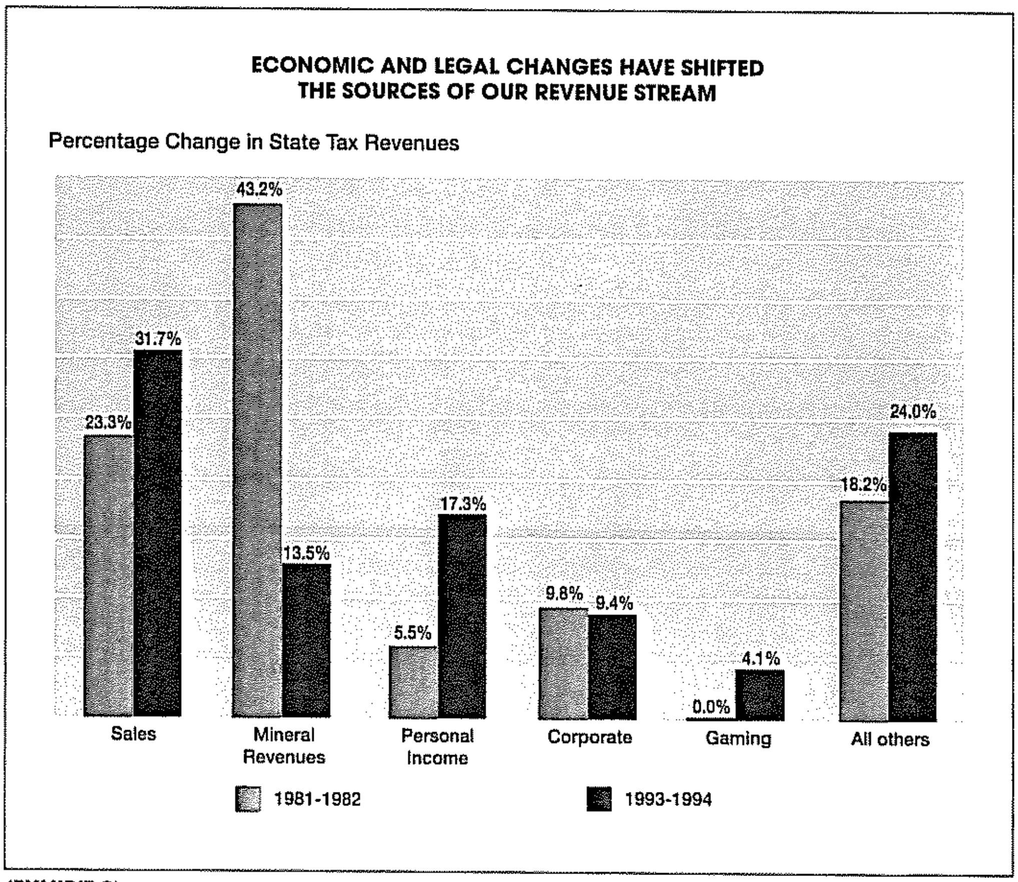
- Limiting the amount of debt issued in any fiscal year to bring the amount needed to service outstanding debt to a level more consistent with other states
- Requiring that one-time revenues be designated by the Revenue Estimating Conference and used only for the retirement of the state debt
- Ensuring that each capital improvement project is evaluated in terms of feasibility and cost before the project is implemented
- Limiting the increase in state expenditures based on growth in personal income

- Creating the 8(g) Fund for Education, a trust fund to improve the quality of all state educational services established from $540 million in oil royalties received from the federal government
- Requiring that the budget be balanced at all times and that deficits existing at the end of the year be paid first out of the next year's revenues

Such reforms will help reduce problems in the future, but they cannot resolve the structural imbalance underlying the state's fiscal footing. That's because the lines of expenditures and revenues have crossed, and will not be realigned by the growth of the economy over the next five years.

REVENUES ARE NOT GROWING AS QUICKLY AS EXPENDITURES

SECURE's analysis of the state's fiscal future indicates that the prospects for rapid growth are bleak. While the economy is expected to grow at a rate of 5-6% in the next five years, total revenues are projected to grow at a rate of roughly 3% to 3.5% over that same period of time.



(EXHIBIT 2)

The bottom line is that the projected growth in revenues will not be sufficient to match the normal growth of state expenditures. With our present tax structure, the state is not likely to find fiscal stability in the next five to ten years, even with growth in the economy. This imbalance puts the state's decision makers in the unenviable position of having to trim the budget or find additional revenues every year.

THE SOURCES OF REVENUE HAVE SHIFTED

Changes in the mix of the state's economy and in state legislation and constitutional amendments are reflected in the dramatic shift in state revenue sources in recent years. Mineral taxes and revenues, which made up over 40% of the state's revenues in 1981, now account for slightly more than 12%. To make up the balance, sales taxes have taken over an increasing share, income tax collections have tripled due primarily to federal tax changes, and gaming is providing a new source of revenues.

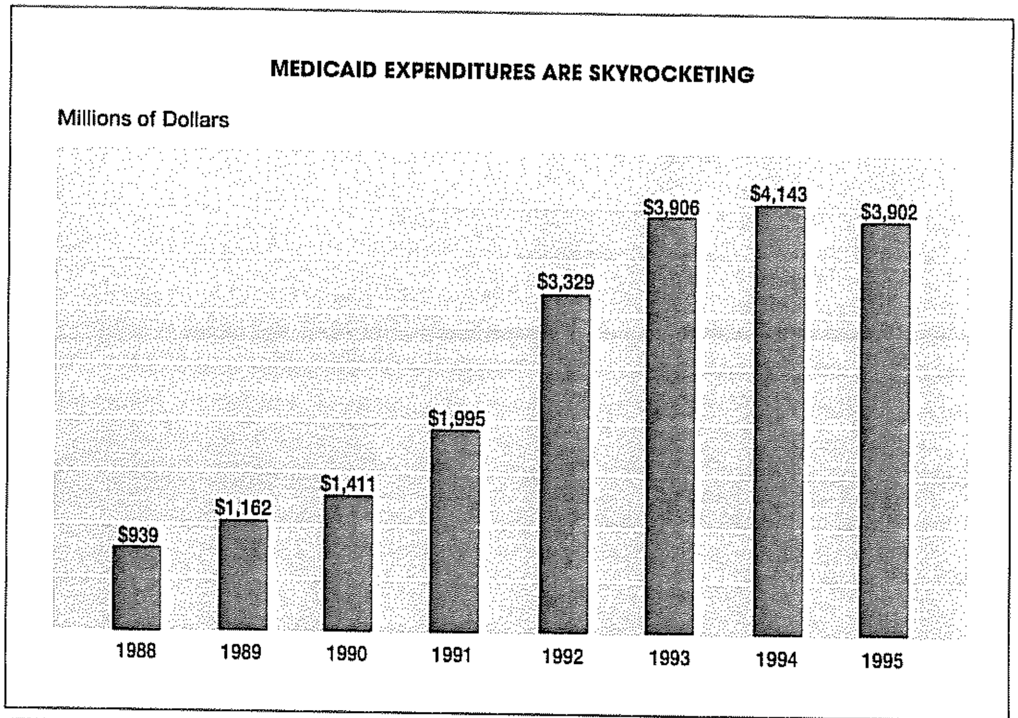
The tax structure that has evolved over the years is very different from other states, relying far more heavily on sales taxes and other sources of revenue, including mineral taxes and user fees, and far less on property and income taxes. We have depended on a "regressive" tax structure that places an unfair burden on those less able to afford it. For example, our high sales tax falls proportionately more heavily on lower income than higher income families.

THE TAX STRUCTURE IS HOLDING THE STATE BACK

The present tax structure is a vestige of a different economic era, when oil and gas receipts pumped up the state's revenues. As a result, our residents and taxpayers have footed a smaller share of the bill for government services than in other parts of the country.

So who is picking up the tab for Louisiana's citizen services? More so than in most other states, it's businesses and the federal government. That may sound good to some, but our tax decisions often have unintended, negative effects:

- Economic development is limited by what businesses perceive as an unfair tax burden
- Local financing decisions are driven to the state level, where revenues are collected and distributed
- Taxpayers see little relationship between their individual tax burdens and the services they receive
- Our heavy reliance on sales taxes places a burden on those who can least afford it
- Constant changes in the system create instability



(EXHIBIT 3)

MEDICAID FUNDING HAS TRANSFORMED OUR BUDGET

Medicaid and public health funding is one of the defining issues of state fiscal management. While nearly every other state has struggled with how to finance its portion of the program, Louisiana did something different. We used large amounts of federal Medicaid funds to finance the growth and operations of the nation's largest public health system. In the last five years, Medicaid expenditures have tripled, from $1.4 billion in 1990 to more than $4 billion in 1994.

No more. Federal regulations have changed and Louisiana must reengineer its health care system to lower and more acceptable levels—while grappling with a $750 million funding challenge.

ECONOMIC DEVELOPMENT LAGS BEHIND OUR PEERS

Despite the inherent advantages of location and natural resources, Louisiana has not been able to attract the same degree and permanency of economic development as other states. Companies looking to relocate or expand do not find many of the factors they are looking for here: a first-class public education system, a highly skilled workforce and a fair and stable tax structure.

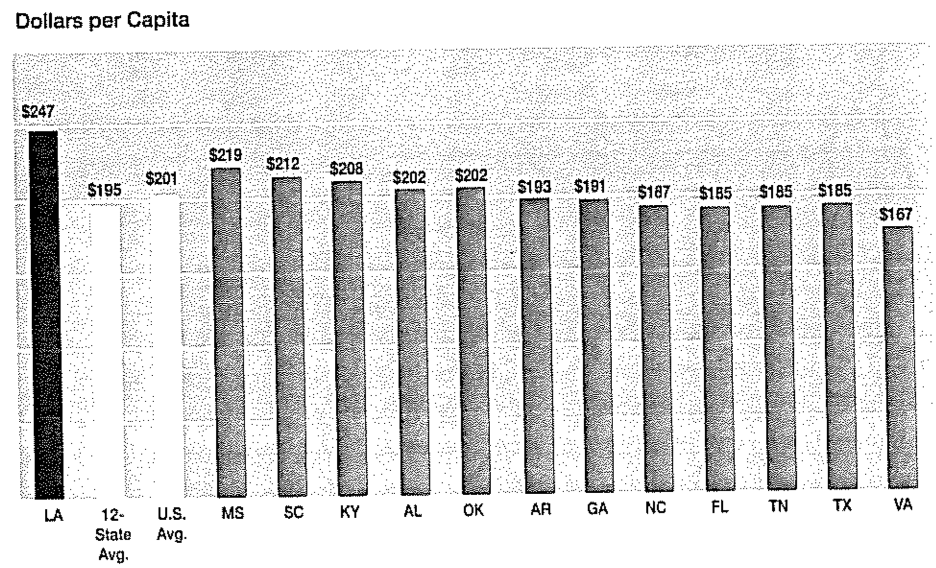
Of course, some businesses have moved to Louisiana, but our share of economic development "wins" lags behind our peer states. For example, the last time the Fantus

Corporation—the largest plant location firm—recommended that a client move to our state was in 1966. These conditions, combined with a fragmented economic development strategy, mean that the state has attracted and retained fewer healthy businesses, generated fewer good jobs and produced less revenues to fund essential government services.

DEMANDS FOR SPENDING ARE GROWING RAPIDLY

Louisiana's needs are great, which may mean that the state has to spend more than our peers in some areas. But even so, we've gone overboard. In 1992, the latest year for which figures are available, Louisiana ranked first in the South in state and local government spending, both on a per capita basis and when measured against ability to pay.

LOUISIANA LEADS THE SOUTH IN STATE AND LOCAL GOVERNMENT SPENDING



(EXHIBIT 4)

Despite this high spending effort, the demand for public dollars is spiraling in critical areas of government service:

- *Public education.* With over 20% of our population now of school age, Louisiana can expect demand for significant increases in spending in the years ahead just to maintain the current level of service. Improving education to better prepare our children for the future will cost even more.
- *Health care.* Health care costs are the fastest growing segment of the total budget. To maintain public health care facilities, which have been deteriorating for years, additional investments will be required.

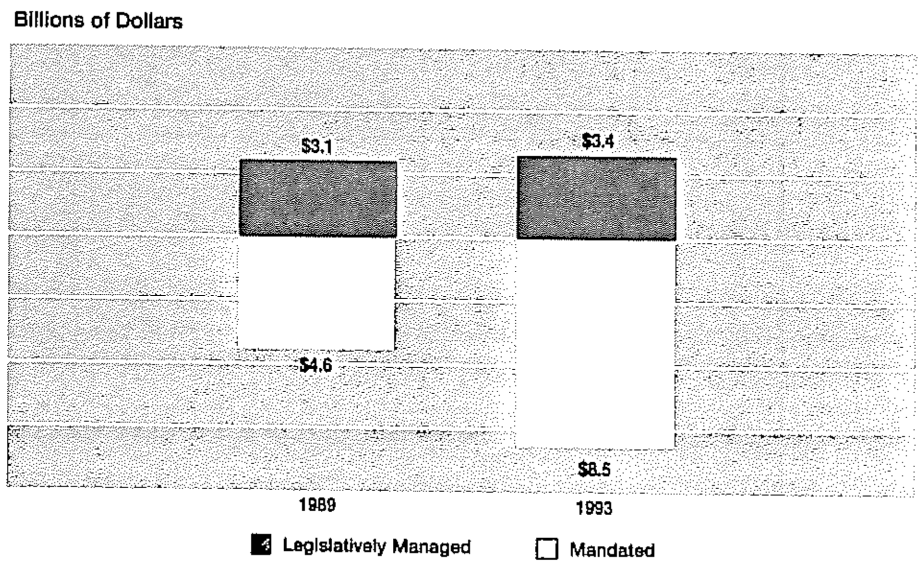
- *Corrections.* If Louisiana continues its high rate of incarceration, an estimated 9,000 additional prison cells will be needed by 1998. At this rate, the state could face construction and operating costs of over $400 million in the next few years.

DEBT AND RETIREMENT OBLIGATIONS PUSH THE BURDEN FORWARD

Our per capita interest payments on general obligation debt fell in 1991 and 1992, but the state's $311 in per capita debt payments still ranked first in the South and ninth in the nation. State leaders and Louisiana's voters have taken steps to prevent this problem from recurring by adopting a constitutional amendment limiting the amount of new debt the state can incur annually, but until the current debt is retired, there will be a significant drain on funds required for direct services to citizens.

The fact that the state failed to adequately fund its retirement systems for many years, adding or increasing benefits without regard to cost, has led to over $6 billion in unfunded liabilities. The unfunded accrued liability of the four state retirement systems was addressed in 1987 when voters approved a constitutional amendment requiring the elimination of this liability over a 40-year period—at a cost of roughly $100 million per year.

THE "UNCUTTABLE" PORTION OF OUR BUDGET NEARLY DOUBLED IN RECENT YEARS



(EXHIBIT 5)

AN INFLEXIBLE BUDGET PROCESS RESTRICTS EFFECTIVE MANAGEMENT

In recent years, Louisiana's voters have limited our policymakers' ability to deal with the expenditure side of the budget. More than two-thirds of state general fund expenditures are now protected from budget cuts by the state constitution, federal courts, congressional mandates or existing constraints with state employees. That means the remaining one third of the budget—including higher education, public health and hospitals, and general government—bears the full brunt of budget cuts year after year.

The result is creative and temporary solutions to budget problems year after year, when what the state really needs is long-term and permanent changes that will get us out of this cycle. Giving our elected officials the authority to make critical decisions—and holding them accountable for results—will help us move Louisiana ahead.

AND WE ARE NOT GETTING THE RESULTS WE WANT

Despite the changes in the revenue stream and taxpayers' increasing demands for better government at lower cost, the bureaucratic model of the past labors on. Meanwhile, our schools are deteriorating, our students are underperforming compared to their peers, our economy is not generating the jobs needed to keep our best and brightest here, our tax system is out of step, our health care system is costing us more every day and our prisons are overflowing.

Something has to change.

THE SECURE PLAN FOR LOUISIANA'S FUTURE

Louisianians are ready to move the state forward into the 21st century. And SECURE—the Select Council on Revenues and Expenditures in Louisiana's Future—is setting the agenda.

Louisiana was ahead of the power curve when it created SECURE in 1993. Long before the nation's voters registered their frustration at the polls, Senate President and SECURE vice chair Sammy B. Nunez, Jr. and House Speaker John A. Alario, Jr. joined with the Committee of 100—the state's business roundtable—to create a unique public-private partnership dedicated to changing the way the state does business. We congratulate these leaders for their vision.

SECURE is an independent body made up of 30 members representing a broad cross-section of the state, including leaders in business and labor, the House and Senate, public and higher education, state and local government, and civic and community organizations. It is chaired by Lee Griffin, chairman and CEO of Premier Bancorp and chairman of the Committee of 100.

The members of the Council have spent the last two years analyzing the nooks and crannies of Louisiana state government, with project administration from the Senate, project direction from KPMG Peat Marwick and staff support from the Office of the Legislative Auditor, Legislative Fiscal Office, staffs of the House of Representatives and Senate, and Louisiana State University College of Business Administration. During that time, we have:

- Conducted hundreds of interviews with government's senior executives, public managers and employees
- Collected and analyzed budgets, strategic plans, financial reports and other relevant data
- Brought in national experts to explain best practices of the private and public sectors
- Solicited and considered suggestions from state employees, many of which appear in this report
- Sponsored a toll-free telephone line to receive input from citizens across the state
- Prepared hundreds of pages of issue papers with detailed findings and recommendations for change
- Discussed and debated the relative advantages of proposed alternatives to arrive at consensus

In the first phase of our work, from November 1993 to April 1994, SECURE analyzed the inner workings of government and identified key opportunities for improvement in service delivery and cost effectiveness. In the second phase, we followed through on targeted areas to develop a concrete package of recommendations to carry the state into the next century.

Our conclusion? Mere tinkering with the system is not going to be enough to help Louisiana meet the challenges ahead. Instead, we need a fundamental, drastic overhaul of the way we view, develop, fund and provide government services. Following the model of our most successful businesses, we must "reinvent" government to make it serve its customers—the state's citizens, voters and taxpayers.

With this document, SECURE presents our bold plan to reinvent Louisiana. The plan rests on several essential themes, highlighted below and expanded in the remainder of this report.

A LEANER, MORE PRODUCTIVE STATE GOVERNMENT

If there is one message that voters around the country sent to government last year, it's that they want their tax dollars to be used wisely. SECURE's recommendations regarding state government organization and staffing speak loudly to such concerns.

First, we recommend setting a ceiling of 2% on growth in spending, excluding debt service and implementation of SECURE recommendations—rather than the typical 4% or more—to keep costs in line with revenues and to generate additional amounts for reinvestment. This policy will encourage creative management and strategies to accomplish more with less.

Second, the state should employ rational staffing levels based on sound, consistent principles. Rather than finding a few places to cut positions, we suggest the state employ an organizational model based on modern management techniques which can be applied now and in the future. Application of our model will result in cutting nearly 8,000 state positions—which, by taking advantage of natural turnover and attrition, can be done in a fair and compassionate way. Even with this reduction in positions, SECURE believes there is still potential for further reductions throughout state government once SECURE's reengineering plan is in place.

Finally, Louisiana needs to make the most of our most valuable resource—public employees. We recommend that the state create a modern new Department of Human Resources to help us attract, retain and develop the best and brightest people. Equipping our employees by paying them right, training them to do their jobs, and giving them incentives to excel will enhance their performance and increase their productivity.

What does this mean?

- Prioritize programs to provide a sound base for making resource allocation decisions
- Ensure rational staffing levels across government, based on a statewide staffing standard
- Redefine the mission of the Civil Service Commission to protecting state employees from potential political influence
- Reassign personnel administration functions to the Department of Human Resources with authority to modernize the state's personnel policies and practices
- Develop human resource systems which encourage flexibility and innovation
- Maximize individual productivity by continuously training employees in skills required to respond to the demands of the workplace

A BETTER FUNCTIONING STATE GOVERNMENT

Most people associate government with services they can see and touch, such as schools, hospitals, roads, bridges, and prisons. The machinery that makes these things happen—purchasing, personnel, cash management—is largely invisible. Because these functions do not have a natural constituency, they do not receive the public attention they warrant.

SECURE looked not just at what government does, but *how* it does its work. What we found was a range of outmoded management systems, manual processes, cumbersome regulations and duplicative functions that both cost more and impede service delivery.

There is great potential for cost efficiencies and productivity improvements in a procurement system that purchases roughly $1 billion in goods and services each year and a cash management system that collects, accounts for and invests billions of dollars in investment, capital and retirement funds. Other internal functions, such as planning, budgeting and performance measurement, as well as managing and maintaining property, offer additional opportunities for improved services at lower costs.

How can we improve?

- Institute cash management and investment management systems which take advantage of technology and state-of-the-art practices
- Implement more effective procurement systems modeled after high performing private and public sector models
- Mandate strategic planning and tie goals and objectives to program budgeting
- Remove restrictions on revenues to improve the efficiency and effectiveness of resource allocations
- Enhance service delivery through increased and innovative use of competition and privatization

A FAIRER, MORE COMPETITIVE STATE TAX SYSTEM

State tax and fiscal policy matter from a number of angles: for maintaining quality public services, for encouraging economic development, for maintaining the confidence of private investors, for maintaining fairness among taxpayers and for enhancing the image of our state. Clearly, getting a handle on our tax structure—as well as our spending habits—is critical to the long-term viability of the state.

The way Louisiana's tax structure has evolved, business taxes and sales taxes are relatively high, while property taxes and personal income taxes are relatively low. The current structure centralizes revenue collection at the state level and limits local capacity, forcing local governments to depend upon the state for funds. SECURE believes this structure has to fundamentally change, not to increase revenues in the short-term but to ensure fairness, encourage economic development and build a base for long-term revenue growth, which will benefit all of us.

Recognizing that these will be among the most controversial recommendations of our report, we ask Louisianians to consider the shared benefits such changes will create.

Why do we need to do this? Our proposal is a package designed to set business and personal tax levels that improve the state's competitive position, encourage business growth and investment and assure greater equity for all our citizens and for all our local governments for education and other vital financing. These changes will eventually mean better schools, safer streets, more jobs and a better quality of life for all.

What do we need to do?

- Reduce the state sales tax from 4% to 2.5% to relieve the undue burden on the poor
- Phase down the homestead exemption to $2,000 over the next 10 years to build a secure source of revenue for local needs
- Phase out the industrial tax exemption over the next 10 years, honoring all existing contracts; grant new contracts for one five-year period only during these 10 years
- Eliminate the state sales tax on business machinery and equipment over a five-year period
- Impose a flat rate individual income tax of 3.5% on Louisiana taxable income and eliminate the federal tax liability deduction for individual state income tax purposes
- Remove debt from the base of the corporate franchise tax over a five-year period
- Lower the maximum rate on taxable corporate income from 8% to 6% and eliminate the deductibility of the federal income tax liability

A GOVERNMENT THAT USES TECHNOLOGY WISELY

Budget shortfalls have forced the state to cut back on technology, just when we need it the most. As a result, the state is woefully lacking in the advanced tools needed to process huge amounts of information quickly and cost-effectively.

As we move into the 21st century, the state must also take far greater advantage of technology in all its operations and programs. The investments we make today, in information systems, employee training and the integration of technology, will pay huge dividends in the future.

What is the solution?

- Develop a rational, statewide technology plan to guide investments
- Create a Technology Innovation Fund to act as an investment bank for major investments that will return high yields
- Make more and better use of technology to replace, downsize and enhance state government operations
- Put state-of-the-art technologies into action in the classroom, to prepare our students for the future

A STRONGER AND SMARTER EDUCATION SYSTEM

SECURE did not set out to focus on education, but education quickly emerged as a defining issue facing our state. Every avenue of our investigation led to the same conclusion: first-class education—beginning before kindergarten and continuing well beyond high school or college graduation—is the ticket to the future.

But by most measures SECURE could find, Louisiana now ranks near or at the bottom of the nation. We see painful signs that the state is not doing what we need it to do at all levels of education: too little is being done to prepare our children to succeed, too few of our students are graduating, too many of our graduates require remedial instruction for further education, too few opportunities are available to prepare our young people for work, and too many hands are wringing while student performance continues to lag.

What can we do?

- Ensure that all children enter school ready to succeed
- Ensure that our teachers are better paid, better trained and more accountable for producing better educated students
- Implement innovative education strategies, taking advantage of proven programs and techniques
- Develop a community college system, leveraging the resources of our vocational education system, to serve the state's academic and work-readiness needs
- Assure stronger governance, articulation between institutions and secure funding for higher education

A COMPETITIVE ECONOMIC DEVELOPMENT STRATEGY

In the halcyon days of Louisiana's oil economy, we could afford to overlook the winds of economic change. As a result, the forces of economic growth that have swept the South in recent years—creating the Austins, Greenville-Spartanburgs and Research Triangle Parks—have passed us by. SECURE found that we haven't won major battles in the world marketplace; in fact, we haven't even developed a good battle plan.

We call upon the state to marshal the state's enviable location, unmatched natural resources and hardworking people to build an investment portfolio of diverse businesses and industries, to attract manufacturing and distribution facilities that add value to our economy, to encourage new businesses to locate here and existing industries to expand. If we make the necessary corrections now, we can give our children a greater opportunity to work and live in our state, and provide the revenues we need for essential services.

How do we get there?

- Institute a fairer, more equitable corporate tax structure that encourages business sector investment and expansion
- Coordinate state economic development activities around a comprehensive strategic plan
- Upgrade and maintain our infrastructure
- Take steps to decrease the cost of regulation while continuing to protect the public
- Assure a better trained, better prepared, more technically skilled workforce

A WORK IN PROGRESS

When SECURE began our journey, we postponed the issue of public health care, pending the expected national overhaul of the health care system, which has not been enacted. However, the state's problems in public health are so endemic and the solutions so integral to our future, we want to share our preliminary thoughts and stress the need for future deliberations.

The single most challenging fiscal issue facing Louisiana today is the cost and investment in our public health care system. Using federal dollars, we created a system that allowed more people to participate, provided more services and paid those services at a higher rate than other states. Now that those dollars are no longer available, the state has to bring the system back in line and find a way to provide essential health care services to our most needy at a much lower cost.

This is a huge issue, which warrants further, in-depth study. We suspect the scope of study should include:

- Seeking fiscal solutions to the Medicaid shortfall within the Medicaid program itself, to avoid serious cutbacks in other essential governmental services
- Bringing in professionals who can provide an independent, objective perspective for the task
- Finding strategies to set standards for eligibility, rates and services that take into consideration the average of other states in the South

THE FISCAL IMPLICATIONS OF CHANGE

Bottom line . . . does it all add up? SECURE is proud to say, Yes!

From the beginning, our primary objective has been to identify strategies to reduce the cost of Louisiana state government. We have met this goal. Our recommendations identify hundreds of millions of dollars in potential savings, reduced costs, additional revenues and earnings from investments.

The state can realize these savings and new revenues by implementing more appropriate staffing levels throughout state government, by revamping cash management and purchasing systems, by better handling our receivable and investment programs, and by adopting other efficiency measures outlined in this report. We believe there are millions of additional dollar savings in the state's publicly funded health care system and employee benefits program, which were not fully covered within the scope of this study.

If SECURE had just identified savings, our work would be recognized as successful. But we believe that if we stopped at this point, we would have fallen short of our real goal—to make Louisiana a place where our children get the nation's finest education, a place where companies want to locate their operations and invest in our future, a place with plenty of opportunities for our young people, a place we can be even more proud of.

So as we made our journey through Louisiana state government, SECURE also identified key investments that need to be made from our "savings bank." Our educational systems at all levels require strategic investments to prepare our children and youth to compete in a global market. Our economic development programs need a "war chest" to win battles that will benefit us all. Our state employees deserve more competitive salaries if we are going to call upon them to be as productive and efficient as their private sector counterparts.

While we believe these investments are critical for the state's future, we are well aware of current fiscal constraints. The members of SECURE want to make it perfectly clear that *we do not want the state to spend more until the savings identified through this process have been realized.* Therefore, the fiscal implications of our recommendations should be considered in the following order:

- Implement savings suggested by our recommendations to reduce the size and cost of government
- Slow down the traditional rate of growth of our state budget to more affordable levels
- Apply any additional funds made available through SECURE's recommendations to eliminate any future general fund deficits
- Restructure the state tax system
- Allocate available funds to the priorities and strategic investments identified by SECURE

The plan outlined in the following pages will produce significant savings for the state, as illustrated in the accompanying exhibit. We caution that the numbers are not precise, due to the variety and complexity of policy and implementation issues involved. For example, as we identified the potential savings from applying our organizational model, the dollar figure depends on which positions are actually eliminated and the salaries and benefits attached to those specific positions.

A FISCAL PATHWAY TO A BETTER LOUISIANA STATE GOVERNMENT

Five-Year Estimates for Fiscal Years 1996-97 through 2000-2001

Increased State Budget Availability through Limiting Expenditure Growth to 2% Annually	$1,174,000,000
Less: Decreased Revenues from Tax Proposals	$ 49,000,000
Potential Savings from Major SECURE Recommendations in the Following Areas: • Organization and Staffing • Economic Development • Cash Management • Purchasing • LIGA • Eliminate Low Impact Programs • Other Major Savings	$2,240,000,000
Less: Major SECURE Investments • Public Education (including teacher salary increases) • Higher Education • State Government Employee Salary Increases • Enhanced Employee Training • Economic Development • Organization and Staffing	$2,630,000,000
Net Savings Available for Allocation to Deferred Maintenance, Unfunded Accrued Liabilities and Debt Retirement	$ 164,000,000

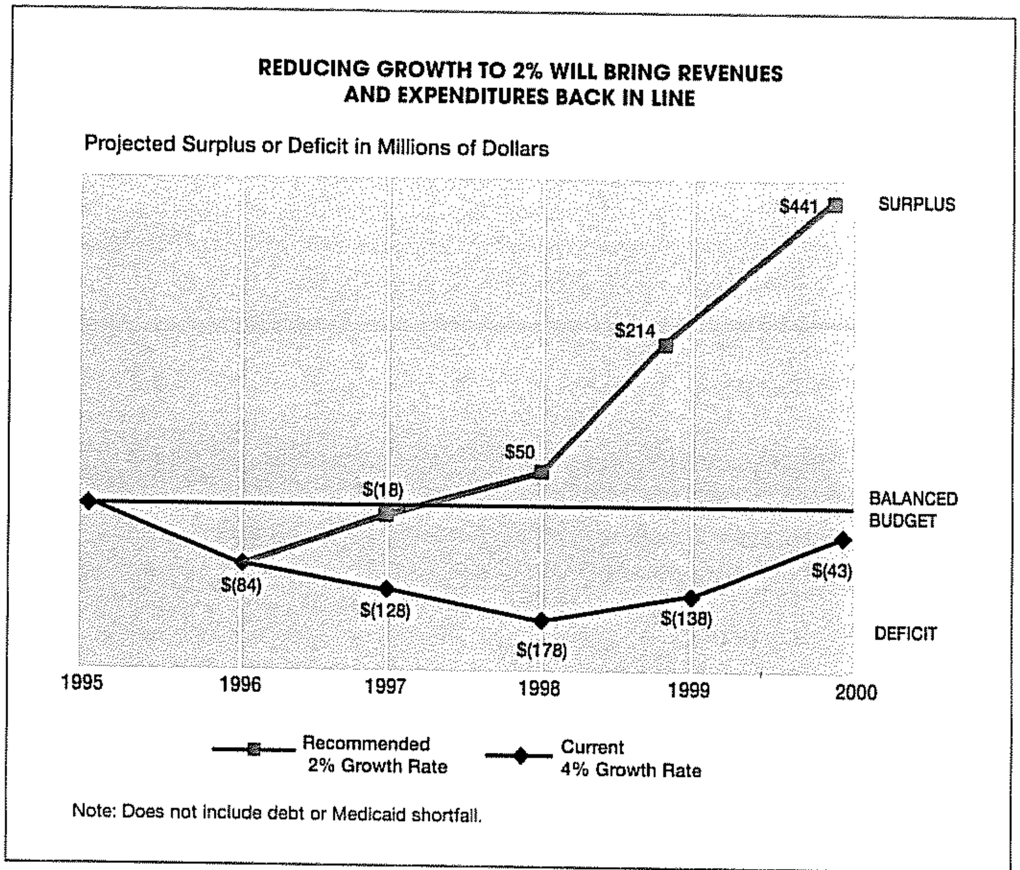
(EXHIBIT 6)

Our analysis does, however, provide a realistic estimate of what the state can expect. Here is our summary.

Limit state growth. We believe the state needs to continue to apply pressure on itself to reduce the size and cost of state government and to release budget resources for higher priority needs. To achieve this, we recommend that the state cap the actual rate of growth in the executive budget to no more than 2% for at least the next five years. It will take a lot of discipline to cut growth from the typical level of 4% per year, but it can be done if we find the political will to make tough choices.

The potential impact is enormous, as Exhibit 7 so vividly shows.

Realize significant savings. SECURE has developed dozens of money-saving recommendations, ranging from the statewide reduction in the number of positions funded by the state budget to the transformation of the way in which the state invests its cash. While it is nearly impossible to quantify savings in some areas, SECURE estimates that net savings from the full implementation of all recommendations could amount to as much as $160-165 million over the first five years.



(EXHIBIT 7)

Invest in the future. SECURE believes that the future well-being of Louisiana depends upon improvements in key areas, particularly education, economic development and the state's human resource assets. Even with investments in these three areas, the overall impact of our recommendations will result in savings for the state.

Additional opportunities. Our financial plan does not include the potential financial benefit of three works in progress. While we cannot realistically estimate savings for these areas, our review of results in comparable organizations suggests that the total could equal—or exceed—the figure identified for the rest of the study.

Consider public health care, for example, where our expenditures have increased $3.2 billion from 1988 to 1994. SECURE feels that there may be an opportunity to achieve a substantial amount of savings or reduced expenditures over the next five years. Technology, properly applied and administered, could produce savings several times over:

given the woeful lack of technology in state government today, improvements in this area also represent a sizable opportunity. And while our preliminary results regarding the state's benefits system identified some savings and improvements, we believe further investigations will yield far more.

The members of SECURE are proud of what we have accomplished, as reflected by these figures. We're proud to present this set of recommendations which will save taxpayers' dollars, improve the way in which state government operates and provide a foundation for the future. And we're proud to be part of this effort to turn the state around.

THE CHOICE IS OURS

This, then, is SECURE's summary report to the Governor, Legislature and people of Louisiana. It is designed to provide a brief overview that will be accessible and understandable to all of state government's stakeholders: we encourage you to fully explore the body of this report and consult our background issue papers for more detailed information.

As we come to the end of our journey, we are amazed by the growing number of groups and individuals who support the SECURE plan. What began as a modest plan to cut the cost of government has grown into a comprehensive strategy to carry Louisiana forward.

Will our plan be controversial? Will it require some investment? Will it need monitoring and refining? Certainly. But we have made a choice. Rather than accepting the easy path—and allowing the state to continue to lag behind—we have dedicated ourselves to making the fundamental changes needed to make Louisiana a bright spot in the nation. These changes will:

- Improve the ability of our educational system to meet the needs of our children and youth
- Create a business environment that can compete in the global marketplace
- Generate more and better jobs
- Improve the quality of services provided to taxpayers
- Transform the image of our state, both inside and outside our boundaries

If we are to achieve our dreams, this cannot and must not be another in a long litany of reports shelved in government offices. It is our state's chance to do something different, and we don't believe another opportunity will come again any time soon.

The members of SECURE believe we have provided Louisiana with a rational, cohesive plan to improve services and operations and forge ahead into the 21st century. But this report will not be worth the paper it is printed on if we are unable to implement the recommendations outlined here. Continuing to hold elected officials and senior government managers accountable for the results of our work is the key to long-term success.

SECURE refuses, therefore, to simply close down and go away without creating a vehicle to carry the process ahead. Instead, we want to conclude our work by strongly urging that the state's elected leadership create and support an authority that would take up the torch of government reinvention and continue the process of change. We see this organization employing several strategies to :

- Keep the flame of reengineering alive
- Build on a repository of data, collected over two years of research and analysis
- Keep a "scorecard" of what state government has done to respond to our recommendations
- Report the results of this monitoring to the Governor, Legislature and people of Louisiana

In this way, the spirit of change will be kept alive and the accountability we seek will be kept at the forefront of the public eye.

SECURE takes a pragmatic view of the job ahead. We realize that our state did not get where it is overnight, nor will we get out of it overnight. We have a unique opportunity to define the future of our state and we must capture the moment before it passes us by. Our report is the first step; the next, and most important, involves you.

The members of SECURE raise a clarion call to the people of Louisiana to take advantage of this window of opportunity and chart a different course for our future. We don't expect you to agree with every recommendation in this report. We do expect that if you disagree, you present an alternative that can produce the same—or better—results.

For if Louisiana is ever to forge ahead, we all need to make our voices heard. In a single chorus, we can, we must, we will, make Louisiana great.

For more information or to order copies, call or write

***SECURE* LOUISIANA'S FUTURE**

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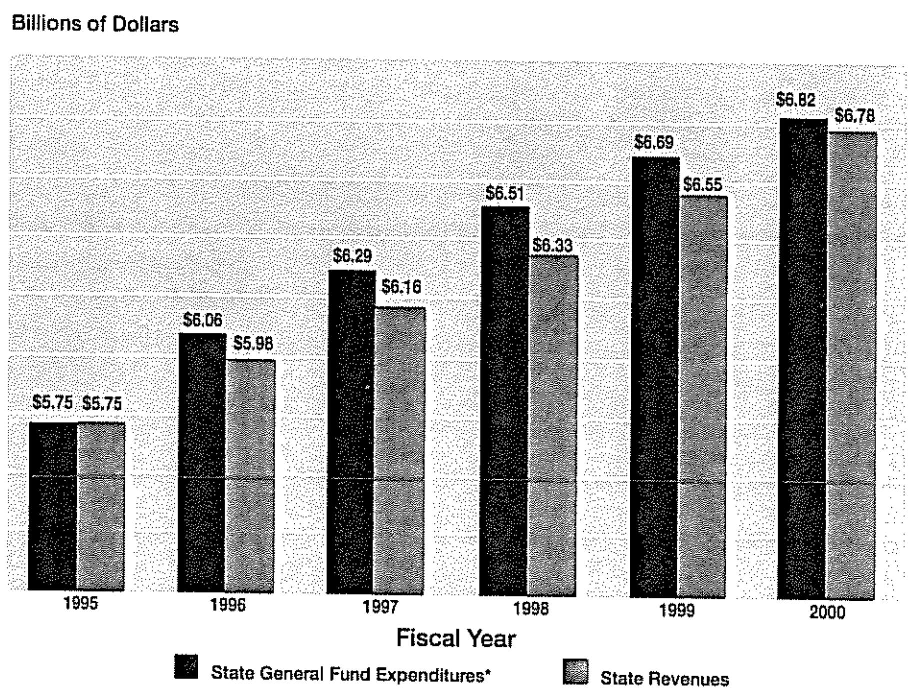
SETTING A NEW AGENDA:

A LEANER, MORE PRODUCTIVE STATE GOVERNMENT

A LEANER, MORE PRODUCTIVE STATE GOVERNMENT

State government is Louisiana's biggest business—by far. But while our most successful companies are streamlining operations to improve productivity, government is growing steadily. In the last five years alone, total state expenditures rose by more than 60 percent, from $7.5 billion in 1990 to $12.6 billion today.

STATE SPENDING CONTINUES TO GROW RAPIDLY



*Current 4% growth rate; exclusive of debt service, Medicaid, and other federal funds

(EXHIBIT 8)

Of course, government doesn't have to be run like a business. In our case, a steady stream of revenue sources—first from mineral revenues, then federal disproportionate share funds, and now gaming—enabled the state to support significant growth without asking citizens to contribute substantially. But now the spigot has been turned off. Mineral revenues have dropped, Congress has cut off or reduced the extra funds, gaming revenues aren't sufficient to bridge the funding gap, and taxpayers have been unwilling to pick up the tab.

The voters in Louisiana have spoken loud and clear, demanding that our leaders prove that the state needs the people and resources it already has. Hearing these voices, SECURE devoted much of our time over the last two years to determining how government can manage to do more with less.

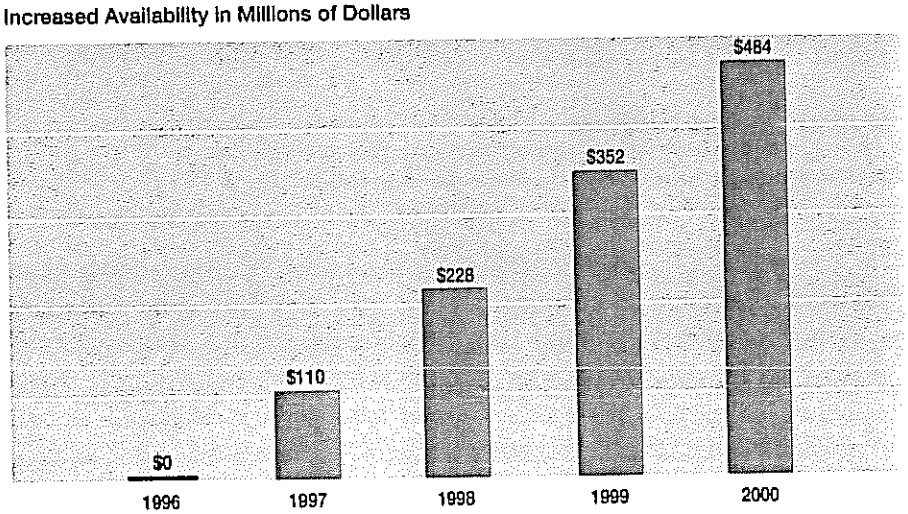
We concluded that trimming around the edges of state government, as has happened so often in the past, is no longer enough. Instead, we need to fundamentally change the ways in which government works—how it's organized, how it delivers services, how it functions on a daily basis to collect and spend our money. The experience of other high performance organizations, in both the public and private sectors, shows what we need to do: set clear goals, establish priorities for budgetary decisions, establish clear performance and accountability measures for public employees, but also give them the tools and technologies they need to do their jobs well, and streamline state functions so that taxpayers are not required to overpay for these activities.

Making state government leaner and more productive may sound dry: in fact, it's anything but. SECURE's recommendations in this section include the big savings items of our plan. If we fully implement these recommendations, we can free up hundreds of millions of dollars that would be better spent on state government's primary mission: to provide direct services that improve people's lives.

The first step is to limit government spending. Our fiscal model shows that if the state continues with "business as usual"—that is, a 4% annual growth in spending and a slower growth in revenues—we will face large budget shortfalls even without Medicaid. Limiting growth to 2% for at least the next five years will produce significant savings, force government to find ways to prioritize and limit overall spending, and eliminate what has become an annual budget crisis.

REDUCING ANNUAL SPENDING GROWTH TO 2% WILL FREE RESOURCES FOR PRIORITIES

Increased Availability in Millions of Dollars



Note: Does not include debt or Medicaid shortfall; exclusive of other SECURE recommendations.

(EXHIBIT 9)

Next, we have to reorganize to make the best use of our human resources. In a limited resource environment like today's, the state simply cannot afford redundant positions, excessive layers of management, narrow spans of control, high ratios of support staff or any kind of unnecessary work. Like other large businesses and public sector organizations, the state will have to cut back wherever possible. SECURE believes it is possible to make these position reductions in a rational, reasonable and humane way.

In our investigations of state operations, we have found that the vast majority of public employees are dedicated, hardworking and capable people who want to do a good job. Yet all too often, they are hampered rather than helped by the management systems supposedly designed to protect them. Nowhere is this more obvious than in the state's personnel practices.

Creating a modern human resource function in state government will go a long way toward maximizing the potential of our state employees. We need a centralized, professional department with policies designed to attract, motivate, reward, train and retain our best and brightest people in government service. What we are suggesting is that Louisiana's employees should work to higher standards, more competitive with their peers in the private sector—and in return, should receive competitive pay, benefits and opportunities to develop their abilities.

LIMIT GROWTH IN SPENDING

It is time to break the traditional cycle of government in which every department and agency finds reasons to spend every dollar that's available—and asks for more the next year. Government will have to learn that there are limits and set priorities among competing demands for resources.

This means answering some tough questions:

- What services must the state provide?
- What services can the state afford to provide?
- Is the state the appropriate mechanism for delivering particular services?
- How can staff most efficiently provide fundamental services?

SECURE has begun the process with a series of recommendations to cut costs and improve productivity. But the state's leaders are going to have to carry the effort forward year after year, in decision after decision.

Recommendation: Limit state spending growth to a maximum of 2 percent for at least the next five years.

Annual spending growth—exclusive of the fiscal impact of the recommendations included in this report—should be cut in half, from the typical level of 4% to a modest 2%. We understand that implementing this recommendation will not be easy, but the state can do it, and must, if Louisiana is to become all that we want it to be. This report provides a pathway toward meeting this guideline, but success will depend on ongoing efforts to eliminate waste, improve productivity and increase efficiency.

SECURE strongly urges that this limit not be borne on the backs of the state's employees, who deserve the raises that are coming to them. Instead, government leaders need to be creative in streamlining operations wherever possible, using technology to increase productivity and applying other best practices of the public and private sectors.

Recommendation: Prioritize all state programs and use these priorities to determine base funding and staff allocation decisions.

SECURE's work, as summarized in this document, sets some priorities for state government. Low impact programs such as Rural Development, Urban Development, Cultural Heritage and Small Business Bonding should be eliminated with the many millions of dollars in funding for them reallocated to higher priority needs. Even more important than our specific recommendations in this area are the array of principles and themes that we leave behind for the state's leaders to build upon and make their own. The object here is to push our leaders to overcome government's natural resistance to change and think "outside the box," reengineer functions and cut back wherever possible.

REORGANIZE FOR RESULTS

Government exists to provide services for people. The question SECURE was asked to investigate is, how can we make the most efficient use of the state's resources to meet our most pressing needs? How can the employees at the front line of service delivery best be deployed to fulfill government's mission?

SECURE knows that a successful reorganization effort requires more than simplistic across-the-board cuts: barriers to improvement must be identified and eliminated and outdated systems and cultures must be replaced before real change can begin to take hold. Agency and department heads know, too, that things can be done better, if only "the system" would let them. We found that employees often face significant barriers to efficient organization that are rooted in self-defeating regulations, outmoded personnel systems, and a budgetary process that encourages spending every nickel.

In addition, departments and agencies generally lack the technology needed to get the job done. Often, technology initiatives lack strategic vision and are not geared to reduce staffing levels. The state is plagued by a general lack of automation and connectivity, and inadequate training in this area. Technology initiatives are often outdated by the time they are fully implemented, with field offices often the last areas to receive the benefit of these programs.

SECURE recommends that the state create a Technology Innovation Fund to finance strategic investments in technology and develop a process by which department heads can appeal overly restrictive regulations. We also recommend a number of steps the state can take to modernize its human resource functions, as discussed later in this chapter.

It is in this context that SECURE began its process of assessing statewide organizational structures and staffing practices to determine their impact on service delivery. For each, we articulated standards against which state organizations and staffing patterns should be measured. In the long run, we expect that these standards will prove to be even more important than the specific—and worthy—changes we have recommended here.

In conducting our analysis, SECURE interviewed executive and legislative leaders, met with department managers and staff, visited selected field offices, reviewed prior studies conducted by the state, evaluated mission statements, budgets and organizational charts and compared the state's structure and staffing levels to benchmarks in peer states. Our conclusion is that there are significant opportunities for the state to reduce costs without diminishing service delivery.

Recommendation: Adopt the SECURE organizational standards as the criteria for evaluating present and future staffing levels.

SECURE decided early on not to take the traditional government approach of making across-the-board cuts. Instead, we developed an *organizational model for change* based on modern management principles, and demonstrated how it can be applied to produce meaningful results. Our model consists of a three-part process by which organizations can achieve long-term staffing reductions and improve efficiency and effectiveness in their operations.

THE ORGANIZATIONAL MODEL FOR CHANGE

A Three-part Process

PRIORITIZE PROGRAMS
Focus monetary and human resources on critical areas

↓

APPLY BENCHMARKS
Streamline organizations and reduce staffing levels

↓

CONTINUE PROCESS IMPROVEMENT
Invest strategically in technology and identify alternative delivery systems

(EXHIBIT 10)

This model, the foundation upon which our organization and staffing analysis was conducted, identifies standards that should be applied to all state departments and agencies to maximize productivity and streamline costs:

- *Layers of management.* Eliminate one-to-one reporting relationships. Limit layers of management to four or five, with a maximum of six for very large organizations.
- *Span of Control.* Allocate one manager per 10 staff, and possibly higher. Highly technical, policy, or non-repetitive functions may dictate a span of control as low as one manager per five staff.
- *Clerical staffing levels.* A reasonable level of clerical staff is 15% or less of total staff.
- *Vacancies.* Eliminate non-shortage vacancies that have been open for more than six months. Long-term vacancies generally demonstrate that the organization has adapted by successfully reengineering related functions.
- *Consolidation of units.* Consolidate units with two to five staff into larger, more efficient units. Consolidate regional administration where possible.
- *Restructuring through process reengineering.* A restructuring should be accompanied by at least a 25% reduction in the number of tasks performed.
- *Retraining for enhanced skills.* Increase productivity by providing training opportunities for employees to learn new skills or "retool" old skills. Managers must learn to accept more responsibility and eliminate unneeded work.
- *Headquarters staffing reductions.* To reduce administrative overhead while continuing to provide needed services, the largest percentage reductions in staffing should be at central and regional headquarters.

When SECURE applied the organizational standards to five focus departments—representing roughly 45% of the state workforce—we found many opportunities for improvement. In total, we identified 3,200-3,500 potential position reductions, based on excessive layers of management, narrow spans of control, excessive support staff and fragmented functions.

- 1,100-1,200 from the Department of Health and Hospitals
- 650-700 from the Department of Social Services
- 650-825 from the Department of Transportation and Development
- 750-800 from the Department of Public Safety and Corrections
- 10-20 from the Department of Education

Similar application of the organizational model to all executive branch organizations would produce an estimated 7,400 to 7,900 positions with a net impact of up to $85 million in the first year, and as much as $175 million annually when fully implemented. While precise figures are difficult to establish, we believe that this is a realistic, achievable estimate that can largely be accomplished by wise use of the natural forces of attrition and turnover. Acceptance and continued use of the model will identify additional opportunities for savings in the years ahead.

Recommendation: Restructure certain state government agencies to reflect program priorities and achieve cost efficiencies.

The big answers to improving state government lie in restructuring and reengineering the organization to focus employees on service delivery. Following the lead of America's most successful private and public entities, the state must streamline its organization and operations. SECURE set specific guidelines for accomplishing this task:

- Group related functions to minimize administrative costs
- Avoid fragmentation of policy direction and service delivery among departments with related missions and programs
- Establish clear lines of authority to increase accountability for results
- Assign organizational units with program and service delivery responsibilities to departments with closely related missions

Based on these guidelines, we recommend that the state take the following actions to improve organizational accountability and cut costs:

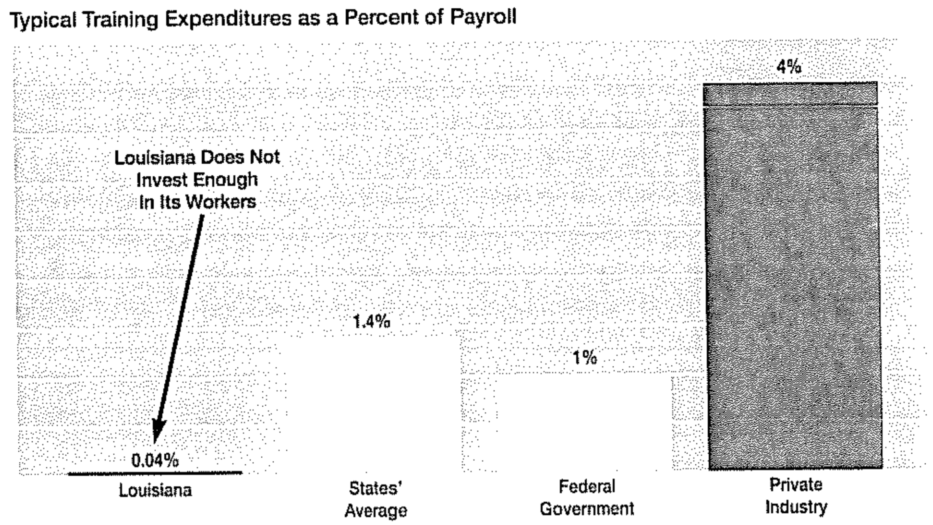
- Consolidate the functions of the Department of Elections and Registration in the Department of State and abolish the Department of Elections and Registration
- Consolidate the programs of the Department of Natural Resources, the Department of Wildlife and Fisheries and the Governor's Office of Coastal Activities under a single Department of Natural Resources, Wildlife and Fisheries
- Abolish boards and commissions that are inactive and investigate the status of others

MODERNIZE HUMAN RESOURCE FUNCTIONS

Our employees are the state's most valuable resource, yet we haven't always treated them that way. Traditionally, state policy has been to hire a lot of employees, pay them comparatively low salaries and limit the incentives and resources they need to do their jobs. SECURE believes this whole culture needs to change: we envision a workforce with fewer employees who are paid competitive salaries, given incentives to perform and held more accountable for results.

In other words, we are asking state employees to work to higher standards, to be more competitive with their peers in the private sector. In return, we need to give them better pay, clear objectives and incentives, and ongoing training and development.

LOUISIANA SPENDS LITTLE ON CENTRALIZED TRAINING OF EMPLOYEES



(EXHIBIT 11)

But Louisiana has consistently treated training and development as low priorities, especially when budgets are tight. The state's expenditures of $500,000 per year on centralized training represents .04% of the classified employee payroll—a small amount when compared to other governments and unrealistic when compared to the private sector. To put this in context, Louisiana would have to spend $19 million on training and development just to meet the national average.

SECURE is not recommending an increase of this magnitude, but we do believe a progressive increase is needed. In addition, we suggest that:

- Each agency designate a training officer/coordinator and conduct a review of annual training needs
- Each agency assign a liaison to the centralized training office or Comprehensive Public Training Program to aid in the coordination of agency training to maximize resources and obtain favorable prices
- Management development training be made mandatory for all supervisors and managers

SETTING A NEW AGENDA:

A BETTER FUNCTIONING STATE GOVERNMENT

A BETTER FUNCTIONING STATE GOVERNMENT

Government exists to provide services to citizens. Educating our children, generating new jobs, building our infrastructure, protecting our property and persons, providing a safety net for those who cannot care for themselves—these are the functions Louisianians see and care most about.

Behind these services, however, is the machinery that turns the wheels of government. These nuts and bolts—purchasing, personnel and benefits, cash management, planning and budgeting, property management—are generally invisible to citizens. But to a large extent, they determine the quality and cost of every service government provides.

While much of what government does is unique to government, *how* it operates this machinery to deliver services—how it hires and supervises employees, how it purchases goods and services, how it allocates resources, how it maintains buildings and vehicles, how it pays its bills—is similar to any large organization.

This is where government can take a lesson from the private sector to better meet the needs of its stakeholders. Forced to change to compete in the global marketplace, American firms reinvented, revamped and reengineered their operations in the 1980s. The companies that emerged successful in the 1990s were those that fundamentally changed to put results—that is, customer satisfaction—first. State government can do the same. And we must, if we are to build the future we want for our children and grandchildren.

Whether we like it or not, state government is going to have to change the way it does business to create a more competitive Louisiana. Management practices that may have been acceptable in the days of booming oil and gas revenues are simply not adequate any longer. Today's limited resource environment—and public sentiment—demand that government do more with less.

SECURE believes the problem lies not with our state employees, but with the systems in which they work. In our tour through the halls of government, we found that the vast majority of employees are bright, dedicated people who want to do good work but encounter obstacles in their way. If the state reengineers the machinery of government to empower people rather than hamper them, we will both improve our services and reduce our costs.

To make government more efficient, we will have to move away from the bureaucratic model of the past, which was designed to control employees and prevent abuse. Like other high performance organizations, we will have to make the shift:

- From bureaucratic to entrepreneurial
- From control-oriented to customer-oriented
- From rigid to flexible
- From adequacy to excellence
- From "the way it's always been done" to innovative solutions

Over the last two years, SECURE examined the inner workings of government to identify opportunities to make this shift. In effect, we took the state's motor into the shop and looked inside at the management systems of government to see how we could rebuild the engine and enhance performance. These are our suggestions.

MAKE THE MOST OF SCARCE PUBLIC RESOURCES: CASH MANAGEMENT

Cash management offers the state a quick and painless way to realize savings and increase earnings. By implementing the best practices of the public and private sectors, we can make the most of our precious public resources: that is, maximize state revenues, maximize investment earnings on the use or interim use of the revenues, and ensure that revenues and investment earnings are used as efficiently as possible.

While other areas investigated by SECURE require changes in the culture of government, which evolve over a period of time, cash management requires simple policy changes that lead to immediate, demonstrable results. With little or no investment, the state can generate sizable returns.

In fact, SECURE's review of the state's cash management policies has already paid off for Louisiana. Our recommendation to remove restrictions on the 8(g) Fund, put on the ballot by legislators and approved by voters in November 1994, is expected to generate over *$30 million* in additional interest earnings per year. Implementing the other recommendations outlined here would produce millions more—without cutting services or jeopardizing effectiveness.

Recommendation: Maximize investable cash by increasing revenue collections and collecting revenues in a more timely fashion.

It's a matter of common sense. The more cash Louisiana has to invest, the greater the amount of investment dollars it can realize—and the better it can provide cost-effective services to meet people's needs. SECURE found that the state can maximize its investable cash almost immediately by increasing the amount of revenues collected, by collecting revenues on a more timely basis and by collecting revenues more efficiently.

The first step to increasing revenue collections should be to provide the Department of Revenue and Taxation with sufficient resources to monitor tax compliance by businesses. Specifically, we recommend adding 20 revenue auditors, which would generate an estimated $20 million in additional revenues collected per year. The state should also take action to aggressively pursue the collection of delinquent receivables, including standardizing accounts receivable laws, regulations, policies and procedures and ensuring the timely prosecution of tax cases.

Another way to increase investable cash is to collect revenues on a more timely basis. Our recommendation is to accelerate the due dates of Louisiana's taxes by 10 to 30 days, which would put them more in line with other states and generate over $2 million annually, assuming a conservative 3% increase in investment income. The statutes governing the Louisiana Lottery Corporation should also be amended to require monthly rather than quarterly deposits of its net revenues into the State Treasury—a simple change which would generate over $400,000 in additional investable cash each year.

Finally, the state must act quickly to improve revenue collecting operations. In addition to increasing automation, the state should appropriate and protect temporary positions designed to process tax collections in peak periods, recognizing that the interest earned from revenues collected and deposited efficiently will far outweigh the cost of salaries.

Recommendation: Increase investment earnings of the 8(g) Fund by eliminating restrictions on investments and improving financial management practices.

Louisiana showed great foresight in establishing the Louisiana Education Quality Trust Fund—better known as the 8(g) Fund—to create an enduring resource for education. To preserve the integrity of its vision, the state should take steps to remove restrictions that limit investment earnings and apply modern portfolio management techniques that will further strengthen the Fund.

One of just three significant permanent state funds in existence, the 8(g) Fund was built on $540 million in oil royalties. Unlike Alaska and Texas, however, Louisiana eroded the Fund's effectiveness by capping the permanent portion at $2 billion and restricting investment to U.S. Treasury obligations or certificates of deposit. These actions seriously hinder the Fund's ability to counter the future effects of inflation and to grow.

The state has implemented SECURE's recommendations to allow the Fund to invest up to 35% of its principal balance in equities; to distinguish income earnings from interest and dividends and capital gains income realized from the sale of securities; to restrict the distribution of capital gains earnings to 25% of the annual total earned; to authorize the Treasurer to select one or more professional equity managers; and to determine the nature of permitted equity investments, risk parameters, selection of outside managers and performance measurement. In addition, the cap on the Fund should be removed to preserve the value of this resource for following generations.

Recommendation: Empower the Cash Management Review Board to develop statewide cash management and investment policies and procedures.

Louisiana had the foresight to create the Cash Management Review Board in 1990, but has never taken full advantage of its potential. Instead of restricting the board with a narrow charge and limited authority, the state should empower it to manage cash management activities and better leverage taxpayers' dollars.

The current lack of central oversight has resulted in fragmented policies and procedures across state agencies, colleges, universities, retirement systems and other institutions. This approach means that the state misses out on many opportunities, which costs us dearly: the state's buying power in banking relationships is not being properly leveraged to acquire financial services at lower costs; tax cases are often allowed to run the statute of limitations, making it impossible to collect back taxes; and fundamental principles of cash management are not consistently employed.

If the existing Cash Management Review Board were strengthened with the ability to set and enforce policies and procedures governing cash management and investment activities, most of these problems could be eliminated—and additional savings would be generated for the state.

Recommendation: Integrate payroll systems to consolidate management and reduce costs.

When it comes to payrolls, Louisiana simply has too much of a good thing. There are over 130 separate payroll systems, including three for executive branch agencies, six for the judicial branch, seven for the legislative branch, 14 for the state's colleges and universities and more than 100 for various state boards, commissions and other entities. Consolidating the current payroll systems where feasible would cut the cost of operation, without reducing the level of service to citizens.

SECURE had difficulty determining the total costs of operating all of the state's payroll systems, since there is no central structure to capture and report this data, but it became clear that operating many independent systems leads to duplicated effort and costs more in terms of staffing and system maintenance. We recommend consolidating as many payroll systems as possible, beginning with those that maintain the same timing, accounting practices and controls.

IMPROVE VALUE FOR TAXPAYERS' DOLLARS: PURCHASING

State government purchases *$1 billion* of goods and services each year. Yet the current purchasing system does not take advantage of modern practices to ensure the best value, respond in a timely manner and serve the state's diverse needs.

The state can no longer afford such waste. With today's tight budgets, government must act as a prudent consumer, demanding quality goods, comparison shopping, and using volume buying to leverage its resources in the marketplace. Considering the large amounts involved, even slight changes in the way the state does business will produce significant savings.

SECURE found that there is plenty of room for improvement. Although the data is scattered across agencies and difficult to assess, it is apparent that current state laws and policies are out of line with the best practices of the public and private sectors. We believe this is one arena where the state can take quick action to reduce the cost of government without reducing the quality of services.

Recommendation: Capture complete procurement information for all state agencies to provide a rational basis for purchasing practices and policies.

Since the state does not track total statewide procurement expenditures in a usable format, it lacks the necessary information to determine if state contracts are cost effective—and make informed purchasing decisions. Furthermore, the current approach appears to unnecessarily increase the cost of supplies, services and major repairs.

While bits and pieces of information are available in agencies across the state, there is no way to evaluate current purchasing activities as a whole. For example, since the Office of State Purchasing does not know the cost associated with issuing and processing a state contract, it cannot determine if existing contracts should be renewed or when it makes sense to issue new contracts. Collecting and evaluating this data is an essential first step toward developing a modern purchasing system.

Recommendation: Consider reducing the cost of state contracts by limiting current preferences, exclusions and exemptions.

SECURE found that the Louisiana Procurement Code and other sections of state law contain numerous preferences, exclusions and exemptions that increase the prices of contracts for supplies, equipment and major repairs. We believe that these elements should be reviewed and balanced with the state's obligation to act as a wise steward of public funds.

Preferences, which require the Office of State Purchasing to choose a specific type of vendor over others, are designed to lend government support to local businesses, small businesses and minority-owned businesses. However, these preferences contradict the intent of the procurement code, which is to award contracts to the "lowest responsive and responsible bidder".

According to the 1994 National Association of State Purchasing Officers' *State and Local Government Purchasing*, percentage preference laws significantly increase state expenditures by about 3% in real terms per capita. Applying these conclusions to purchasing practices in Louisiana, the state could potentially save $30 million a year by eliminating preferences.

Exclusions and exemptions, which fall outside the state purchasing process, limit government's ability to fully realize the benefits of volume buying. When agencies or particular expenditures are excluded from the procurement code or exempted from the authority of the Office of State Purchasing, a divided system is created. Bringing the system together would enhance buying power to achieve discounts, reduce duplication and streamline administrative costs.

Recommendation: Streamline purchasing practices to enhance flexibility and reduce costs.

State agencies currently lack the flexibility to make purchases outside of state contracts, unless they can justify that the contract items do not fit their needs and receive approval from the Office of State Purchasing. This restriction frequently results in agencies purchasing goods with higher prices, inferior quality or untimely delivery—and can diminish operations and service delivery.

Current purchasing limits were established in 1980 and have not been changed to keep pace with inflation, which has seriously eroded the purchasing power granted to state agencies. We suggest that the state increase the flexibility and responsiveness of the system by:

- Considering allowing price as a justification for purchasing outside of state contracts
- Simplifying and streamlining the process for justifying an agency's need to purchase items outside of state contracts
- Clarifying and communicating the reasons why agencies will be allowed to purchase items outside of state contracts
- Continuing to study the benefits of consortia and Just-in-Time purchasing to reduce delivery-related problems
- Adjusting the maximum delegated purchasing authority to reflect the effects of inflation on real buying power
- Continuing to study innovative practices, including electronic data interchange, purchasing schedules and catalogs, credit card purchasing, consortia purchasing and competitiveness measures

FOCUS ON RESULTS: PLANNING AND PROGRAM BUDGETING

Traditionally, government has placed a far greater emphasis on *inputs* (what is put into the system) than on *outcomes* (what is actually accomplished). Now, high performance public entities are shifting their focus to become more results-oriented.

Focusing on results begins with the development of a strategic plan that outlines the organization's mission, goals and objectives. Next, key executives, managers and supervisors must be empowered to make decisions about how best to achieve the goals, measure performance against the objectives and be held accountable for results. One way to do this is to install a results-oriented budgeting process, which enables legislators to tie the plan to allocations, measuring the intended outcome of the expenditure against the explicit result, rather than individual line items.

Recognizing the value of such an approach, the Legislature voted unanimously to implement a comprehensive program budgeting system in 1987. A few elements of the plan have since been put in place, but not much has been accomplished and nothing has changed. Little strategic planning takes place in state agencies, few performance indicators in the 1994-95 executive budget actually measure outcomes, and the Legislature continues to make budgetary decisions on a line-item basis.

Recommendation: Mandate the preparation and regular updating of a statewide strategic plan.

A strategic plan is a work plan that provides information on department and program philosophies and plans for at least a four-year period. The strategic plan then drives the operational plan and the budget process. SECURE believe that these steps are essential to all of the other recommendations outlined in this report.

Oregon and a number of other states have found that a strategic plan helps government set priorities and achieve desired results. We suggest that the Legislature actively promote an effective program budgeting system here by:

- Establishing an independent entity, similar to the Oregon Progress Board, to prepare and update a statewide strategic plan that defines where citizens want Louisiana to head in the next 10-20 years
- Mandating the preparation and regular updating of individual department strategic plans
- Enforcing the mechanisms that have already been established for implementing a program budgeting system

Recommendation: Develop performance indicators that will measure results and guide budget decisions.

Other states have found that "what gets measured is what gets done." Unfortunately, in Louisiana, we are not always measuring the things we care about most. Less than one-fourth of the performance indicators in the 1994-95 executive budget were effectiveness measures (the most desirable type, which measure the quality of benefits and services); over half were extensiveness measures (the least desirable type, which measure the quantity of benefits or services).

Appropriate performance indicators are critical in helping legislators make informed budget decisions. SECURE suggests that the Office of Planning and Budget assist state agencies in developing performance measures of program effectiveness, provide training on strategic and operational planning and monitor activity to ensure that appropriate indicators are being developed.

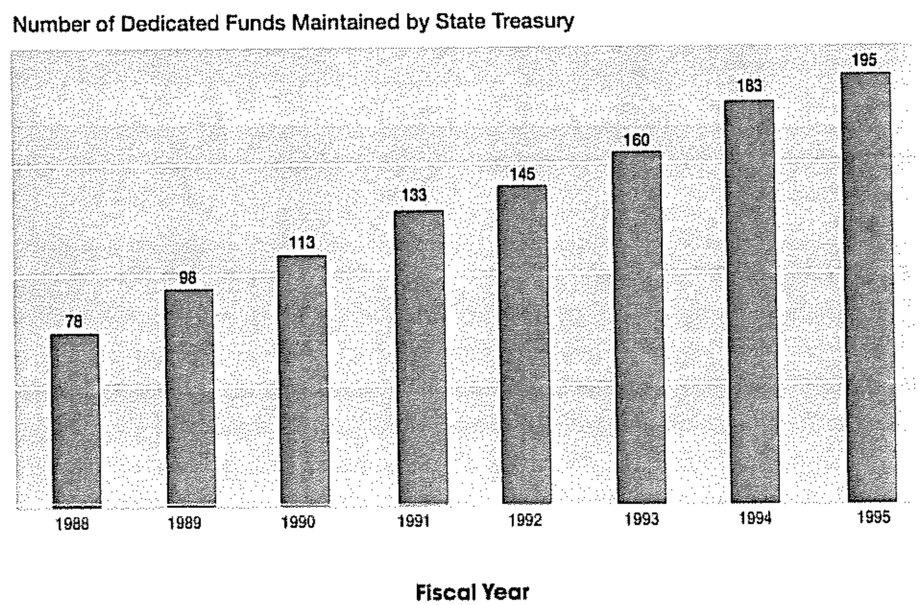
MAXIMIZE RESOURCES: GENERAL FISCAL ISSUES

As SECURE looked for ways to maximize the state's resources and better meet citizens' needs, we found several opportunities in the areas of general government and general fiscal considerations to make additional resources available and allocate those resources where they can do the most good.

The first priority is to give decision makers increased flexibility to allocate resources to the state's priorities. More than any other state, Louisiana has tied up its budget in constitutional amendments and expenditure mandates. While the state executive budget has remained balanced, dedicated funds and expenditure mandates earmarked for particular purposes have increased dramatically.

- The number of revenue dedications has increased 150% since 1988, restricting approximately 20% of state general fund revenues
- Expenditure mandates, including the Minimum Foundation Program, general obligation debt service, unfunded accrued liability for the statewide retirement systems and various consent decrees, restrict roughly 53% of state general fund revenues
- Only 27% of state general fund revenues is thus available to fund remaining general government operations

THE NUMBER OF DEDICATED FUNDS CONTINUES TO CLIMB



(EXHIBIT 12)

As a result, those who should be making decisions about expenditures and the fiscal future of our state are managing only a small portion of state revenues. And the programs in this "cuttable" portion of the budget bear the brunt of budget shortfalls year after year.

An additional complication to managing resources is the fact that Louisiana has no immunity, limited or otherwise, to suits against the state and its political subdivisions. Without this protection, the state is vulnerable to frivolous claims and to awards that far exceed the cost of damages.

Recommendation: Restructure the constitutional dedication of funds to better allocate Louisiana's monetary resources.

By continuing to increase the number of revenue dedications, Louisiana is strangling its budgeting process and reducing its efficiency. Meanwhile, other states are doing just the opposite: nationally, the ratio of dedications has decreased from more than half of state revenues in 1954 to about one quarter in 1988.

SECURE recognizes that it will be difficult to eliminate revenue dedications and/or expenditure mandates. These restrictions occurred for good reasons: to establish spending priorities, to protect activities from budget pressures, to sell tax increases to the public, to ensure that money is used for a particular purpose, to meet the requirements of granting authorities, or to meet contractual obligations. Many are protected by constitutional amendments, which can only be overturned by a two-thirds vote of the legislature and approval by the voters.

But the high number of restrictions is creating major obstacles to effective government and efficient financial management. They reduce budget flexibility and make it more difficult to adapt budgets to changing conditions, reduce accountability by limiting policymakers' authority to review the entire budget, and complicate revenue structures by requiring more elaborate accounting. On the other hand, there is no guarantee that the revenue dedication will always guarantee an adequate level of funding for a particular purpose, and it can restrict funding by allowing legislators to feel as though the needs have been met.

We recommend that the state eliminate all state revenue and expenditure dedications, such as the Transportation Trust Fund, the Wetlands Conservation and Restoration Fund and the Louisiana Wildlife and Fisheries Conservation Fund, with the following exceptions:

- Debt service
- The unfunded accrued pension liability
- Revenue sharing
- TIME (Transportation Infrastructure Model for Economic Development)

- Allocation of severance and royalty payments to local governments
- 8(g) Fund for education

Recommendation: Place a cap on the liability of the state and all other political subdivisions.

While most governments exercise the common law right of sovereign immunity, Louisiana can be sued for anything at any amount. As a result, the state's liability is comparatively large.

When the Louisiana constitution was rewritten in 1974, it removed sovereign immunity, allowing the state to be sued for contractual disputes and personal injury or property damage. Efforts to establish statutory limitations on general damages have been held unconstitutional, leaving the state with no limits on the amount for which it can be sued. The outcome? By year end 1993, there were 63 pending cases against the state, each of which had an estimated liability of over $750,000. These cases had an average liability of $4.6 million, for a total of $293 million.

Other Southern states cap liability arising from lawsuits to reduce liability expenditures. If Louisiana had a $500,000 cap for all damages on each of the large pending lawsuits, the state could save more than $250 million. Future savings could also be substantial, amounting to more than $35 million per year.

INTRODUCE COMPETITION: PRIVATIZATION AND OTHER OPTIONS

Across the nation, public administrators are seeking ways to introduce competition into government service delivery, improve results and cut costs. Privatization—the shifting of a function in whole or in part from the public sector to the private sector—is one increasingly popular mechanism, used for everything from consolidating a motor pool to managing entire school districts.

SECURE's review of 19 states indicated that 14 perform ongoing reviews for privatization and other competitiveness opportunities; seven have commissions that address these issues. In Louisiana, such activities occur on an ad hoc basis, and there is little information available to evaluate results or compare costs.

We believe that increased competition can be an important catalyst to bringing down the cost of providing government services. While there are some functions that are properly the responsibility of government, others could be provided as well or better—and at lower cost—by the private sector.

Recommendation: Establish an independent, central entity to introduce competition and innovative management practices into state government.

SECURE's review of privatization efforts in other states convinced us that the model used in Texas would be most appropriate and effective here. We suggest establishing an independent entity similar to the Council on Competitive Government and granting it the authority to take action to inject competition, fairness and efficiency into the process of providing state services.

Members of this entity should include the Governor, President of the Senate, Speaker of the House of Representatives, two Committee of 100 appointees, one Council for A Better Louisiana appointee, and one Public Affairs Research Council appointee. Their duties should be to:

- Develop detailed cost analyses and comparison models
- Analyze individual functions and services on a case-by-case basis to determine what methods of delivery offer the best performance at the most reasonable price
- Review the state's constitution, statutes, rules and regulations to determine any barriers to implementing cost-saving measures
- Propose legislation to have legal barriers removed or eased
- Develop systems to measure contract performance

The challenge in most states to implementation in this area is that even the best ideas fail because of unusually strong constituency, and political, reactions. SECURE therefore recommends a clear-cut strategy so that results can be achieved. We suggest the following requirements: that the recommendations be submitted to the Governor, who will have a period of 60 days to submit a report to the Legislature setting forth the Governor's position, and that the recommendations be submitted to the Legislature at the end of that 60-day period with the Governor's report. Unless the recommendations are *rejected* by a majority vote of both houses within 90 days of the date the recommendations are filed, the recommendations will be deemed approved and will be implemented.

SETTING A NEW AGENDA:
A FAIRER, MORE COMPETITIVE STATE TAX SYSTEM

A FAIRER, MORE COMPETITIVE STATE TAX SYSTEM

Taxes are an emotional issue. The subject makes individuals and businesses uncomfortable, especially if they don't think they are getting value for their tax dollars. In some ways, SECURE would prefer to concentrate solely on steps to streamline government, and avoid the issue altogether. But if Louisiana is ever to move in the direction we want to see, we are going to have to reform our tax structure.

The problem is that the tax structure that has evolved over a number of years is not meeting our current needs.

When oil and gas revenues flowed into the state coffers, Louisianians became accustomed to receiving a lot from government, without paying a high level of taxes relative to individuals in other states. Now that the mineral revenues have been drastically reduced,

FREQUENT ADJUSTMENTS TO TAX LAWS HAVE NOT PRODUCED FISCAL STABILITY

1970	Raised sales tax rate Eliminated deductibility of federal taxes
1973	Reduced sales tax on food, drugs, and utilities Restored deductibility of federal taxes Raised severance taxes
1977	Raised corporate income tax rates
1981	Reduced personal income tax
1983	Raised personal income tax
1984	Raised sales tax rate Raised gasoline taxes Raised corporate franchise
1986	Extended 1% sales tax to food, drugs, and utilities
1988	Extended 2% sales tax to food and utilities (now 3%)
1989	Proposed fiscal adjustments including more reliance on income tax (rejected by electorate, 55 percent to 45 percent)
1990	Lottery
1991	State tax credit for local ad valorem inventory taxes Video poker Riverboats
1992	Casino in New Orleans
1993	Extended 1% sales tax to food and utilities

(EXHIBIT 13)

we are struggling to find other sources of revenue for state government. Our initial response has been to seek the easy answer—a state tax revenue here, the use of gaming revenues there, even the use of accounting techniques to defer the problems a few more years.

Our analysis of the state's spending and taxing practices convinced us that state fiscal policy matters. It matters from a number of perspectives:

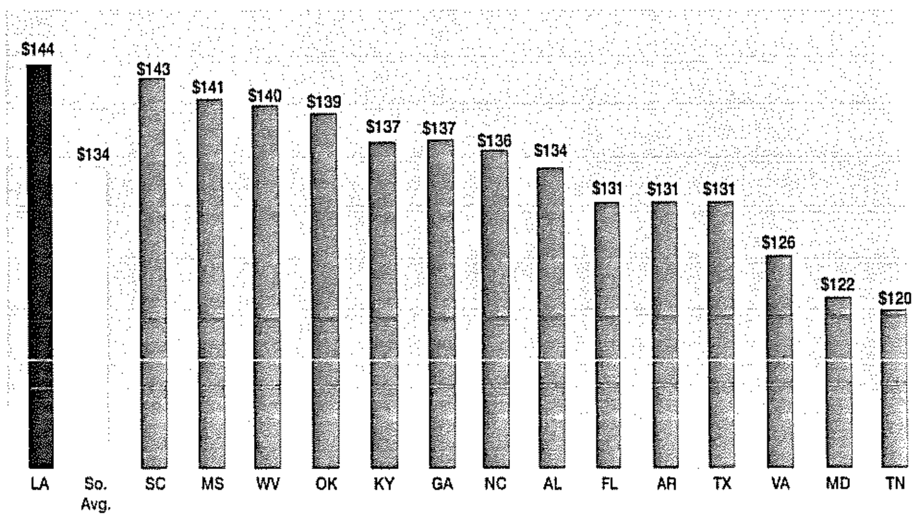
- For ensuring fairness among taxpayers
- For providing essential public services
- For encouraging economic development to secure our future
- For enhancing the image of our state
- For ensuring long-term fiscal stability

SECURE believes it is time to stop trading long-term solutions for short-term fixes. We have fundamental problems with our state tax structure and no less than the future viability of Louisiana state government depends on how we respond to the challenge. It is time to make tough choices and revise our tax structure.

The goal of SECURE's work in the tax area is to develop recommendations to create a tax structure which helps ensure that we are neither the highest nor the lowest taxed among southern states, but more or less right in the middle.

LOUISIANA RANKS HIGH IN STATE AND LOCAL TAX EFFORT

State and Local Taxes per $1,000 of Personal Income



(EXHIBIT 14)

To explain, let us provide some background about taxes and how they stack up in Louisiana. Basically, there are four major items that provide the bulk of our state and local revenues: property taxes, sales taxes, income taxes and mineral revenues. Other sources, such as excise taxes on beer and tobacco and gaming revenues, do not produce enough revenue to dramatically affect the overall structure.

THE CURRENT TAX STRUCTURE

Louisiana ranked 40th in the nation and 8th in the South in per capita state and local taxes in 1994, collecting $2,221 for every man, woman and child in the state.

More in-depth studies have shown our individual taxes are low and our business taxes are high relative to other southern states.

Over the years, we have developed a tax structure that works differently than that of any other state. While these features may have met our needs in the past, they are not well designed for the present or the future. Here is a brief review:

Property taxes. Property taxes are a tax on the value of business and residential property. They are one of the most stable and predictable sources of revenue, growing with the assessed value of the property. In most states, property taxes provide the basis for local services, particularly education.

In Louisiana, there are limitations on residential property taxes built into the constitution. The homestead exemption provides an exemption on the first $75,000 of the value of residential property. Every homeowner receives this exemption, whether the individual is earning $10,000 a year or $100,000. As a result, property taxes amount to only 17% of Louisiana's state and local tax base, compared to 31% in the nation and 29% in the South. Most of these taxes are paid by businesses.

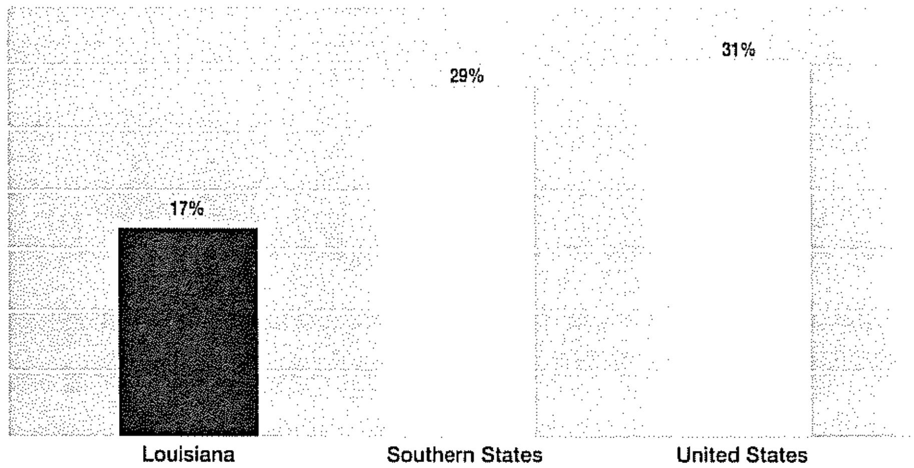
Most individuals in Louisiana are not paying any property taxes to support local schools and other local government functions. An unfortunate consequence when people don't pay direct taxes is that they tend to feel less connection and pay less attention to government activities. Our homestead exemption therefore hits us in two ways—less money for education and government at the local level and decreased involvement by our citizens in the school and local government finance process.

Personal income taxes. Personal income taxes are a tax on individual income. They are a growth tax and "progressive" tax—one that progresses in amount according to ability to pay.

Louisiana's personal income taxes have grown from around 5% of the budget in 1981-82 to 18% in 1993-94, largely as a result of federal tax reform in 1986. However, they are still far lower than other states, making up just 11% of our state and local revenues, compared to 26% in the nation and 18% in the South. And there is not much room to grow, since voters limited the extent of the personal income tax in the state constitution.

PROPERTY TAXES ARE AMONG THE LOWEST IN THE NATION

Property Taxes as a Percent of Total Revenues



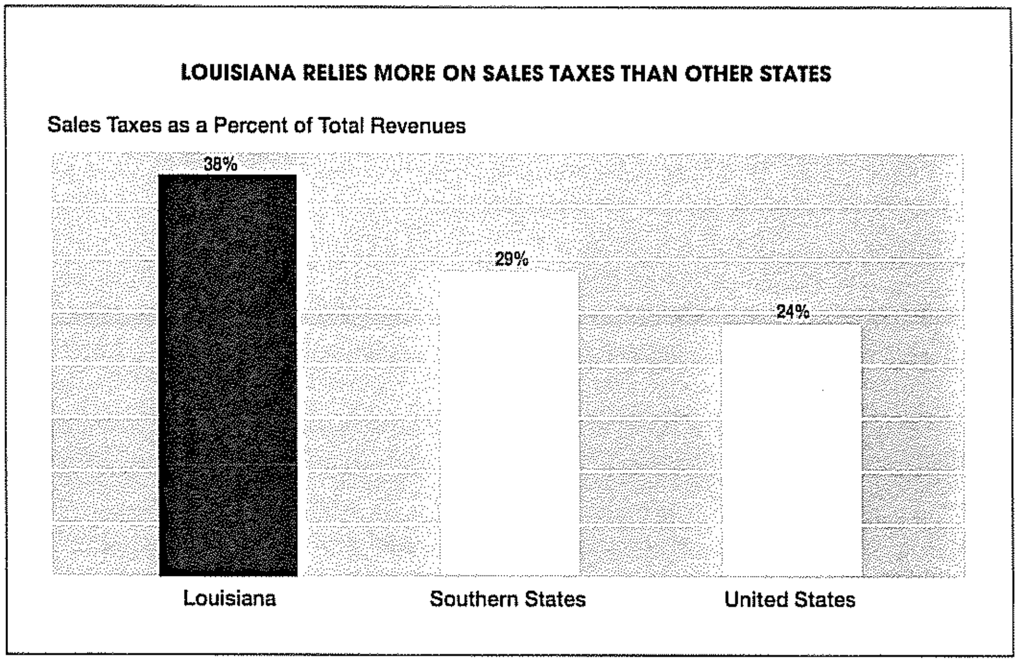
(EXHIBIT 15)

Sales taxes. Sales taxes, which impose a tax on the purchase of goods and some services, fluctuate with economic conditions and consumer confidence. Sales taxes are "regressive," which means that all consumers pay the same rate, putting an unfair burden on those least able to afford it. The fact that sales taxes are not deductible from either state or federal returns also places an additional burden on taxpayers.

It is not surprising that the state has come to rely more and more on sales taxes, since they are the easiest to raise here. With steady increases in the sales tax rate and the elimination of items previously exempted since 1970, our state and local sales taxes are now the highest in the nation, climbing to 8-8.5% in general in East Baton Rouge Parish and 9% in Orleans Parish. Sales taxes now account for a whopping 38% of all revenues, compared to less than 25% in 1981-82. Meanwhile, the national average remains at 24% and the Southern average at 29%.

One unfortunate consequence of the state's reliance on sales taxes is that Louisianians are paying far more in federal taxes—and less in state and local taxes—than our peers in other states who rely more on property and income taxes. With all the pressing needs facing our state, we would do better to keep more of our tax dollars closer to home.

Mineral and other revenues. Few states have the advantage of mineral resources contributing to total revenues, as does Louisiana. While these revenues as a percent of total state revenues have dropped dramatically, from 43% in 1981-82 to just 11% in 1993-94, they provide an additional source of income that relieves some of the burden from individuals and other businesses.



(EXHIBIT 16)

Today, even at the current reduced level, Louisiana receives far more revenues from minerals and "other" sources than most states. These sources make up 34% of the total, compared to a national average of 19% and a Southern average of 24%.

In addition, Louisiana has instituted gaming, creating the lottery in 1990, riverboats and video poker in 1991, and a New Orleans casino in 1992. Revenues from gaming are expected to generate $431 million or 7.5% of total state revenues in 1995.

Business taxes. Louisiana's business tax structure developed in large measure in response to the limitations on state revenue generation imposed by the individual tax structure and the homestead exemption, as well as structural problems with mineral revenues. In total, our business tax levels are much higher than other Southern states, providing a poor first impression of the state:

- The state's corporate taxes are $155 per capita, compared to a national average of $100 and a Southern average of $69
- Corporate franchise taxes are $61 per capita, compared to $12 in the nation and $20 in the South
- Louisiana is one of only nine states—and the only state in the South—in which the initial purchase of machinery and equipment is subject to the sales tax
- Businesses pay an overwhelming portion—estimated at over 90% by the Department of Economic Development—of the state's property taxes

- Businesses generate 43% of the taxes here, a considerably higher proportion than in other Southern states

To make these taxes more palatable, incentives have been built into the system, including enterprise zones, tax equalization laws and the 10-year industrial tax exemption for businesses that qualify. However, most business executives would prefer a stable, fair and predictable tax structure to the current arrangement.

Implications. The current structure has confused the majority of taxpayers about the true way in which the tax system works. It has deceived us into believing that we can get something for nothing. In fact, what we are getting is not what we want:

- Our tax base is growing at a slower rate than the growth of the economy and the growth of state expenditures
- Fiscal instability is built into the system, as demonstrated by the frequent special sessions of the Legislature, mid-year budget cuts and proposed tax increases
- Economic development suffers as a result of the high taxes on business, which are not competitive with other states in the nation and the region
- State and local relations are skewed by the limitations on local ability to raise revenues, forcing local government to go to the state for funding local concerns
- The taxpayers of the state pay $200 million more than we have to in federal taxes, sending dollars to Washington that would be better spent in our parishes and municipalities
- Hidden taxes place an unfair burden on all Louisianians, through loss of job opportunities, lower wages and less business development

PRINCIPLES OF TAX REFORM

We have to overcome our own resistance to this issue and decide what we believe is the best tax structure for our state. In doing so, SECURE recognizes that the solutions will take time to resolve, that no quick fixes are available to us. We do not believe the answer is increasing revenues in the short term; rather, we need to build a system that can grow with the economy and resolve the chronic imbalance between our revenues and expenditures.

In assessing the current system and alternatives, we applied the following principles:

- The tax structure can and should be fairer and more equitable. We must reduce our reliance on the sales tax and increase the reliance on the income tax and the property tax.
- The tax structure should promote economic development, rather than discourage it. Business taxes must be restructured to make Louisiana more competitive with other states.

- The tax structure should complement the fiscal system so that fiscal crises can be avoided for the next decade. Fiscal stability is a key element of the state's long-term economic health.

We know there are risks in recommending changes to Louisiana's tax structure, considering the strong, ingrained fear of change among most taxpayers. And we don't want the seven recommendations in this chapter to overwhelm the scores of recommendations in all the others. Nevertheless, we believe a fairer, more stable tax system is essential if we are going to meet the challenges laid out in this report. That's because taxes are not an adjunct to a better educational system and vigorous economic development, they are an integral part of it.

A SECURE TAX STRUCTURE

There are trade-offs involved in tax policy. Our recommendations come as a package, balancing disparate elements and needs into a coherent whole. Picking and choosing among them will not achieve the desired results, and may create additional problems, while the total package will create the sound fiscal footing we need to move ahead.

The net effect of the changes we propose will shift the relative balance of revenue sources but not cause short-term gains or losses. For all individuals the sales tax will be decreased. Our recommendations will also decrease business taxes so the state can be competitive with our neighboring Southern states. Over the long-term, SECURE's more elastic, progressive model will generate revenues that grow with the economy and keep up with reasonable growth in expenditures.

Higher income people will tend to pay more, lower income people will tend to pay less. Both will pay amounts more closely in line with the southern regional averages.

The bottom line is that our tax system, as it is presently structured, will not yield sufficient revenues to match the normal growth in state expenditures, nor permit the enhancements required to secure our future. SECURE has recommended a limit on the rate of growth in expenditures and has offered hundreds of specific recommendations to cut costs and improve services. But to properly align our budget, we will also have to change the way we structure taxes.

Recommendation: Reduce the state sales tax rate of 4% to 2.5%.

Since the sales tax is relied upon by both state and local governments as the major source of funding, the rate has grown too high. Taxes with high rates tend to lead individuals and businesses to change their behaviors. For example, high sales taxes might make Louisianians reluctant to buy here and businesses choose to locate elsewhere. Reducing the rate to 2.5% will establish a more competitive sales tax, in line with other states.

Recommendation: Fix the personal income tax rate at 3.5% and eliminate the deductibility of the federal income tax liability.

Louisiana has chosen for simplicity to tie the state income tax to the federal income tax. Taxable income is computed as an individual's adjusted gross income from the federal tax return, minus the federal tax liability and federal excess itemized deductions. The taxable income is taxed at a rate of 2% of the first $20,000 on a joint return, 4% on the next $80,000 and 6% of all taxable income in excess of $100,000—rates that are now guaranteed by the constitution.

Our income tax structure is different from the norm: we have wider tax brackets than other states; we have a generous standard deduction/personal exemption compared to other states; and we are one of only nine states that allow the deductibility of federal tax liability in the calculation of state taxable income.

Recommendation: Phase down the homestead exemption to $2,000 and phase out new industrial tax exemptions, both over a ten-year period.

It has become clear to the members of SECURE that if we are ever to sort out our tax structure and get on a sound fiscal footing, we have to move away from our reliance on sales taxes and make property taxes a larger piece of the revenue "pie." We have to shift some of the taxing authority from the state level to the local level to ensure the kind of services we want for ourselves and our children. And, we have to revise business taxes to make them more equitable and predictable.

Louisiana's property taxes are simply out of line. Over 80 percent of all homes in Louisiana are currently covered by the state's homestead exemption, which means that they are exempt from all except minor municipal property taxes. Renters, on the other hand, pay property taxes through their rents and are thus placed at a disadvantage compared to homeowners.

What does this do to the tax base? Property taxes amounted to only 41% of local tax collections by Louisiana local governments in 1991, compared to a national average of over 75%. Only one other state, Alabama, had a lower percentage. This imbalance has a negative impact on government's ability to address our needs, because:

- The property tax is a good potential revenue source for those local taxing bodies which need additional money to maintain, upgrade or expand services
- The property tax is the only major revenue source customarily for local government use
- Services funded entirely or partially by property taxes are generally those that most directly benefit homeowners
- The property tax permits local residents to tax themselves to pay for the services they desire

- Homeowners who pay property taxes have a greater incentive to become involved in local government and school operations, which can improve the quality of service delivery

We believe that Louisiana's homeowners should begin to contribute more directly for some of the costs of their local services. Reducing the homestead exemption to $2,000 over 10 years would accomplish this without placing an undue burden on the homeowner.

The industrial tax exemption was created to compensate businesses for other features of the tax system. It should be dropped only if our other recommendations to improve the business tax climate—restructuring the corporate tax rate and corporate franchise tax and eliminating the sales tax on machinery and equipment—are adopted.

Recommendation: Make business taxes more competitive by restructuring the corporate tax rate, restructuring the corporate franchise tax and eliminating the state sales tax on machinery and equipment.

Pushing the state's tax burden onto business, while understandably tempting, is simply not the answer. While it may appear that businesses make suitable objects of taxation because they have a superior ability to pay, the truth is that firms don't pay taxes, people do. Any tax levied upon a business must be paid by the people who interact with that business: owners, customers, workers, lenders, landlords and so on. In other words, the burden falls to us.

Meanwhile, the tax structure is one of the significant factors that affect economic development which the state can directly control. Right now, the message we are sending to business is not positive. Our maximum corporate tax rate is the one of the highest in the southeast. Businesses pay an inordinate share of property taxes. The corporate franchise tax is among the highest in the nation. And, we are one of a handful of states that impose a sales tax on business equipment and machinery purchases. These characteristics of our tax structure hurt all Louisianians by making us less competitive in the battle for new jobs, by discouraging investment from companies already here, and by forcing us to rely on inappropriate revenue sources for key services.

SECURE suggests doing something different. We recommend:

- Reducing the corporate tax of 8% to a more competitive 6% and eliminating the deduction of federal taxes
- Establishing a reasonable franchise fee, by restructuring the corporate franchise tax of $3 per $1,000 on equity and debt and removing debt from the tax base over a five-year period
- Eliminating the sales tax on machinery and equipment over a five-year period

These recommendations are not mere "tax breaks" for business. They represent the foundation upon which Louisiana can build stronger economic development strategies, create more incentives for more investment and more jobs, and establish more stable, predictable and fairer tax revenues.

SETTING A NEW AGENDA:
A GOVERNMENT THAT USES TECHNOLOGY WISELY

A GOVERNMENT THAT USES TECHNOLOGY WISELY

Technology is the infrastructure of the 21st century. It is the roads, highways, bridges, tracks and ports that will transport information and data to our businesses, people and institutions. It can—and must—transform the way state government does business.

In fact, information technology is already being used for innovative new purposes, not only by the private sector, but by states and local governments across the country. We have observed other public entities applying new technologies to:

- Enhance the learning of disadvantaged students
- Offer distance learning, which brings expert teachers to remote locations
- Improve service delivery by integrating "single point of access" systems for diverse social services
- Identify best prices and inventory levels of commonly purchased items
- Provide driver's licenses more conveniently and with fewer employees
- Speed the deposit of cash receipts into interest-earning accounts
- Track changing conditions for investment purposes

Overall, these new technologies can reduce the cost of government by replacing manual activities with automation and by providing more accurate and more timely information for decision making, monitoring and evaluation.

These are not pipe dreams of how technology could work: they are practical illustrations that have been implemented in other states. Compared to our peers, however, Louisiana is woefully behind in most measures of technology.

Everywhere SECURE went, we discovered examples of how the lack of technology is limiting state government's effectiveness and efficiency. We were dismayed to discover places where employees are still using rotary phones and manual typewriters . . . where payrolls are distributed by hand . . . where computers are so old, replacement parts are not available . . . where different software platforms prevent communication within a single agency . . . where available technology goes unused because no one has the training needed to apply it.

The absence of technology results in inaccuracies and inefficiencies in the way information is handled, whether it's a permit application, tax form or invoice. Much of the state's information still gets recorded on paper, which makes it difficult and time-consuming to store, move and retrieve. Doing business this way requires citizens to go through some of the same processes repeatedly, resulting in redundant or inconsistent information stored in many locations.

Louisiana may have been able to get by with these limitations in the past, but it cannot any longer. With the volume of information expanding and the capacity of technology exploding, the state is experiencing a dramatic increase in the number of employees who depend on information technology to do their jobs and, more importantly, in the number of citizens who rely on it for fundamental services.

THE PACE OF CHANGE IS INCREASING RAPIDLY

Time to Transmit Contents of the Library of Congress

Year	Data Capacity	Transmission Time
1950	40 bits/second*	158,000 years
1980	9,600 bits/second	661 years
1990	56,000 bits/second	113 years
1992	45 million bits/second	53 days
1994	Estimated 1 billion bits/second	51 hours

* Bit is the basic unit of data communication. It describes how much information is transmitted in a period of time.

(EXHIBIT 17)

Recognizing the huge budget challenges facing our state, SECURE decided early on to limit our study of technology to its relevance to the delivery of key services and management of key functions. At the conclusion of our work, we discovered that technology appeared in virtually every facet of investigation. We believe the recommendations here will pave the way for a more thorough review of the state's technology resources and requirements.

PLAN FOR THE FUTURE

If we want Louisiana's state employees to do their jobs better, we will have to make smarter use of information technology and telecommunications. SECURE recognizes that the cost associated with implementing new technology will be a challenge in tight budget times. Yet this is one investment that will pay off quickly and handsomely in improved services and reduced costs.

There are two parts to a strategic approach to technology: careful planning to address needs in an integrated and rational manner, and sufficient funding to meet these needs according to the state's identified priorities. If we can do both, we will ensure not only that we make sufficient investments, but that we make the *right* investments.

The first step is to develop a coordinated plan to guide technology application and investment. While all government actions require planning, it is even more critical in technology, where the environment is changing so rapidly and decisions can have such an enormous and costly impact. But currently, Louisiana does not adequately plan for information technology, either at the agency level or statewide.

Technology is a tool—a powerful tool, but a tool nonetheless. Its value depends on what we do with it. SECURE believes that large and continuing investments in technology are critical to the state's future. Yet we caution the state that large amounts of money will be wasted unless a clear, coherent and comprehensive plan is developed to manage its use. This plan should be the road map to our information highway, setting forth priorities and principles for implementation.

Recommendation: Create a Technology Innovation Fund to finance strategic investments in technology that demonstrate a high benefit to cost ratio.

SECURE realizes that one of the stumbling blocks to implementing technology is the cost of that technology. Too often, our state managers are required to defer investments in technology because of the limited funding available—even when it can be demonstrated that these investments would produce multiple, multi-year benefits.

The problem is that the government budget process, in Louisiana as in other states, emphasizes short-term availability rather than long-term payoffs. SECURE recommends that the state overcome this obstacle by establishing a Technology Innovation Fund, which would essentially act as an investment bank for major technological investments in our state.

The current budget process requires departments to return unspent funds to the state treasury each year, which discourages, and is a disincentive to, agency efforts to decrease or not spend their budget allocation. SECURE's alternative is to allow departments to invest a portion—up to half—of those monies in the Technology Innovation Fund. While the fund is not intended to replace departmental budgeting for technology expenditures, it would provide a portion of funding and encourage creativity and innovation on the part of departments as they compete for funding.

Proposals for funding through the Technology Innovation Fund should be evaluated on the basis of the return on investment generated by the project. The "loan repayment" would be the documented stream of savings and improvements resulting from implementation, the value of which should be measured and communicated to the state's taxpayers.

IMPROVE EFFICIENCY AND EFFECTIVENESS

Taxpayers in Louisiana, as across the nation, are increasingly demanding that government work better and cost less. Meanwhile, we tie state employees' hands by giving them antiquated technology and limited training—if any—in how to use it. If we truly want to improve the way the state does business, we are going to have to catch up with the information age and implement technology in key areas.

There are two ways that technology can serve the state: internally, by improving the management systems of government, and externally, by enhancing service delivery and response to customers' needs. In our analysis of these activities, SECURE found serious gaps in both. We believe it is time to address this problem and empower our employees to do more with less.

Recommendation: Develop and implement information systems that will improve service delivery and reduce long-term costs.

One area where technology can pay a significant return on investment is in helping our public employees determine eligibility and benefits for entitlement programs. Today, the Department of Social Services' and the Department of Health and Hospitals' programs operate independently in hundreds of locations across the state, although many clients receive benefits and services from more than one program. Despite the fact that similar types of information are required from a variety of programs, clients must complete separate intake forms for each—resulting in an inefficient duplication of effort for the agency and an added inconvenience for the recipient. The departments' antiquated technological systems and equipment are simply inadequate to meet the needs of caseworkers.

A new system should be implemented to streamline applications for clients, reduce management staffing levels, cut waste and increase the efficiency of human services programs. Implementing a system similar to the one now in operation in Tennessee would cost the state $15-30 million; once implemented, it will generate estimated annual savings of $70-140 million.

The underutilization of technology in the Department of Public Safety and Corrections requires more employees to do the same amount of work, often with less accuracy. In some cases, such as inmate tracking, Corrections Services has the necessary technology, but has not made full use of the system or has been slow in implementation. Taking steps to implement existing technologies as well as others such as networking, electronic mail and voice mail, would cut costs without jeopardizing public safety.

Recommendation: Take advantage of advanced technology to enhance state government's management systems and reduce overhead costs.

The internal workings of government—purchasing, personnel, cash management—are generally unnoticed by the state's citizens. But these functions have a profound effect on the efficiency and cost of government services. Technology can help reduce the indirect costs of government and free up more resources for services that directly meet citizens' needs. An early SECURE recommendation to provide the Office of the State Treasurer with "real time" information is already being implemented, and could generate as much as $5 million annually in increased investment earnings.

While the planned Integrated Statewide Information System (ISIS) will help fill the gap, it is still several years from implementation. In the meantime, SECURE recommends that the state:

- Automate the tax collection process in the Department of Revenue and Taxation to reduce current delays and maximize investable cash. One-time investments of $100,000 in forms control improvements and $2 million in additional automated systems would quickly pay for themselves in faster, more efficient revenue collection processing.
- Ensure that ISIS considers automating payroll as one of its top priorities, and examine what opportunities exist for implementing direct deposit of payroll under the ISIS program.
- Design and implement an interactive management information system which allows human resources managers to improve the efficiency and effectiveness of the recruiting and hiring process.

ENHANCE OUR EDUCATIONAL SYSTEM

No matter how important technology is today, it will be even more so tomorrow. To prepare our children and youth for the future, we must make sure that every student is technologically literate by high school graduation. We must bring Louisiana's schools into the 21st century, classroom by classroom, by establishing an up-to-date technology infrastructure.

There is little doubt that the use of technology in schools improves the quality of education. Among the advantages:

- Computer software programs allow personalized instruction and enable students to progress at their own pace
- Distance learning gives students in remote locations access to experts in less common subjects, ranging from Japanese to calculus
- Multimedia stimulates students' interest in learning through the use of laser discs, videos, CD ROM and digitizing cameras
- Interactive networks connect students with other students throughout the nation and the world to share experiences and learning, and allow access to on-line libraries and research materials

Technology also helps empower teachers and principals by enhancing staff development and improving school efficiency and accountability. But most importantly, it provides students with the skills and abilities necessary to compete in today's workforce. SECURE's research indicates that jobs requiring even basic computer knowledge, such as data entry or secretarial skills, pay $1,200 to $1,400 per month, almost twice the salary of jobs requiring no computer skills. If our children are to find good jobs and contribute to the community, they must have the opportunity to learn to use technology.

Recommendation: Develop and implement a statewide plan to create 21st Century Classrooms which put state-of-the-art technologies into action.

SECURE applauds the state for the steps it has taken in educational technology. Louisiana leads the nation in the number of students taking distance learning courses, with 93 schools delivering 33 courses to 1,860 students across the state. And pockets of excellence across the state—Caddo, Calcasieu, Jefferson, Lafayette, Orleans and St. Charles parishes, for example—show how technology can work to increase interest in learning, improve skills and enhance self-confidence.

Despite our progress in these areas, the majority of the state's schools are still poorly equipped. SECURE found that few classrooms have computers, and most of the computers that are available are already out of date. Even schools which are fortunate enough to have some equipment may be unable to use it in appropriate ways, because their teachers are not adequately trained.

While a number of committees and organizations have been established to create education and technology plans, there is no central coordinating structure. So far, no conclusion has been reached as to the best strategy for bringing technology to the classroom, no statewide technology plan has been adopted, and no statewide infrastructure has been established to facilitate implementation. Funding continues to lag behind—far behind—exemplary states such as Tennessee, North Carolina and Texas.

Following the model of Tennessee by creating 21st Century Classrooms would give Louisiana's schools what they need to prepare our students for a high technology future. We recommend that the state develop a comprehensive plan to implement such classrooms in our schools. The plan should address critical issues including infrastructure requirements, equipment and instructional materials, teacher training, networking of schools and libraries, and funding sources.

The 21st Century Classrooms, which place state-of-the-art technology in the classroom, cost Tennessee $15,000 per classroom, including wiring, buying hardware and software and training teachers. If Louisiana were to bring this technology to every one of its 31,000 classrooms, the total cost of updating would amount to $465 million. We suggest a 10-year phased-in approach, resulting in costs of $45-50 million per year.

Recommendation: Determine technology standards, curriculum and assessments for teacher evaluation and student skills.

A good technology plan will identify what technology skills are important, develop a curriculum to teach these skills and create assessments to measure student and teacher progress. Assessments of student skills and teacher evaluation are essential for the success of a technology program. We recommend that Louisiana model itself after

Florida, which measures proficiency in technology through tests on word processing, database management, spreadsheets and on-line research skills.

The state should also provide leadership, training and funding support for technology. Best practices in other states include statewide conferences and workshops, technical fairs, regional service centers, centers for professional development and software coordination.

SETTING A NEW AGENDA:
A STRONGER AND SMARTER EDUCATION SYSTEM

A STRONGER AND SMARTER EDUCATION SYSTEM

Education is the foundation on which everything else rests. A healthy economy, new jobs, a higher standard of living, self-sufficiency, safe communities, revenue growth—all ultimately depend upon a well-functioning, high performing educational system. The members of SECURE believe that the rest of the recommendations in this report, no matter how well conceived or important for our future, won't amount to much unless we make dramatic improvements in the educational arena.

The problem is that Louisiana's huge investment in education—over $3 billion a year on elementary, secondary and post secondary programs—has not achieved the desired results. In almost all of the measures educators deem important, Louisiana is at or near the bottom:

- 50th in high school graduation rate
- 47th in literacy rate
- 46th in state and local expenditures per capita
- 42nd in percentage of population with a college degree
- 40th of 41 states reporting math scores

Most disturbing of all is the fact that we can't seem to keep our students in school. Half of Louisiana's kindergartners never finish high school. Of those who do graduate, about half need additional training in basic skills to go on with further education. It is not surprising that half of those entering the state's colleges and universities do not graduate.

While an incomplete education may have been less of a liability in the past, when lower skilled jobs were plentiful, in today's high technology environment, it is devastating. The results ripple through our communities, in the form of unemployment, poverty, crime, drugs and hopelessness.

Most Louisianians recognize that our educational systems are not doing the job they need to do for us today and are not prepared to do a better job for us in the future. The real challenge is to prescribe solutions. Consider the obstacles:

- Our educational system seems to resist significant or meaningful change—almost as if it wants to protect the status quo
- Public school systems across the country are looking for reforms to improve educational performance, but so far there does not appear to be an obvious set of answers

- Louisiana does not have a statewide community college system, which other states have found to be a critical foundation for successful economic development policies
- Funding for higher education is one of the few areas unprotected in the state constitution, and has experienced substantial budget cuts with a continuing exposure to cuts in the future
- Despite the state's tight budget, the necessary improvements will require a significant investment

SECURE does not believe the solution to our education problem is to throw money at the systems. While investments will be needed, it is equally important that we do the right things—that is, rethink current practices, try innovative approaches, monitor the results and adjust as necessary. Our first goal should be to limit the state's overall expenditure level to our available resources, before we invest significantly in education, or any other area.

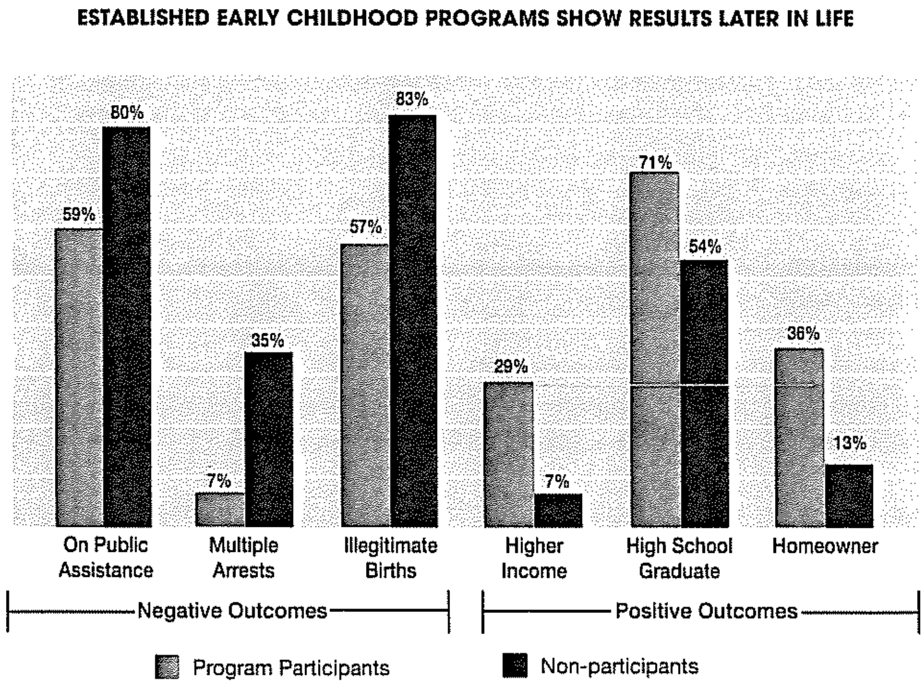
With that caveat, we propose a strategy focused on improving the educational system in four key areas:

- Early childhood education programs that will ensure that all children enter school prepared to learn
- Elementary and secondary school reforms that will give our students the skills and abilities they need to thrive in an increasingly complex society
- A community college system that will make post secondary education accessible and relevant for those seeking employment or further education
- Colleges and universities that will be better organized and funded to produce highly skilled professionals and to contribute to the knowledge base

PREPARE OUR CHILDREN TO SUCCEED IN SCHOOL

If there is one conclusion that the nation and other states are coming to, it's that early childhood education is the most critical and cost-effective way to ensure success in school. If a child does not have a sound foundation on which to build, he or she is likely to fall further and further behind, requiring additional support and remediation along the way.

SECURE believes it makes more sense to correct the problem before it starts. As the data suggests, children enrolled in quality prekindergarten programs perform better in school, obtain better jobs, and are less likely to rely on public assistance or become involved in crime.



(EXHIBIT 18)

We applaud Louisiana for the positive steps it has already taken to address this area of concern, notably the creation of the Model Early Childhood Program for at-risk four-year-olds, the establishment of a Children's Cabinet to coordinate state efforts on behalf of children, and the legislation requiring the state to provide parent education and home visitation. Because of budget cuts, however, these programs have not been funded adequately, if at all.

SECURE believes this approach is shortsighted: an investment in early childhood will more than pay for itself in the future through fewer problems and higher achievement. We call upon our elected leaders to find the means to help those who cannot advocate for themselves: our children.

Recommendation: Fully fund the Model Early Childhood program for all at-risk four-year-old children and reinstate funding for evaluating the results.

Louisiana has a high number of children at risk of not succeeding in school. At-risk four-year-olds who participate in the state's Model Early Childhood program fare better than their peers, early evaluations show. But only 1,900 children—a mere 7% of the population the program is intended to serve—were covered by the program in 1993-94. Even when federal programs such as Head Start and Chapter 1 are included, only half of the eligible children are now being served.

The Model Early Childhood program costs approximately $1,700 per student. Louisiana can—and should—cover 100% of all at-risk four-year olds by providing the program to an additional 13,600 students, which would amount to an investment of $23-25 million.

To ensure the highest benefit for tax dollars, these programs must be systematically evaluated. We recommend that the state reinstate funding for Model Early Childhood program evaluation and improve the quality of that evaluation, which will cost an additional $500,000.

Recommendation: Provide funding and authority for the Children's Cabinet to act as a central coordinating entity.

Children are served by a variety of educational, public health, social services and other programs in a number of state departments. While all of these programs may be valuable, the lack of coordination can result in duplication and fragmentation.

Coordinating these programs to ensure maximum benefits should be a high priority—and Louisiana already has the mechanism in place. The Children's Cabinet was designed to create a budget for all children's services and a collaborative plan for the agencies that provide these services. Instead of dissolving the Children's Cabinet in 1997, as was originally proposed, the state should give the Cabinet increased authority and funding to ensure adequate coverage, equity and effectiveness of programs for children.

Recommendation: Ensure that children enter school ready to learn by providing parent education and higher day care standards.

Parents are a child's first and most important teachers. But a number of social changes have made their job more difficult than ever before. The fact is, most children are not growing up in the two-parent, middle-class family of the 1950s. Today, more families require two incomes to make ends meet, more marriages end in divorce, more households are headed by a single parent, and more children are spending more time in day care or unsupervised home settings.

As a result, state governments are facing increasing pressure to help parents ensure that all children start school ready to learn. Other states have found that parent education, including home visitation, pays significant dividends in terms of children's language and social development, problem-solving abilities and achievement in school. Although Louisiana has passed several acts targeted at children under three, these programs are generally underfunded and inadequately evaluated. We urge Louisiana to invest at least $500,000 in the parent education and home visitation programs as currently written in the law, so we can achieve improved results.

Many of Louisiana's young children spend a significant portion of the day in day care. SECURE found that the quality of the state's day care providers varies widely. Since there are no specific licensing requirements for instructors, there is little incentive to maintain well-staffed, developmentally appropriate programs. It is time for the state to require higher qualifications for day care instructors, including specific training in early childhood education and supervised field experience.

IMPROVE PUBLIC SCHOOL PERFORMANCE

Elementary and secondary education is the most complex part of the national education system. While we tend to think of it as a single system, these years take students all the way from the 3 R's to calculus, from recess to drug prevention programs. It is a lot to get a handle on, especially in today's rapidly changing, competitive environment.

The problems with Louisiana's K-12 programs are simple to express and tough to address. *Our students are not staying in school long enough, and those who do stay are performing poorly compared to their peers in other states.* Our youth are not graduating from high school in sufficient numbers, and many who do graduate do not possess the skills they need to succeed on the job or in further education.

SECURE found that the vast majority of our teachers and administrators are talented and devoted individuals who want very much to make the system work better. Unfortunately, because the system established to evaluate teachers and administrators has not been in place long enough to permit meaningful measurement, there is still little accountability for results.

These are tough issues, and SECURE has no quick fixes. But faced with the overwhelming challenges in front of us and the desire to jump start the system, we suggest that Louisiana take advantage of the lessons learned in other states. To a large extent, this means encouraging innovation, ensuring accountability, and increasing salaries for demonstrated results.

With current educational programs not working the way we want them to, we must take some bold steps. Louisiana should be at the forefront of new ideas in education, exploring the value of alternative school concepts, classroom technology, school-to-work transitions and other methods to help us improve the bottom line: student performance.

Recommendation: Encourage innovation and competition by allowing local school systems to establish demonstration programs designed to increase learning opportunities.

New alternatives in education, already being tested in other states, offer hope for the future. The best of these strategies provide opportunities for individual schools to experiment with new approaches, establish incentives for schools to improve and sometimes address societal issues.

SECURE's scan of innovative practices around the country identified several alternatives:

- *Alternative instructional models*, which change instructional delivery using current staff

- *Charter schools*, which are public schools established by an individual or group through an agreement or "charter"
- *Comprehensive schools*, which deliver additional services, such as health care, counseling and day care
- *Privatization*, which involves a school or district hiring a private firm to run a school or perform a function within it
- *School choice*, which allows students to transfer among schools within a district and sometimes outside the district
- *Site-based management*, which encourages schools to take greater control through school site councils composed of parents, teachers and the principal
- *School vouchers*, which allow families to spend public money in private schools

Although such experiments are new and their full impact is still unclear, we believe they are more promising than the status quo and more fitting for the future. Louisiana has taken some steps to introduce innovation, but has not gone far enough. We recommend that the state amend the law as necessary to encourage school systems to implement a limited number of demonstration projects using alternative delivery systems and to establish a school improvement fund to assist schools in innovative experimentation.

Recommendation: Focus greater educational authority in the executive branch to increase the efficiency with which educational reforms are implemented.

The success of educational reform begins at the top, by those who govern the system. In Louisiana, authority is divided among the governor, the superintendent, the State Board of Elementary and Secondary Education (BESE) and the legislature.

The state has moved toward consolidating authority in recent years, specifically by changing the superintendent position from elected to appointed by BESE. This shift was intended to overcome the problem of two elected bodies—the board and the superintendent—responding to different constituencies in different ways. In addition, a new education advisor position was created to establish a greater level of authority in the governor's office.

SECURE believes additional steps should be taken to focus educational authority in the executive branch. We recommend that the structure of BESE be changed to make it a governor-appointed board with 11 members, including the governor's education advisor. At least one-fourth of the existing board members should be retained to ensure continuity, and clear board member qualifications and criteria should be established.

Recommendation: Hold schools accountable for performance by evaluating results and building in rewards and sanctions.

When consumers make a large purchase, they demand value or take their business elsewhere. But taxpayers—even parents—who spend $500-2,000 a year on education don't tend to hold public schools responsible for providing $2,000 in services, because we perceive this service as "free." In short, we don't demand that the schools be accountable for results.

A strong accountability system would hold schools responsible for their performance by setting performance targets for each school. For success, schools would need to be provided with support to reach their goals. Progress toward achieving these goals must be measured, with appropriate incentives and sanctions established based on accomplishments.

In Louisiana, we have gone part of the way toward establishing true accountability. The state deserves credit for developing a solid information infrastructure, including the Louisiana Progress Profiles, which provide an excellent mechanism to measure progress, compare schools and report results to the public. However, we haven't sufficiently linked that performance with rewards or sanctions, and other efforts to impose greater accountability may need to be strengthened.

SECURE considers accountability the keystone of effective government. To clarify accountability and improve results in the public schools, the state should:

- Implement the Louisiana Performance-Based Accreditation Program, an accountability system with rewards and sanctions
- Continue to build on the Progress Profiles and the Personnel Assessment Programs as mechanisms to evaluate performance
- Aggressively work to develop alternative methods of assessing student results and personnel performance

Recommendation: Develop a mechanism to ensure that local school boards contribute their share of the Minimum Foundation Program (MFP).

There are two major issues involved in school financing: adequacy and equity. In regard to adequacy, SECURE found that Louisiana spends approximately 10% less than the average of Southern Regional Education Board states.

In terms of equity, we found that although the state sets a "target" floor for minimum local tax contributions, this floor is voluntary and more than half of our school districts do not meet their target contributions. Due to the local shortfall, Louisiana spends $4,773 per school-age child, compared to $5,384 per child in neighboring states. Furthermore, although Louisiana has given districts greater spending flexibility through the provision of "block grants," studies have raised significant questions about how equitably this money is being distributed to individual schools.

SECURE believes this problem is related in large part to our tax structure. Because Louisianians have traditionally paid less in property taxes, more education funds are collected at the state level and then redistributed to the local level. As a result, taxpayers here tend to see less of a connection between the taxes we pay and the services we receive. It is time to change the balance, and take local responsibility for local services, particularly in education.

Recommendation: Increase teacher pay to the average of Southern Regional Education Board states.

Louisiana does not treat our teachers as the valuable resource that they are. SECURE found that the state ranks 44th in the nation in teacher pay and 14th out of the 15 Southern Regional Education Board states. Our elementary and secondary teachers are paid about 13% less than their peers in the region, which amounts to $4,262 per year.

We believe it is essential to raise our teachers' salaries, at least to the regional average. Fully funding the MFP will raise salaries somewhat, but additional investments will be required to reach the desired level. We believe the state should take this step, as long as the educational system can demonstrate a start toward improved results, a commitment to educational innovation and a system of enhanced accountability. In other words, we want a system that rewards site-based improvement.

Recommendation: Prepare students to move from school to the workplace by modifying the curriculum and continuing to develop state-of-the-art "school-to-work" programs.

Many students in Louisiana, as across the nation, graduate from high school with inadequate academic skills and limited work experience or preparation. School-to-work programs were designed to better prepare students for the transition into the workforce by teaching them basic academic skills while exposing them to "real world" responsibilities. For the majority of Louisiana's students who do not go on for post secondary education, they offer relevant material and incentives to stay in school and work harder.

SECURE's analysis indicated that Louisiana's high dropout rate may be influenced by the state's stringent graduation requirements and a lack of direction in the high school curriculum for those who do not plan to pursue further education. We have both a population that could benefit from school-to-work programs and the means to accomplish them, as evidenced by three model programs: Tech-Prep Partnerships, High Schools That Work and Work-Site Learning.

But to make a difference for our students, the state will have to make at least a $13 million one-time investment to develop these state-of-the-art programs; once this is accomplished, federal monies could cover much of the ongoing program costs. In addition, we need to take steps to implement the Occupational Information System—an on-line system providing career-related information—and build a more positive image for vocational education.

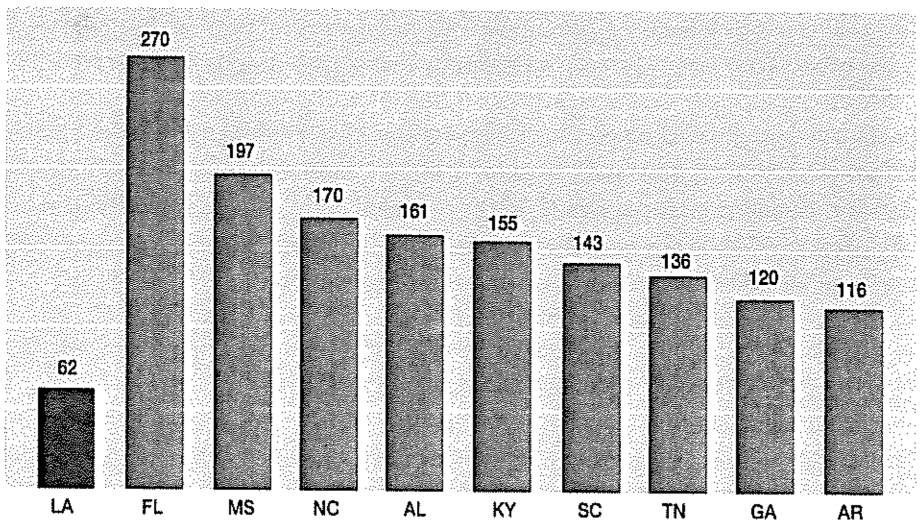
DEVELOP A COMPREHENSIVE COMMUNITY COLLEGE SYSTEM

In the future, even a high school degree will not be enough to prepare young people for the workforce; clear-cut evidence shows that economic well-being will require a post secondary education.

As part of our educational and economic development reviews, SECURE examined what has worked in other states, including Texas, South Carolina, North Carolina and Oklahoma, all of which have had recent and ongoing economic successes. We found that these states all had something we don't: a well-functioning, comprehensive community college system to serve as a bridge between school and work, and between K-12 and college or university. Other states have found a strong community college system to be a cost-effective academic and job training program, preparing students for necessary jobs and reducing remediation at the college level.

THE GAP FACING LOUISIANA IS DAUNTING

Number of Associate Degrees per 100,000 Population



(EXHIBIT 19)

In some respects, graduates of community colleges may be even more important to economic development than graduates of four-year colleges and universities. Louisiana's technical institutes represent a start, but they aren't versatile enough. Several lack academic credentials and do not adequately prepare students for higher education. We suggest that the state build upon this resource by establishing a statewide system of community colleges which combine vocational and academic knowledge.

Recommendation: Establish a separate community college system, phased in and built upon the resources of the current technical institutes.

Our analysis indicated that a comprehensive community college system will make post secondary education available to the broadest cross-section of the population *at the lowest possible cost.* Such a system will address many of the state's most pressing needs by:

- Providing a "high performance" workforce
- Stimulating economic development
- Educating students to succeed in our colleges and universities
- Retraining workers in skills required in a changing economy
- Providing a jump start to a more educated population by the 21st century

SECURE understands the concerns of those who fear that we cannot fund a community college system, but we disagree. Our position is that we cannot afford to wait any longer.

Other states are finding that the per-student cost of providing education at community colleges is significantly less than at four-year public institutions. Currently Louisiana has six community colleges—far fewer than other Southern Regional Education Board states—a number of two-year programs in four-year colleges and 44 technical institutes. We believe that a comprehensive community college system can be built upon these existing assets and be strongly linked to economic development strategies.

Actual costs will vary depending on the size and status of the existing technical institutes with which the community college is combined, but we estimate a cost of $2-3 million per 1,000 students. In addition, there will be library costs of approximately $250,000 and laboratory costs of $750,000 per institution, again depending on the existing resources. We recommend that these costs be phased in over a five year period.

BOLSTER INSTITUTIONS OF HIGHER EDUCATION

The problem with higher education is not that Louisianians don't care: it's that we are having a hard time juggling all of our priorities. So without meaning to, we have placed our higher education system in a tenuous position:

- Funding is unprotected in our constitution, which means that higher education has taken the brunt of budget cuts year after year
- Court orders have restricted the state's ability to plan and manage its post secondary system of education on its own
- Unprepared students have swelled the demand for remedial courses, placing a high demand on the system's limited resources for teaching what our students should have learned in their K-12 years

- Limited articulation agreements make it difficult for students to transfer among the state's institutions
- Duplicative programs inflate costs unnecessarily

But higher education is increasingly important to our future, and we will have to make significant improvements if we are to take our state where we want it to be in the next five to ten years. According to the 21st Century Commission, every dollar invested in Louisiana in higher education yields a 140% return on investment to the state in the first year—and more in following years.

SECURE's recommendations to correct the problems in higher education are deceptively simple. Our focus is on fundamental internal issues, which we believe can make the difference between adequacy and excellence in our future. Louisiana needs:

- More stable sources of funding
- Articulation systems that allow institutions within the system to "talk" to each other more effectively, facilitating transfer of credits between institutions
- Reduction in remedial programs which siphon off resources better spent on the mission of higher education
- Reduction in the amount and cost of duplicative programs

Our conclusions in this area closely parallel the work of Louisiana's Higher Education Commission for the 21st Century, particularly in the areas of ensuring greater accountability, improving institutional effectiveness and increasing funding. However, we have taken a different approach to protecting the funding for higher education. While the 21st Century Commission recommended dedicating funding through the constitution, SECURE advocates the removal of most revenue dedications.

Recommendation: Direct the Board of Regents to reexamine the funding formula and urge the Legislature to mandate that the funding formula be fully implemented.

The Board of Regents, the governing entity of Louisiana's higher education system, has made progress in determining how to streamline post secondary education but little headway in implementing its recommendations. The problem is that the Board has policy responsibility but virtually no budgetary authority.

While the current structure, with three management boards under the central Board of Regents, appears costly and excessively bureaucratic, we do not believe this is the time for change. It is not clear that modifying the existing structure will be beneficial, and the recent resolution of the state's long-standing desegregation consent decree should be permitted to be implemented and evaluated.

SECURE does, however, recommend that the state increase funding to higher education to the average of Southern Regional Education Board states over a period of five years. Tuition, which remains high for a poor state like Louisiana, should be frozen at current levels if the new funding is provided. Enhancement funding should be tied to performance measures or results based on the individual institution's mission.

In addition, we believe the funding formula for institutions of higher education should be reexamined, considering factors such as the mission of the institutions, enrollment, faculty salaries, teaching and research and selective and open admissions. The management boards and institutions should continue to determine individual campus budgets. In the future, budgetary shortfalls should impact all schools equally through proportional reduction of their funding formula. For example, if the budget for higher education is funded at 80%, then all schools should receive no more than 80% of their funding formula allocation.

Recommendation: Reduce the problem of excessive remediation at the higher education level by developing strategies at the high school and community college levels.

The figures are disturbing. In Louisiana, over half of the state's entering freshmen take at least one remedial course, compared to an average of 33% in the nation and the region. This state of affairs is draining scarce resources from post secondary institutions and extending the time and financial burden for students. The cost of providing these courses for all entering freshmen is estimated at well over $6 million per year.

Clearly, current remediation efforts at the post secondary level are not working. Research clearly demonstrates that a better foundation for our post secondary students **before** they reach college is the most appropriate and cost effective strategy to reduce the remediation problem in higher education. Therefore, SECURE urges the state to take steps earlier in a student's education to resolve the problem. Specifically, we suggest that:

- High schools be encouraged to identify deficiencies during students' sophomore or junior years and provide remediation, retesting and counseling
- Post secondary institutions clarify their admission requirements and fully inform high schools, students and parents of their remediation policies
- The quality of core academic courses required for admission to college be strengthened
- Reasonable admission standards be established at all four-year institutions

Recommendation: Ease the process of transferring credits among post secondary institutions by establishing an effective statewide articulation process.

Articulation is a big word for a basic part of higher education: the ability of students to transfer academic credit between institutions. For those seeking to transfer, for whatever reason, it is a matter of great importance—and can make the difference between graduating and cutting a college career short.

Some institutions in Louisiana already have articulation agreements in place, but the faculty at most four-year institutions are skeptical about the quality of transfer student credit hours and fear that transfer agreements will result in a less prepared or lower quality student. For articulation agreements to truly have an effect on the system, we must establish system-wide agreements about course content and outcomes, developed with faculty participation from both two-year and four-year institutions.

The state should also establish an articulation council with representation from post secondary institutions; develop a clear transfer policy and guidelines, including a two-year plan for general education core course credit transfer; increase institutional, student and parental awareness of transfer requirements; simplify the transfer process and use an electronic transfer system; and implement a common course numbering system.

Recommendation: Build on existing program review procedures for duplicative or low priority programs and strengthen incentives for program elimination.

The Board of Regents has effective mechanisms in place to identify and recommend solutions to duplicative and "low completer" degree programs, but has not always chosen to use its constitutional authority to eliminate them. For example, the Board has recommended reducing the state's architecture programs from four to one and engineering programs from nine to four or five. These recommendations are appropriate, considering state resources, but have not yet been implemented.

The challenge is to implement the recommendations while still serving the interests of the institutions facing program elimination. We believe the state can find cooperative solutions by involving the institutions in the process:

- Requiring institutions, the Board of Regents and management boards to identify and monitor the cost savings achieved by program reductions
- Creating a bonus system which returns a portion of savings back to institutions for reallocation to quality programs
- Implementing a three stage, bottom-to-top program review process

SETTING A NEW AGENDA:

A COMPETITIVE ECONOMIC DEVELOPMENT STRATEGY

A COMPETITIVE ECONOMIC DEVELOPMENT STRATEGY

SECURE's mission was to consider long-term opportunities for providing a more vigorous and stable revenue stream to improve the quality of life for all Louisianians. Meeting these challenges will largely depend on what we do to improve the state's business climate.

For too long, we have viewed the health of our economic development as separate from the health of the state: the truth is, the two are inextricably tied. Strong economic development affects every one of us by attracting sustained growth, generating more and better jobs, and producing a steady stream of revenues for the state treasury.

In looking at our state's economic development needs, it is easy to become discouraged or even dismayed. By every means used by corporate location specialists or financial institutions, Louisiana—rightfully or wrongly—compares unfavorably with those Southern states with which we tend to compare ourselves. Thus, we in Louisiana have had to watch the Mercedes plant choose to locate in Tuscaloosa, Alabama; BMW to select Greenville-Spartanburg, South Carolina; Dell Computer to expand into Austin, Texas; and Cisco Systems to open its east coast facility in the Research Triangle Park, North Carolina.

It pains us to run down this list of firms that have taken jobs, tax dollars and ancillary services to neighboring states, but we must acknowledge that such economic development "wins" came from the clear vision of leaders in other states to aggressively compete for corporate location and expansion and create more good jobs. We can do the same.

There is no reason why our state can't be number one in attracting and sustaining economic development. We have so much going for us: a strategic location at the mouth of the Mississippi, an outstanding port system, access to transportation, abundant natural resources and hardworking people.

The members of SECURE believe that it is essential to the long-term well-being of Louisiana that we develop a coordinated, vigorous economic development program that enables us to compete not just in the South, but in the nation and the world. Our solutions?

- A well focused, statewide economic development plan that encourages businesses to locate, expand and invest here
- A renewed emphasis on protecting the state's infrastructure, particularly our highway system
- A consistent, reasonable regulatory environment

- A better trained workforce, able to respond to the demands of a high technology, rapidly changing economy
- A comprehensive community college system coordinated with our vocational-technical institutes
- A fair, equitable and stable tax structure that balances the burden between individuals and businesses

Two of these recommendations are partially covered in other sections of this report. In discussing education, SECURE speaks to the need for a comprehensive community college system, which will help prepare our people for the highly skilled jobs of the future. While such a strategy is appropriate solely for educational reasons, we recognize that a well-functioning two-year system has proven to be a keystone of successful business recruitment strategies for other states. Our recommendations regarding the state's tax structure are part of a larger concern to balance the state's tax policy and produce a more stable, growing revenue base for the future.

We see economic development and the business community's role in it as a resource on which the state's future largely rests. The growth and vitality of our corporate citizens does not compete with individual needs; on the contrary, its good health will rub off on the rest of us, through new jobs, a higher standard of living, additional revenues and improved services.

FOCUS OUR ECONOMIC DEVELOPMENT EFFORTS

State policy is not the only factor affecting economic development, but it can play a key role in influencing other variables—such as job creation, employment growth, personal income growth, business diversification and capital investment—that will make all the difference for our future. And, it is one factor government can control.

SECURE found that there are bright spots in Louisiana's economic development initiatives, but they are diffused and sometimes hidden by a complex and fragmented state approach. Nine separate agencies are involved in economic development, with no central decision-making body to provide an integrated focus and strategy and no overall plan for this critical government function.

The result is too many opportunities for duplication, too few mechanisms for sharing information, too little accountability for success or failure, and too much confusion for economic development "customers"—Louisiana businesses and those interested in locating, expanding and investing here.

We believe that Louisiana has the resources in place to be a global force in attracting and growing businesses. What's missing, however, is a statewide blueprint outlining the most effective long-term use of those resources for the development of a strong and resilient economy.

Recommendation: Establish an Economic Development Council to provide statewide leadership and direction in economic development.

Establishing clear leadership and oversight for economic development should be a first priority of the state. SECURE believes all of the state's efforts in this area will function better as part of a more coherent, integrated whole.

We therefore recommend the establishment of an Economic Development Council, chaired by the Governor and staffed by the Department of Economic Development, with the authority to recommend policy to the executive and legislative branches on such issues as tax abatements and incentives, the role of higher education and infrastructure development and the use of state funds to leverage economic development efforts. The Council should include representatives from all of the principal agencies involved in economic development as well as from the state's K-12 and higher education systems, special purpose nonprofits, private sector entities and workforce preparation programs.

We envision the Economic Development Council as a visible and high-level body with responsibility for setting economic development policy for the state, including developing a long-range strategic plan, consolidating economic development agencies and eliminating low-impact programs. A first priority should be to coordinate a long-range planning process which will:

- Involve all key players in the planning process
- Provide a baseline analysis of Louisiana's economic development strengths, weaknesses, opportunities and challenges
- Develop a vision for economic development
- Identify goals and measurable objectives for each goal
- Implement a performance measurement system as a scorecard to grade the results against the goals
- Establish an implementation plan assigning responsibilities to appropriate key players
- Provide a foundation for improving the state's economic development future

Recommendation: Consolidate economic development agencies and eliminate low priority programs to better focus the state's resources.

Louisiana provides economic development services through nine different agencies, in different departments throughout state government. SECURE found that the fragmentation of related functions prevents the best use of state resources. We recommend consolidating similar programs and eliminating unnecessary programs to make the best use of the state's precious economic development resources, as follows:

- Eliminate the Department of Culture, Recreation and Tourism, and transfer the functions of the Office of Tourism and Office of Film and Video to the Department of Economic Development
- Transfer the functions of the Office of the State Library, Office of the State Museum and Office of Cultural Development to the Department of State, which administers the official records of the state
- Transfer the functions of the Office of State Parks to the proposed Department of Natural Resources, Wildlife and Fisheries
- Eliminate low priority programs, including the Cultural Heritage Program and Small Business Bonding Program
- Consolidate all state-created economic development boards and agencies in the Department of Economic Development

Recommendation: Establish a payroll-based incentive program.

Although Louisiana has many incentive programs designed to stimulate business development and growth, it lacks an incentive package that is directly tied to job creation. Implementing a ten-year payroll-based incentive program would bring Louisiana up to par with competitor states such as Mississippi, Oklahoma, Alabama, and Kentucky that already have such programs. For example, Oklahoma's Quality Jobs Program—in place for less than two years—is already demonstrating impressive results:

- Nearly 29,000 new jobs have been created as a result of the program
- 21 new businesses have located in Oklahoma
- 64 Oklahoma businesses have expanded their operations
- Almost one-third of the projects resulted in jobs paying at least $30,000 annually
- Another 45% of the projects resulted in jobs that pay $20,000 - $30,000 per year

The Oklahoma program offers rebates of payroll taxes of up to 5% of payroll for approved jobs. Companies which create at least $2.5 million in additional payroll within the first three years can continue in the program for another seven years.

We recommend that Louisiana offer a similar program where rebates or business tax credits would be linked to payroll dollars actually created to provide larger incentives for higher paying jobs. The program could be tailored to take into account Louisiana's specific circumstances; for example, if the state wanted to reduce its expenditures on human services, it could offer the program exclusively to companies that provide comprehensive health insurance to their employees.

Recommendation: Create an Economic Development Fund to be used for statewide needs identified by the Economic Development Council.

Most state economic development agencies have discretionary monies they can offer in the form of special incentives to attract particular businesses. These funds provide a critical source of flexible funding necessary for a variety of other purposes, such as advertising, promotion or trade shows.

In Louisiana, some of the agencies involved in aspects of economic development have flexible sources of funding, while the Department of Economic Development—which should be the lead agency—has none. We recommend that an Economic Development Fund of $2-3 million be established for this purpose.

Recommendation: Establish the Department of Economic Development as the focal point for state information related to economic development.

The Department of Economic Development is the state's key liaison with the business community and often the first agency a business contacts when it comes to the state. Although the department should be the primary source of information for the state, it does not currently have access to databases maintained by various departments and agencies and cannot answer requests as promptly and efficiently as it should.

In today's economy, information is one of the most important ingredients for business success. SECURE recommends that the Department of Economic Development be identified as the state's information clearinghouse and be given the resources to fulfill this purpose. The Department of Economic Development should have on-line access to information maintained by other departments, such as the Department of Labor's database of employment statistics and the Department of State's database of business start-ups, closures and types of businesses operating in the state.

IMPROVE THE REGULATORY CLIMATE

One of the ways Louisiana can influence economic development within its borders is through regulation of the private sector. The issue here is that as the costs resulting from regulation increase, the cost of doing business also increases. Louisiana should take every opportunity to decrease the cost of regulation while maintaining its commitment to protect the public.

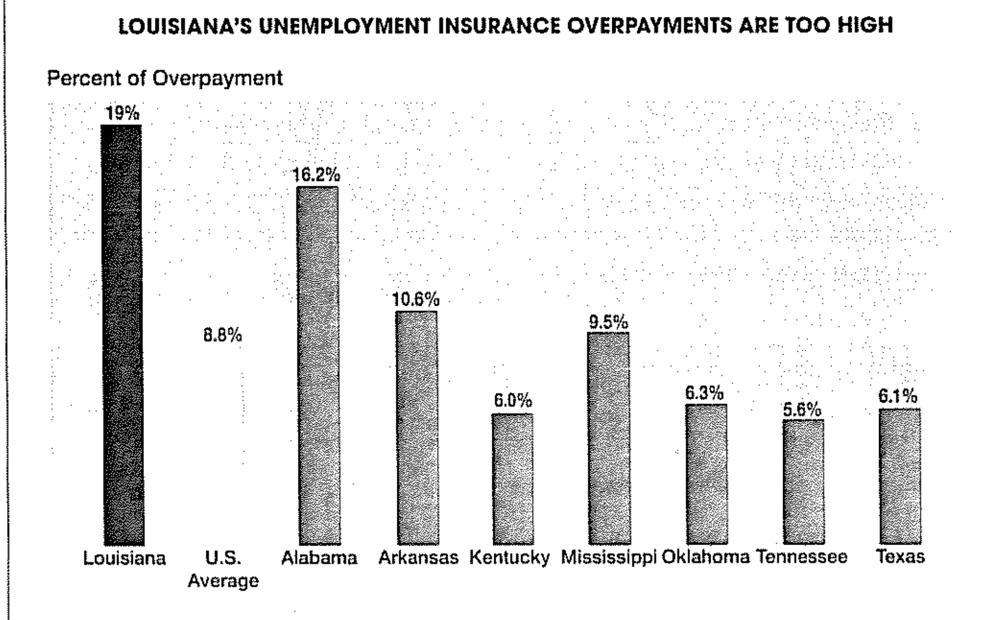
SECURE's analysis shows that the state's regulations have unnecessarily increased the cost of doing business—for both the state and businesses it regulates. Taking steps to decrease the costs associated with state regulations will thus improve the effectiveness of economic development efforts and help contain the costs of government.

Recommendation: Reduce the cost of doing business in the state by decreasing the wage base rate for unemployment insurance and reducing the state's high rate of overpayment to recipients.

Louisiana's Unemployment Insurance Trust Fund, a pooled risk fund for unemployed workers which is financed by employers, is the second largest in the nation. As of February 1, 1995, the fund has a balance exceeding $850 million—enough to finance 5 1/2 years of unemployment benefits in the event of a severe economic downturn. The national average is 1 1/2 years.

SECURE believes that our state's balance, which is second only to that of Utah, is excessive. We recommend that the state decrease the wage base rate for unemployment insurance from $8,500 to $7,000 to reduce the cost of doing business in Louisiana by roughly $37 million. This reduction should be accompanied by other appropriate controls and safeguards on the trust fund balance, and employer contributions should be adjusted whenever the balance falls below a certain level.

Another factor contributing to the high cost of unemployment insurance here is the state's high rate of overpayment to recipients. How can the state overpay a claim? This happens when a claimant gets a job or other source of income but does not report it or incorrectly reports it to the state.



(EXHIBIT 20)

Our analysis indicates that the state's overpayments resulted in approximately $31million of lost revenue for the state in 1993. If Louisiana lowered the overpayments resulting from changes in eligibility to the level of most other states, we could reduce costs by about $11 million. We therefore recommend that the state begin to require or encourage businesses to report new hires within 15 days. The costs to businesses for compliance should be minimized by adopting simple procedures for reporting.

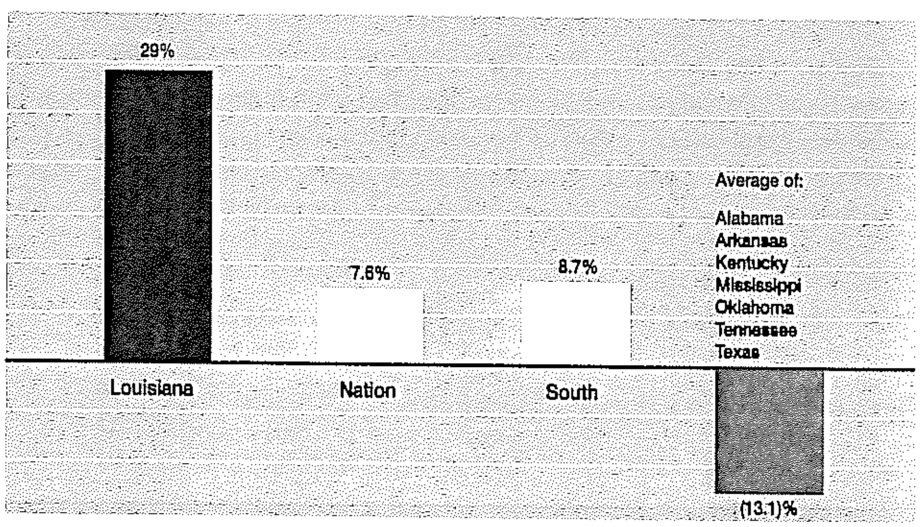
Recommendation: Reduce workers' compensation rates by creating a management/labor committee to pursue further reforms.

The state's increasing workers' compensation rates will have a negative effect on potential and existing businesses in Louisiana unless something is done to reverse the trend. While the state has issued new rules and regulations designed to address this problem, average voluntary rates continue to rise. Over the past two years, the rate of increase in the state's workers' compensation rates have exceeded both regional and national averages.

To bring costs in line, the state must implement new and stronger reforms. SECURE recommends the creation of a management/labor committee that brings together the various groups participating in or affected by the state workers' compensation system: management, labor, the legal community, the medical community and government. Based upon the experience of other states that have attempted major reform of their workers' compensation systems, broad consensus among the interested parties is vital for making the kinds of changes needed to control increasing rates.

THE STATE'S WORKERS' COMPENSATION RATES CONTINUE TO RISE

Percent Change in Average Voluntary Rates (1992-1994)



(EXHIBIT 21)

Medical costs may be one specific area where the state can reduce costs. While Louisiana has followed the fee schedule/utilization review model for controlling medical costs in workers' compensation, other states have produced better results using the managed care model. Louisiana should study Oregon and other leaders in managed care and consider the feasibility of implementing a similar program to finance and manage the medical services provided under the workers' compensation system.

PROTECT OUR INFRASTRUCTURE

Businesses cite proximity to customers and a well-developed interstate highway system as the first and second most important location factors, according to a recent *Site Selection* survey. Strengths in these areas can lower the costs of bringing goods to market and increase the competitiveness of the state's businesses.

One advantage Louisiana can offer business and industry is an extensive transportation system. SECURE found that the state ranks high in the degree of infrastructure development—public road and street mileage, interstate mileage and railroad track mileage—in relation to its size. Louisiana's strategic location at the mouth of the Mississippi River and well-developed port systems, some of the best in the world, also help to distinguish the state from its peers.

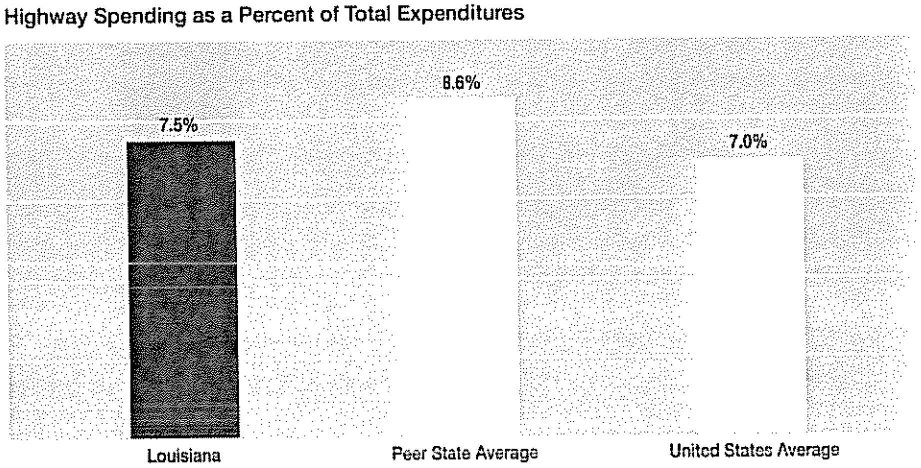
While the state has built a good foundation, however, it has not protected its investment. The recent emphasis on highway construction, rather than maintenance, has left the state with 3,300 miles of poor quality roads and a high percentage of deficient bridges. And the situation is going to get worse: with roads deteriorating at a rate of 700 miles per year and appropriations sufficient to handle only 450 miles per year, the maintenance backlog will continue to steadily increase.

Recommendation: Shift the emphasis in the state's highway program from construction to maintenance.

Although Louisiana allocates a similar portion of its budget to highway expenditures and spends more per capita and per dollar of personal income on its highways than its peers in the South and the nation, our roads and bridges are in much poorer condition. Why? Because we have continued to fund construction at the expense of routine maintenance.

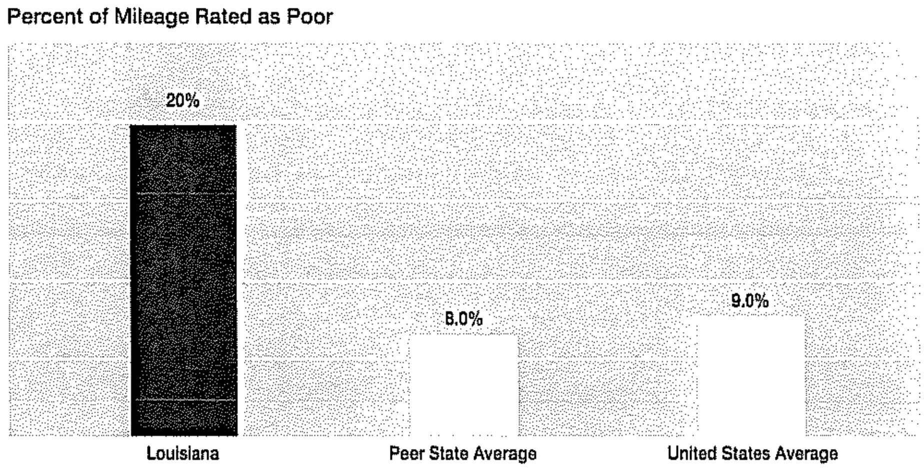
LOUISIANA HIGHWAY SPENDING IS CLOSE TO AVERAGE

Highway Spending as a Percent of Total Expenditures



(EXHIBIT 22)

BUT THE STATE AVERAGES TWICE THE PROPORTION OF ROADS IN POOR CONDITION



(EXHIBIT 23)

SECURE found that the state is spending too much time designing projects that have little likelihood of ever being started. The Department of Transportation and Development's proposed construction program lists roughly 1,250 projects, of which 25% have a preconstruction phase of more than four years and more than 40% have no planned letting date to construction.

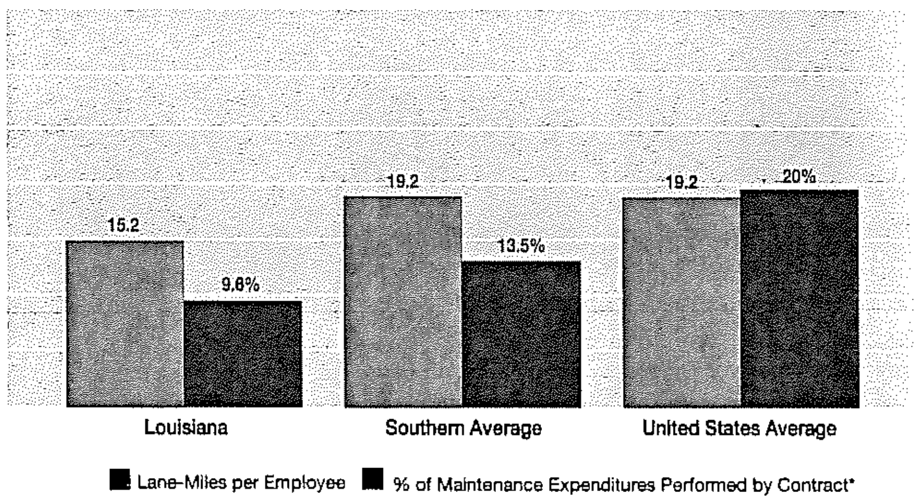
The state would be better served by reevaluating its priorities to address maintenance backlogs first, limiting planning activities to those projects that will be started within a reasonable period of time and installing the technology to more effectively plan ahead. By focusing on routine maintenance of existing infrastructure rather than construction, the state could effectively reduce its highway expenditures per capita to the national average over the next five to 10 years. Given increased use of contract maintenance, higher productivity and a five-year window to address the existing maintenance backlog, the state could realize annual savings of $60-65 million in following years. We recommend that the state:

- Revise current statutes to give maintenance a higher priority than it now receives
- Set a limit on the number of projects that can be included in the long-range highway priority program, based upon verification of availability of funds
- Require the Department of Transportation and Development to develop a six-year highway plan that is updated annually

Recommendation: Modernize the state's management information system to improve maintenance planning and productivity.

Maintenance productivity in the Department of Transportation and Development is not what it should be. The data shows that Louisiana has an overall staffing of 15.2 lane-miles per maintenance employee, more than 20% below the averages for the South and the nation.

LOUISIANA'S PRODUCTIVITY AND USE OF CONTRACT MAINTENANCE LAG BEHIND



*Southern and U.S. Averages use non-weighted averages.

(EXHIBIT 24)

The low productivity of the state's maintenance program may result from its limited use of contract maintenance, which ranks 29% below the southern average and 52% below the national average. But since the Department of Transportation and Development does not have formal processes in place to determine the cost effectiveness of using contract maintenance or evaluate the performance of contractors, it is difficult to tell.

Our analysis indicated that obsolete management systems also contribute to the problem. The system used to develop and monitor the annual maintenance program produces estimates considered meaningless by department officials, because they are based on data that has not been updated since 1986. SECURE believes it is time to modernize these systems by:

- Developing a formal process for evaluating the use of contract maintenance
- Updating the annual program estimates for cost, type and amount of maintenance work needed to maintain the roads and bridges
- Using the updated system to plan and evaluate departmental maintenance activity and to allocate resources

- Considering making preventive maintenance a higher priority to avoid the higher costs of reconstruction and overlay

PREPARE OUR WORKFORCE TO MEET INDUSTRY NEEDS

A well-trained workforce is the key to economic development in Louisiana. But we are undermining this potential resource by not providing up-to-date, relevant training in our six community colleges and 44 vocational-technical institutes, and by not ensuring that a large percentage of our population graduates from high school or receives some type of post secondary education.

The need for a comprehensive community college system to train students for jobs and further education is addressed in the chapter on "A Stronger and Smarter Educational System," page 67. But SECURE believes the issue of workforce preparedness is so crucial to economic development, it warrants additional attention here.

In the marketplace of the future, businesses will need workers who are capable of solving complex problems and adapting to new technology. The existing educational system can be adapted to better meet these needs in the short-term, at the same time we are taking steps to establish a statewide system of community colleges.

Recommendation: Update the state's educational programs to reflect industry trends and needs.

Site Selection magazine rated the availability of skilled workers as one of the top five location factors for businesses. Anecdotal evidence from interviews and focus group meetings around the state further reinforces this view, indicating that a well-trained workforce is paramount to lowering business costs and competing effectively in today's economy.

If these trends hold true, Louisiana—with the lowest graduation rate in the nation—is not well-positioned to attract the jobs of the future. SECURE's analysis showed that Louisiana lagged behind peer states and the nation in the percentage of the population who graduate from high school and the percentage of the population with a post secondary education.

WE ARE NOT PREPARING OUR WORKFORCE FOR THE JOBS OF THE FUTURE

Occupation	Annual Growth (Decline) in Number of Jobs	Number of Vo-Techs with Program
Account Clerk	(200)	43
Word Processor	(92)	41
Nursing Aide	355	20
Carpenter	136	15
Electrician	147	12

(EXHIBIT 25)

The high drop-out rate can be explained in part by a high school curriculum which primarily targets the college-bound student, has stringent graduation requirements and lack of direction in the curriculum for the "forgotten majority" who do not go on to college. The post secondary education system is also out of step with the times. Our vocational-technical institutes offer too many programs in fields for which there will be little demand by the year 2000, and too few in the areas that will be needed most. As a result, one in four students in vocational-technical institutes were not placed in jobs related to their field of study in 1991-92.

To increase the relevance of the state's educational offerings, SECURE recommends that the Department of Economic Development conduct ongoing needs assessments to anticipate the market for various occupations and skills in the state. The department's statewide plan for economic development should communicate these findings to the state's education infrastructure so that education can respond proactively to changing market needs. In addition, the state should implement school-to-work programs which offer high school students the skills and knowledge necessary to succeed in the workplace.

Recommendation: Establish a fund in the Department of Economic Development to be used as a business incentive to fund workforce training needs.

Workforce training can be a powerful business incentive. Most businesses rate a skilled workforce as one of the key factors in site location selections, and some require specialized training to meet their employment needs. SECURE suggests that a separate fund of $2-3 million be allocated to the Department of Economic Development annually to enhance state competitiveness through a better-trained workforce.

SETTING A NEW AGENDA:

A WORK IN PROGRESS

A WORK IN PROGRESS

When SECURE began our work two years ago, it appeared that a transformation of the nation's health care system was imminent. For that reason, we decided not to shine the spotlight of government reengineering on the state's health care system and to focus our resources elsewhere.

But as we finish our work, not only is national reform off the radar screen, but Louisiana's own Medicaid program has become the state's single most challenging fiscal issue. The program has grown so fast—tripling from $1.4 billion in fiscal year 1990 to more than $4 billion in fiscal year 1994—the state has lost control over how this money is spent.

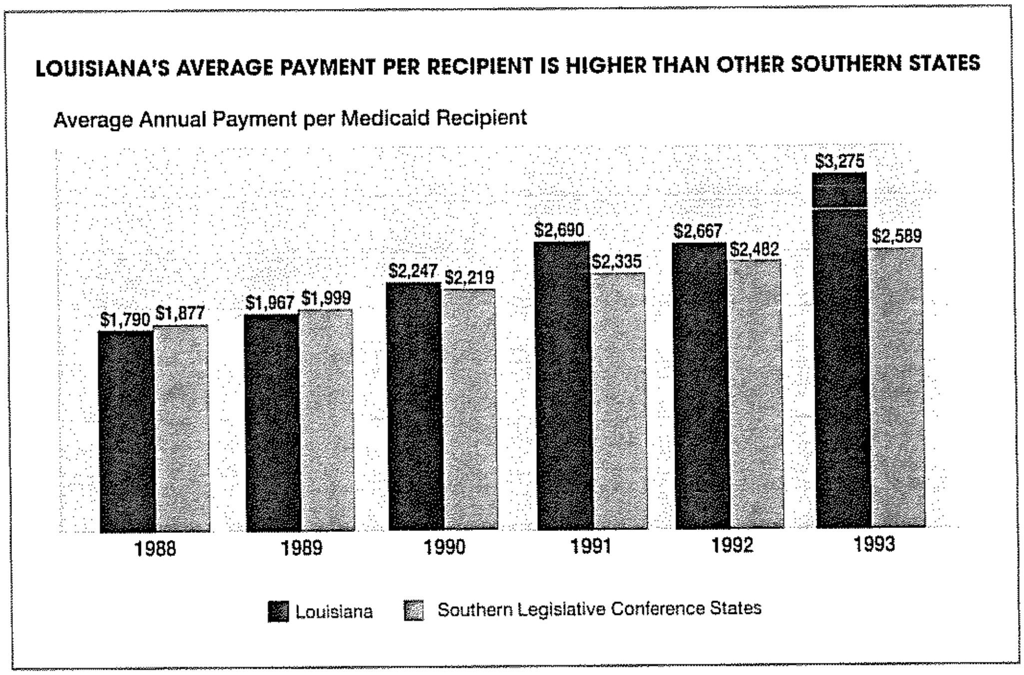
While SECURE has not conducted independent research on this issue, we are fortunate that many reputable professional organizations have studied it in depth. The Legislative Fiscal Office, working with member states of the Southern Legislative Conference, among others, has provided useful analyses of the state's Medicaid program and its relation to other states.

The large body of existing data indicates that Louisiana is spending—and has historically spent—more than other states on Medicaid. Using federal disproportionate share dollars and increased provider taxes, the state created a system that allowed more people to participate, provided more services and reimbursed those services at a higher rate than most other states. Now that those funds may dry up, the state has to bring the system back in line by finding a way to provide essential health services to our most needy at a much lower cost. It is now anticipated that the state will be $750 million short for the 1995-96 fiscal year alone.

The members of SECURE consider the intent of Medicaid—to provide health care services to those who can't provide it for themselves—absolutely worthwhile. Our concern is that the state's public health care system has grown far beyond the limits of our budget. This huge and complex issue will require further study to determine how the state can meet its health care obligation without harming other important government services. SECURE suspects the solutions may lie in the following areas.

Next Step: Consider solving the Medicaid problem within the Medicaid program itself, not by cutting other important government services.

As the legislative staff and the Public Affairs Research Council have examined the problem, it has become increasingly clear that part of the reason for the growth of the program is the large amount Louisiana pays per eligible recipient.



(EXHIBIT 26)

The state was very creative in manipulating the Medicaid system and finding ways to get more money out of the federal government, which paid off in short-term benefits. But now the rules have changed, and the state is left with a large public health care infrastructure and limited funds to support it.

The end of excess disproportionate share funds forces us to continue to meet our obligation to provide health care in need, but do it in a reasonable way, with standards, rates and services comparable to our peers in other states. SECURE suspects that we can—and must—find ways to cut costs within the program itself, so the solutions do not exacerbate problems in education, public safety, economic development and other vital services.

Next step: Involve people independent of the system to help solve the state's Medicaid problem.

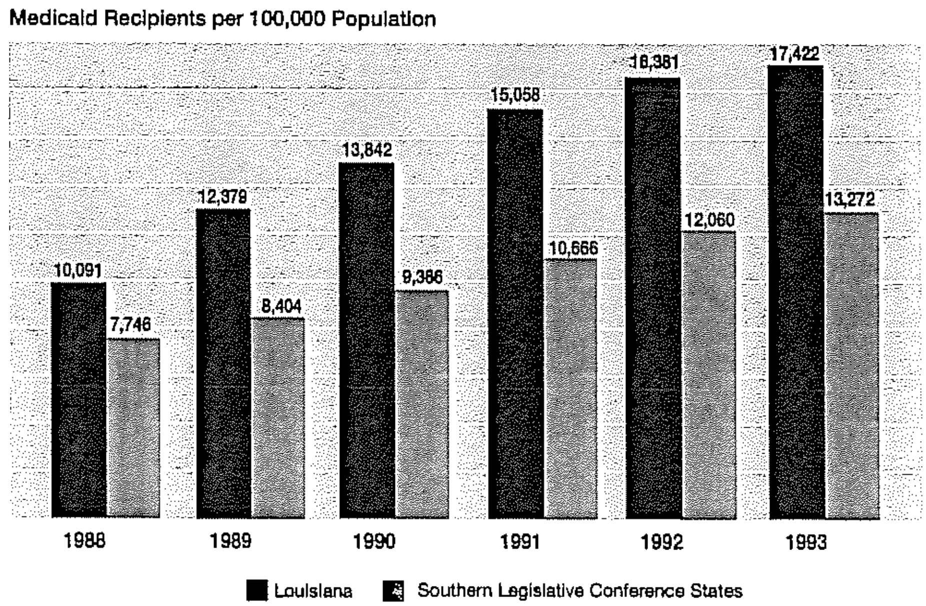
Everyone knows that we have a Medicaid problem. But right now, the people who are reviewing it are people inside the system and others with ties to the system. No matter how knowledgeable and conscientious, they cannot be independent in making decisions for future reforms.

SECURE believes the problems are so complex, we need a fresh look from people who are not part of the system and are not invested in the results. Even if we solve the budget situation, we need help in reviewing the program and making changes to maximize the use of the funds we have available. The next governor of the state should bring in professionals not associated with Louisiana's Medicaid system to analyze current eligibility standards, rates and services and recommend improvements.

Next step: Consider ways to align the state's Medicaid eligibility standards, rates and services with the average of other Southern Regional Education Board states.

All states are faced with the problem of the cost of public health care, but not all states have made the same decisions we have. Not all states are paying as much as we are for these services. Louisiana's average payment per recipient rose from $1,790 in 1988 to $3,275 in 1993—an 83% increase.

LOUISIANA ENROLLS MORE MEDICAID PARTICIPANTS THAN THE SOUTHERN AVERAGE



(EXHIBIT 27)

The data shows a large disparity:

- Louisiana enrolls 17,422 Medicaid recipients per 100,000 population, compared to the Southern average of 13,272
- Our average annual payment per Medicaid recipient is $3,275, compared to the Southern average of $2,589
- Louisiana pays an average payment of $13,876 for nursing home care, while peer states in the region average $11,656
- Our average payment for in-patient hospital care is $4,274, compared to an average of $3,431 for other Southern states
- We spend more per recipient on prescription drugs than any other state

The upshot is that people in other states spend less on health care. Our conclusion is that there are smarter and more efficient ways to provide services. In light of our fiscal crisis, we should consider ways to revamp our program to bring it in line with other Southern states.

The members of SECURE offer these suggestions as concerned, responsible citizens who care deeply about the future of our state. We hope they will provide a useful framework for further study of the state Medicaid system and the timely resolution of our impending problems in this area. For if we do not address this critical issue now, it may stand in the way of everything else we want for our state.

SECURING OUR FUTURE

SECURING OUR FUTURE

Louisianians have a choice. We can keep on singing the same old song or we can sound a new chorus to meet the challenges of the 21st century. Which will it be?

Today's answers will determine tomorrow's legacy:

- A state that leads the nation . . . or one that is playing catch up with our peers
- A state that puts our children first . . . or one that lags behind in education
- A state that stimulates plenty of new jobs . . . or one that attracts only those industries that need to locate here
- A state that creates a stable and predictable fiscal footing . . . or one that struggles with budget imbalances year after year
- A state that provides a dollar's worth of value for every taxpayer dollar . . . or one that spends more than others

Louisiana can be all that we want it to be, if we are willing to tackle the challenges confronting us, make tough decisions and change our ways. The state has taken a huge first step by establishing SECURE and bringing together all of Louisiana's stakeholders—elected officials, business executives, labor leaders, public managers, teachers, students, senior citizens, civic leaders—to consider the best strategies for our future.

Over the last two years, SECURE has studied government inside and out, looking at the way services are delivered, the mechanisms that make the wheels of government turn, the flow of revenues and expenditures—and the results the state is producing. We have found much that we can be proud of, such as recent efforts to contain the level of debt, fund educational initiatives and even in finding the courage to undertake this critical and introspective review of government operations.

Yet there is so much more to be done to ensure the future we want for our children and the generations to follow.

That's why SECURE has set forth in this report and our issue papers a detailed plan for change. We believe the bold new strategies outlined here can make government work better and cost less. But our recommendations are only a beginning. The next and most important step is to take the words on paper and translate them into action: new legislation, constitutional amendments, regulations, reorganizations, revised tax codes and streamlined policies and procedures.

It won't be easy, but we can do it—if we have the courage and conviction to change. This document provides a compass that can help guide the way. We hope it will become the most dog-eared report in the state's history, as elected officials, public employees and interested citizens use the contents to make a difference for our state.

To promote the process, we urge the state to undertake three interrelated actions:

- Establish an authority to track the state's progress in implementing the SECURE agenda
- Hold a special session of the Legislature dedicated to considering SECURE issues
- Invite all stakeholders to participate in the process

Next Step: Establish an authority to oversee the implementation of SECURE's recommendations.

This is not the time to fold up and go away. The recommendations included in this report are too valuable—and too timely—to languish on the shelves of government offices. Instead, we encourage our elected leaders to establish an entity that will serve as a bridge between government and citizens. This authority should act as the taxpayers' watchdog, exerting continuous pressure on government to do more for less.

We see this authority as a visible way to bring government accountability to the forefront of the public agenda. Among other functions, the organization should:

- Maintain and update the vast store of information collected through the SECURE process
- Track actions that have been taken to respond to the recommendations or their intent
- Report the results to the elected officials and people of Louisiana

Next Step: Hold a special legislative session specifically for the consideration of SECURE's recommendations.

We are delighted that even before the publication of this report many of our recommendations have been drafted into bills and submitted to the Legislature, and are grateful to our elected officials for their leadership. But we also recognize that there is so much to consider here, the Legislature will need more time to properly evaluate each and every matter.

Therefore we suggest that our legislators consider calling a special session in early 1996 to evaluate, debate and decide on these recommendations. This arrangement will provide ample time to implement the legislative process and turn the state around.

Next Step: Involve all of Louisiana's stakeholders in the process of change.

As the members of SECURE complete our work, we invite all stakeholders to participate in the process of implementation. We believe the success of our effort is due in large measure to the contributions of divergent perspectives, backgrounds and interests—and the success from this point on will depend upon a similar cross-section.

Each of the state's stakeholder groups will have a role in determining the quality of life in the next century:

- Citizens
- Labor
- Business
- Schools and teachers
- Universities and colleges
- Local government
- State government
- Nonprofit organizations
- Media

We encourage Louisianians to define these roles and take action to improve our state, recognizing that we will each have to balance the common good with our own individual interests.

There is so much to love in our state: the natural beauty, the climate, the culture, the traditions, the vitality of our people. Yet with all that, there is so much at risk: our schools, our economy, our communities, our quality of life.

Like other Louisianians, the members of SECURE are tired of hearing what is wrong with our state. We are ready to stop talking and start doing something different to get us on the right course. If we all join together, we can, we will, *we must.*

SECURE LOUISIANA'S FUTURE

APPENDICES

APPENDIX A

REPORTS AND ISSUE PAPERS PREPARED FOR THE SELECT COUNCIL ON REVENUES AND EXPENDITURES IN LOUISIANA'S FUTURE

The findings and recommendations included in the **SECURE Louisiana's Future** report represent a general overview of SECURE's work. Detailed information on these recommendations—and hundreds more—is outlined in the 15 reports and 39 issue papers prepared by KPMG Peat Marwick LLP and the Office of the Legislative Auditor for the Council.

The reports and issue papers are public documents. Copies are on file at the Huey P. Long Memorial Library, Louisiana State Capitol Building, 900 3rd Street, 14th Floor, Baton Rouge, Louisiana 70804. For more information, or to order copies, call or write: SECURE, P.O. Box 94183, Baton Rouge, Louisiana 70804, (504) 342-2714.

Topics covered in the Phase One reports and issue papers are as follows:

PERFORMANCE AUDIT OF STATE ORGANIZATION AND STAFFING

PERFORMANCE AUDIT OF PERSONNEL AND BENEFITS

PERFORMANCE REVIEW OF STATE CASH MANAGEMENT PRACTICES

MOAT™

EDUCATION

Education: Our Children and Our Future

INFRASTRUCTURE AND ECONOMIC DEVELOPMENT

Infrastructure
Economic Development

HEALTH AND SOCIAL SERVICES

Acute Care Hospital System
Medicaid—Managed Care
Medicaid—Purchase of Care
Substance Abuse Treatment
Mental Health Care
Developmental Disabilities
State-Owned Rehabilitation Centers
Children's and Family Services
Child Support Enforcement
Electronic Benefit Transfer

CORRECTIONS AND JUSTICE

Management of Prison Population Growth
Privatization of Prison Management
Prison Enterprises

GENERAL FISCAL, STATE AND LOCAL RELATIONS

State and Local Government Relations in Louisiana
Insurance Guaranty Associations
Office of Risk Management
Planning and Budgeting

GENERAL GOVERNMENT

A Centralized Asset Management System
Better Forms, Competitive Printing, and Less Paper
Privatization
Election Costs and Voter Participation
Management of Vehicle Fleet

Topics covered in the Phase Two issue papers are as follows:

EDUCATION

Primary and Secondary Education

School-to-Work
Educational Technology
School Finance
Alternative Delivery Systems
Accountability
Department of Education

Higher Education

Community Colleges
Remediation
Articulation
Institutional Focus
Public Support
Governance

ECONOMIC DEVELOPMENT

FISCAL MODEL FOR STATE OF LOUISIANA

A REPORT ON LOUISIANA'S TAX STRUCTURE

ORGANIZATION AND STAFFING

PERFORMANCE AUDIT OF SELECTED STATE PURCHASING PRACTICES

PERFORMANCE AUDIT OF LOUISIANA'S PLANNING, BUDGETING, & PROGRAM EVALUATION SYSTEM

STAFF STUDY OF ALLOCATION OF LOUISIANA'S MONETARY RESOURCES

STAFF STUDY OF THE LOUISIANA INSURANCE GUARANTY ASSOCIATION

STAFF STUDY OF COMPETITION AND PRIVATIZATION MEASURES IN STATE GOVERNMENT

STAFF STUDY OF INFRASTRUCTURE

PRELIMINARY STAFF STUDY OF LOUISIANA EMPLOYEE BENEFITS

STAFF STUDY OF CORRECTIONS AND JUSTICE

STAFF STUDY OF MANAGING AND MAINTAINING LOUISIANA'S PROPERTY

STAFF STUDY OF STATE GENERAL GOVERNMENT

APPENDIX B

SECURE RECOMMENDATIONS PHASE ONE

CASH MANAGEMENT

Empower the Cash Management Review Board (CMRB) with sufficient jurisdiction and authority to develop statewide standardized cash management and investment policies and procedures.

Provide funding to the Department of Revenue and Taxation (DORT) to accelerate standardization of tax forms and acquisition of automated processing equipment.

Appropriate funding to DORT for sufficient temporary positions to expedite the collection process during peak periods.

Amend tax statutes in Title 47 to require all monies collected by DORT to be paid into the state treasury immediately upon receipt.

Standardize accounts receivable laws, regulations, policies, and procedures to aggressively pursue collection of delinquent receivables.

Redesign to include sufficient information for effective and efficient monitoring of receivables.

Require full disclosure of all receivables due to the state on a periodic basis.

Add 20 revenue auditors on a 2-year pilot program by DORT.

Compare the cost of the 2-year pilot program with the cost of contracting out revenue auditing to private industry.

Amend the statutes to require final payment and filing of tax returns to include:

- Personal income tax by April 15, instead of May 15
- Corporate income tax by March 15, instead of April 15
- Corporate franchise tax by March 15, instead of April 15
- Severance taxes by the 20th day of the month following the month of severance instead of the last day of the month
- Sales/use tax by the 10th of the month, instead of the 20th day of the month

Amend statutes to require the Louisiana Lottery Corporation to make monthly deposits into the State Treasury of its net revenues.

Provide the Investment Office of the Department of the Treasury with a FACS compatible investment portfolio management module or a stand-alone system to use until the Integrated Statewide Information System (ISIS) is operational.

Establish the Treasurer's Office as the number one priority of the ISIS Project.

Increase staffing of the Investment Office of the Department of the Treasury by two additional investment professionals.

Amend the Constitution to:

- Eliminate the $2 billion principal cap on the 8(g) Fund
- Allow the 8(g) Fund to invest up to 35% of its principal balance in equities
- Require the 8(g) Fund to annually inflation proof its principal
- Distinguish income earnings of the 8(g) Fund from interest and dividends and capital gains income realized from the sale of securities
- Restrict the distribution of capital gains earnings of the 8(g) Fund to 25% of the annual total earned
- Authorize the Treasurer to select one or more professional equity managers for the 8(g) Fund

Consolidate as many payroll systems as is currently feasible, beginning with those that maintain the same timing, accounting practices and controls.

Continue study of how direct deposit currently could be used by existing payroll systems.

Ensure ISIS considers payroll one of its top priorities.

ORGANIZATION AND STAFFING

Implement the Legislative Auditor's recommendations to abolish 40 boards and commissions.

PERSONNEL AND BENEFITS

Revise leave of absence policies for classified employees to be more consistent with other states.

Develop a standard leave policy for all employees.

Develop a statewide policy for allowable provisions in a cafeteria plan and then use this policy to consolidate existing cafeteria plans.

Pursue enrolling retirees over age 65 in the Medicare program.

Investigate ways to reduce the number of claims submitted to State Employees Group Benefits Program (SEGBP), such as no-pays, duplicates.

Increase disincentives for members using non-PPO providers, and reduce the PPO fee differential in order to maximize its effectiveness.

Study and implement a targeted detection and prevention program for better care delivery at reduced costs.

Consider increasing the out-of-pocket maximums for PPOs from $1,250 to $2,300.

Establish a competitive premium rate structure.

Evaluate the methods SEGBP uses to set rates to ensure that expenses are covered.

Reduce the number of HMOs offered through competitive bidding.

Develop a single coordinated benefit program for all employees and then have SEGBP administer that program in a manner to minimize overall costs.

Restructure the life insurance program so that the survivor's benefit under the retirement plan is eliminated, and develop an affordable life insurance that is offered to all employees.

Apply any excess or windfall funds, such as the Texaco settlement, toward reducing the Unfunded Accrual Liability (UAL).

Reassess legislation which affects amortization periods to modify the deficit regarding UAL.

Provide the legislative actuary with a deterministic computer model.

Require a one-year study period for all retirement legislation.

Mandate an investment training requirement for new board members.

Develop equitable and consistent compensatory time practices in accordance with requirements of the Fair Labor Standards Act.

Expand career progression where cost effective.

Eliminate use of Service Rating System and implement Performance Appraisal System statewide.

Monitor and evaluate the Performance Appraisal System annually, by the Department of Civil Service and each agency.

Relate annual employee performance objectives to those for the unit and agency.

Implement an Upward Evaluation System for managers.

Conduct an orientation program to introduce the Performance Management System to employees and managers.

Train managers and employees on how to use the new system.

Promote the Incentive Awards program and reward according to magnitude of the suggestion.

Develop reward programs for employees.

Reduce the delay in appeals below 120 days by increasing Department of Civil Service staff handling employee appeals.

Study and implement alternative methods of dispute resolution in employee appeals.

Re-evaluate written tests used by the Department of Civil Service and consolidate or eliminate unnecessary tests.

Prepare legislation to establish laws against using political influence to appoint or terminate classified employees and institute sanctions for violation of laws.

Create a certification sign-off process.

Design and implement an interactive management information system which allows either the Department of Civil Service or the agency human resource managers to improve the efficiency and effectiveness of the recruitment and hiring process.

Increase investment in the training and development of all state employees over time.

Make management development training mandatory for all supervisors/managers.

Develop a records management system to track all training activities.

Assign to Centralized Training Office or Comprehensive Public Training Program (CPTP) a liaison to agencies to aid in the coordination role of agency training to maximize resources and obtain favorable prices.

Designate a training officer/coordinator per agency and mandate annual training needs review.

Develop a consistent statewide tuition reimbursement program.

Update state's in-service training policy.

Re-institute the Department of Civil Service Training Unit and fully implement a Human Resource Training program.

GENERAL GOVERNMENT

Authorize the Office of Forms Management to re-engineer forms to reduce costs and improve efficiency.

Require that the Inspector General perform an efficiency audit of the print shops operated by DOE, DNR, and DOTD.

Require that the Division of Administration (DOA) develop regulations to govern printing and distribution of publications.

Require that the DOA develop and implement a centralized management system for real property.

Require that DOA formulate and implement a buy, construct, or lease decision process.

Examine the possibility of financing the construction of state buildings using pension funds.

Amend the Procurement Code for the lease of space to allow for negotiations on price and services.

In order that there may be timely replacement of vehicles, initiate a pilot program that allows selected agencies to lease all passenger vehicles in their motor pool for purposes of minimizing maintenance costs.

INFRASTRUCTURE AND ECONOMIC DEVELOPMENT

Revise statutes to give highway maintenance a higher priority than it now receives.

Eliminate low priority projects from the Department of Transportation and Development's proposed construction program.

Reallocate highway maintenance funding from authorized positions to contract maintenance consistent with peak load demands.

Establish an Economic Development Council to develop and maintain the state's strategic plan for economic development.

GENERAL FISCAL

Place a cap on the state's liability and all political subdivisions' liability.

CORRECTIONS AND JUSTICE

Make more efficient use of prison space.

Expand capacity for alternatives to incarceration.

Reallocate non-violent offenders to less costly forms of punishment.

Establish geriatric/medical facility for old and incapacitated inmates.

Redirect Prison Enterprises' resources from low to high productivity activities.

Authorize Prison Enterprises to purchase raw materials on open market by exempting certain purchasing regulations.

Improve Prison Enterprises' marketing methods and strategies.

HEALTH AND SOCIAL SERVICES

Fund the development of a "Children's Plan" as authorized by R.S. 46:2601.

Establish an administrative hearing process to perform child support enforcement activities.

Enact a law that authorizes new hires or rehires be reported to the state within 30 days of employment.

Renegotiate the amount of incentives paid to the district attorney based on the level of service provided.

Pass legislation limiting the amount the state will pay for automation of EBT to the current system's actual cost.

Proceed with plans to make a capital investment in the New Orleans area to maintain quality health care for the indigent population.

Continue to operate the charity hospital system and thereby maximize disproportionate share over the next 2 years.

Combine clinical knowledge with financial incentives to create a "single stream of funding" approach to the delivery of substance abuse services on a regional basis.

Rewrite the Medicaid plan to encourage use of outpatient services and non-medical residential programs.

Establish medical necessity criteria for admission and continued care in substance abuse inpatient programs.

EDUCATION

Urge the Board of Regents to continue to conduct reviews of all degree programs to eliminate those that are low priority or unnecessarily redundant.

Urge the Legislative leadership and Governor to jointly call an Education Summit to address the state's entire education system.

SECURE RECOMMENDATIONS PHASE TWO

ORGANIZATION AND STAFFING

The Organizational Model for Change

We recommend that the following "Organizational Model for Change" be adopted to evaluate present and future staffing levels:

A. Prioritization of Programs

B. Application of Staffing Benchmarks

C. Strategic Investments in Technology

Prepare draft legislation to reflect the recommendations adopted by SECURE in Phase One of this process.

Create a process by which department heads can appeal to Civil Service and/or the Division of Administration for relief when cost savings can result from suspending overly restrictive state regulations.

The state should examine its regulations regarding leased space in light of the administrative cost savings that can result from efficient groupings of staff.

Consistent with the development of the state's Fiscal Model, the Legislature should prioritize all state programs and base funding and allocation of staff according to the established priorities to prevent deficit spending.

Create a Technology Innovation Fund to fund strategic investments in technology that demonstrate a benefit-cost ratio that is a multiple of the investment.

Statewide Organization

Consolidate the functions of the Department of Elections and Registration in the Department of State and abolish the Department of Elections and Registration. Transfer the duties of the Commissioner of Elections to the Secretary of State.

Consolidate the programs of the Department of Natural Resources, the Department of Wildlife and Fisheries, and the Governor's Office of Coastal Activities under a single Department of Natural Resources, Wildlife and Fisheries.

The Legislature should direct all departments with environmental responsibilities to develop a mechanism to formally coordinate their activities.

Abolish boards that are inactive and investigate the status of those which have not responded to the Legislative Auditor's requests.

Department of Health and Hospitals

Work with the Department of Social Services to develop a comprehensive eligibility and benefits determination information system for entitlement programs.

Endorse the principles listed below and the Phase One MOAT recommendations regarding Department of Health and Hospitals (DHH) programs for inclusion in the state's new plan for health care delivery.

1. The Legislature should require DHH offices and treatment facilities using Medicaid funds to budget without disproportionate share funding until it is known whether the state will receive the waiver.
2. Follow the Oregon example to develop a prioritization process for all Medicaid procedures, including Medicaid options. Fund top priority procedures based on available state and federal funding.
3. Develop a plan for health care delivery that:
   - Streamlines the regional management structure based on the services that will be provided
   - Improves efficiency and effectiveness of fragmented functions, including fiscal management, human resources and nursing home reform, if still administered by DHH

Department of Social Services

The department should perform a benefit-cost analysis regarding rightsizing Office of Family Support program offices.

Work with DHH to develop a comprehensive eligibility and benefits determinations information system for entitlement programs.

EMPLOYEE BENEFITS

Reinvest 1/3 of the savings resulting from staff reductions into a pool to be reallocated to the departments and used to fund pay increases.

Adopt different amortization schedules or other funding arrangements such as pension obligation bonds.

Create a Department of Human Resources (DHR) to provide with respect to employee classification, compensation, benefits, and training. Retain Civil Service Commission to protect state employees from potential political influence.

DHR should develop a new compensation and benefits plan for new state employees:

- Overriding purpose is to attract and retain outstanding employees
- Existing plans would be frozen and managed by DHR
- Allow and incent existing employees to join the new plans
- Treasurer should manage the money consistent with the cash flow needs of the new plan

New plan should include such features as:

- Competitive pay—performance based
- Management by one board of high-ranking state officials
- Defined contribution retirement plan
- Retirement age 65 to collect benefits; 60 for police, firemen, prison guards, game wardens and other hazardous activity
- Disability benefit
- Reduction of leave to competitive normal levels
- Cap conversion of leave for retirement
- Competitive survivor and life benefits
- May advise new employees that state may not provide or offer health care after retirement
- At least cost-neutral

SELECTED STATE PURCHASING PRACTICES

The Division of Administration should ensure that complete procurement information for all state departments and agencies is available, including those on ISIS as well as those not on ISIS.

Office of State Purchasing (OSP) should use the contract usage data to evaluate the cost effectiveness of state contracts to determine which contracts to continue or discontinue.

OSP should track all administrative costs associated with state contracts. These cost components should include the cost to issue a state contract, a requisition, and a purchase order.

OSP should use the cost information to routinely evaluate the cost-effectiveness of state contracts. Contracts for which costs exceed their benefit to the state should be eliminated.

For low priced items, OSP should make cost evaluations in the areas suggested by the National Association of State Purchasing Officials (NASPO).

Update and review various aspects of the procurement code and other areas of state law dealing with preferences, exclusions, and exemptions. Review specification writing function for procurement as it relates to restrictive specifications.

OSP should allocate resources to ensure that the necessary quality control functions are performed. These functions include inspection; testing; and acceptance of supplies, services, and major repairs. If other recommendations are implemented, OSP should be able to reduce its administrative workload and increase its focus on these critical quality control functions.

The Division of Administration should ensure that compliance and operational audits are routinely conducted on purchasing operations.

OSP should consider allowing price as justification to allow purchases outside of state contracts.

OSP should simplify and streamline the process for justifying an agency's need to purchase items outside of state contracts, especially as it relates to quality and delivery.

OSP should clearly communicate the reasons agencies will be allowed to purchase items outside of state contracts.

The Division of Administration should continue to study the benefits of consortia and Just-in-Time purchasing for some applications to alleviate delivery-related problems.

OSP should establish guidelines regarding reviewing vendors' files when complaints against vendors have been received.

OSP should maintain a central log of all complaints received from agency purchasing officials to ensure that all are addressed in a timely manner.

OSP should establish formal time frames for following up on agency complaints against vendors.

OSP should work with agency purchasing officials to convince them that it will be worth their time and effort to file complaints.

OSP should review the maximum delegated purchasing authority and adjust it as needed to reflect the effects of inflation on real buying power.

OSP should review the delegated purchasing authority limits allotted to individual state departments and agencies and make adjustments based on inflationary trends.

OSP should review the small purchase solicitation thresholds and related bid requirements and make a recommendation to the governor to modify Executive Order EWE 92-53.

OSP should establish a schedule to periodically review and evaluate the various purchasing levels and make adjustments as appropriate to reflect the effects of inflation.

OSP should continue to explore potential benefits of electronic data interchange.

OSP should continue to explore potential benefits of purchasing schedules and catalogs.

OSP should continue to explore potential benefits of credit card purchasing.

OSP should continue to explore potential benefits of consortia purchasing.

OSP should explore potential benefits of competitiveness measures.

PLANNING, BUDGETING, AND PROGRAM EVALUATION SYSTEM

Mandate the preparation and periodic updating of a statewide strategic plan. A strategic plan is a work plan that, for at least a four-year period, provides information on department and program philosophies and plans. The strategic plan drives the operational plan and the budget process. An independent entity should be formed to prepare this plan. The entity should be required to obtain extensive statewide citizen input so that the plan contains the vision of where citizens want to go as a state in the future. The Oregon Progress Board could be used as a model.

Mandate the preparation and periodic updating of individual department strategic plans.

Enforce the mechanisms that have already been established for implementing a program budgeting system.

All state departments should complete their operational plans on an annual basis. The departments should ensure that performance indicator data remain consistent over time and are updated regularly.

All department heads should complete the Act 160 reports on an annual basis. These reports are useful because they require state departments to evaluate their programs and activities.

Office of Planning and Budgeting (OPB) should complete the progress profile reviews and continue to conduct site visits. These reviews are important in that they allow OPB to examine the operational and strategic performance of each department.

OPB should assist all state departments in developing performance indicators that measure program effectiveness.

OPB should require all state departments to categorize their performance indicators by type.

OPB should provide formal training to all state departments on strategic planning, operational planning, and performance indicator development and schedule this training on a regular basis.

OPB should rely more heavily on individual departments' input into the development of performance indicators.

OPB should expand the monitoring of all state departments' activity in the area of performance indicator development to ensure that appropriate and reliable indicators are being created.

Legislature and Legislative staff should use the information provided in the Program Narrative of the Executive Budget in the development of budget decisions.

The Consensus Estimating Conferences should function as required by state law.

FISCAL MODEL FOR STATE OF LOUISIANA

Eliminate all spending dedications in constitution except for debt service and unfunded accrued liability.

or

Appropriate no more than 97 percent of the official revenue estimate.

ALLOCATION OF LOUISIANA'S MONETARY RESOURCES

Enact legislation that would eliminate inactive statutory dedications.

Taking other action that would free up some of the general fund to better allocate Louisiana's monetary resources. For instance, earmarking need not be excessively rigid; it could be adjusted by the Legislature. Earmarked revenues could also be made subject to minimums and maximums, with excesses going to the general fund and shortfalls being made up from the general fund. The Legislature could also subject earmarking to sunset provisions, whereby they are automatically reviewed at certain time intervals to determine if they should be continued.

The Division of Administration and/or the State Treasurer's Office should annually prepare information on the amount of revenues credited to each revenue dedication for which a special fund has been established. This can be a separate report or incorporated into the state's Comprehensive Annual Financial Report.

COMPETITION AND PRIVATIZATION MEASURES IN STATE GOVERNMENT

Establish an independent, centralized entity that introduces competition and innovative management practices into Louisiana state government. The duties of that entity should include the following:

- Developing detailed cost analyses and comparison models
- Analyzing individual functions and services on a case-by-case basis to determine what method of delivery offers the best performance at the most reasonable price
- Reviewing the state's constitution, statutes, rules, and regulations to identify any legal barriers to implementing cost saving measures
- Proposing legislation to have legal barriers removed or eased
- Including all affected parties in the decision-making process
- Developing systems to measure contract performance

The entity shall consist of:

- Governor
- President of the Senate
- Speaker of the House of Representatives
- 2 Committee of 100 appointees
- 1 Council for A Better Louisiana appointee
- 1 Public Affairs Research Council appointee

In establishing such an entity, the Legislature shall adopt specific recommendations on the services to be subject to competition and to provide for the procedures to be followed in order to implement the entity's recommendation(s), including:

- Requiring the recommendation(s) to be submitted to the Governor, who shall have a period of 60 days within which to submit a report to the Legislature, setting forth the Governor's position.
- Requiring that the entity's recommendation(s) shall be submitted to the Legislature at the expiration of the 60 day period with the Governor's report. Unless the recommendation(s) are rejected by a majority vote of both houses of the Legislature within 90 days from the date the recommendations are filed with both houses, the recommendation(s) shall be deemed approved and shall be implemented.

A REPORT ON LOUISIANA'S TAX STRUCTURE

Reduce sales tax to 2.5%, keeping a broad base.

Impose a flat rate tax of 3.5% with declining standard deduction/personal exemption; no deduction for higher income levels.

Reduce homestead exemption to $2,000 for all new millages and reduce homestead exemption to $2,000 over 10 years for all existing millages.

Lower corporate rate to 6% and eliminate federal deductibility.

Remove debt from the base of the corporate franchise tax; phase in over 5 years.

Discontinue the 10 year industrial tax exemption.

Honor all existing tax exemption contracts with renewals. All new contracts to be for 5 years only for next 10 years. Discontinue after 10 years are up.

Remove state sales tax on machinery and equipment by phasing in over 5 years.

EDUCATION

Early Childhood

Fund the Model Early Childhood (MEC) prekindergarten program to cover every at-risk four year old child.

Reinstate MEC program evaluation.

Empower and provide funding for the Children's Cabinet to act as a central coordinating agency.

Implement the Primary School Reform Initiative.

In theory, invest in parent education and home visitation programs for at-risk families.

School-to-Work

Continue developing a state-of-the-art school-to-work program:

- Federal monies will cover on-going program costs
- Incorporate Goals 2000 network

Implement the Occupational Information System.

Build a positive image for vocational education by encouraging students to work part-time in their area of interest and promoting the importance of school-to-work programs.

Technology

Continue to develop, coordinate and implement a state-wide technology plan to create 21st century classrooms for Louisiana's students.

Set standards, outcomes, and assessment tools to assess student skills in word processing, spread sheet ability and data base management.

Provide leadership, training, and funding for this technology.

School Finance

Increase teacher pay to SREB average of $30,612.

Require state to meet obligation to fully fund the Minimum Foundation Program (MFP).

Request that the Public Affairs Research Council conduct a comprehensive review of the elementary and secondary funding and develop appropriate legislation to resolve the pending legal problems of the local match and the state obligations to fully fund the MFP.

Foster additional site-based decision making by allowing and encouraging school level budgets and site-based management.

Alternative Delivery Systems

Amend the law as necessary to permit and encourage local school systems to establish a limited number of demonstration projects to provide increased student learning opportunities using alternative delivery systems (such as, but not limited to, privatization, charter schools, and school choice) for the provision of public educational services subject to minimum state control but maximum accountability, observation, and evaluation.

Establish a school improvement fund to assist schools in innovative experimentation.

Accountability

Implement the State of Louisiana Performance-Based Accreditation Program.

Build on Progress Profiles to include the following:

- Measure of parent involvement
- School board member hours

Develop and pilot alternative student assessment tools.

Continue to improve personnel assessment.

State Department of Education

Create a more proactive role for the State Department of Education (increased leadership, accountability, coordination).

Prioritize programs using cost-benefit analysis.

Change BESE to a Governor-appointed board (with 11 members); require the Governor's Education Advisor to be a board member; retain at least 25% of the previous Board to ensure continuity; do not set term limits; board member qualifications and criteria should be established.

Eliminate 13 support staff to bring number of support staff to target benchmark level of 15% of total staff.

Eliminate public funding of private school textbooks, transportation, and school lunches (Supplemental Education Assistance).

Request that the legislative auditor conduct a comprehensive review of the Church-Based Tutorial Program to determine the merits of the program and appropriate placement and funding.

Community Colleges

Establish a separate comprehensive community college system.

Phase in and build on the resources of the current technical institutes to create this system.

Continue to support the remaining technical institutes and develop stronger ties to community colleges.

Govern the combined community college and technical programs under one institutional administration.

Remediation

Urge high schools to identify deficiencies during students' sophomore or junior years and provide remediation, retesting and counseling. Focus on importance of ACT for remediation in junior year. Urge post secondary institutions to clarify their admission requirements and fully inform high schools, students, and parents of their remediation policies.

Increase access and lower costs of remedial courses required for admission to college by greater use of community colleges and technology.

Strengthen the quality of core academic courses required for admission to college.

Evaluate the effectiveness and publish the results of remediation activities.

Establish minimal admission standards for colleges, and then higher standards once community college system is put in place.

Articulation

Louisiana must establish an effective state-wide articulation process including the establishment of an articulation council with fall semester, 1996.

Require community colleges and four-year institutions to agree on a general education core curriculum with fall semester, 1996.

Increase institutional, student, and parental awareness of transfer requirements.

Simplify the transfer process and use an electronic transfer system like that provided by SPEEDE.

Implement a common course numbering system with fall semester, 1996.

Institutional Focus

Build on existing program review procedures and low-completer review, but strengthen incentives for program elimination.

Require institutions and Board of Regents (BOR) management boards to identify and monitor the cost savings achieved by program reductions.

Create a bonus system which returns a portion of savings back to institutions for reallocation to quality programs.

Implement a three-stage bottom-to-top program review process.

Public Support

Develop a state-wide coordinated program to generate support for post secondary education.

Coordinate efforts with those of the Commission for the 21st Century.

Provide public and legislature with progress reports on issues of concern.

Provide incentives for institutions to build relationships with business and industry in local area, state and region.

Provide incentives/opportunities for institutions to engage in outreach programs.

Governance

Reexamine the funding formula and mandate that the new formula be used to determine funding. The new formula should consider factors such as the mission of the institutions, enrollment, faculty salaries, teaching and research, and selective and open admissions.

Budgetary shortfalls should impact all schools equally through proportional reduction of their funding formula. E.g., if the budget for higher education is funded at 80%, then all schools should receive no more than 80% of their funding formula allocation.

Increase state funding to the SREB average over a period of five years. Recommend that tuition be frozen at the current levels if the new funding is provided.

Make management boards' terms concurrent with governor; retain at least 25%; limit members' terms and require training and orientation prior to board activity as long as it doesn't affect accreditation.

Remedy inconsistency in number, appointment, and term of BOR members.

Additional Recommendations

Request that the Public Affairs Research Council conduct a comprehensive review of all staff training programs and develop a singular approach to training and funding.

Conduct a public information and awareness initiative to restate the value of education, requesting funding support from Goals 2000. Goals 2000 money may cover costs.

School Board Association should provide training for new school board members.

Adapt a system name for the Board of Trustees Institutions consistent with the LSU and SU systems.

ECONOMIC DEVELOPMENT

State Leadership in Economic Development

Establish an Economic Development Council.

Develop an economic development strategic planning process.

Consolidate economic development agencies and eliminate unnecessary programs during the consolidation process, including state-created boards and commissions.

Establish the Department of Economic Development as the information clearinghouse for state information related to economic development.

Reallocate funding from Small Business Bonding to higher priority needs within the Department of Economic Development.

Create an Economic Development Fund to be administered by the Secretary of Economic Development and used for statewide economic development needs that meet criteria established by the Economic Development Council.

Business Taxes and Incentives

Enact a revenue neutral restructuring of the tax system, with full implementation within 10 years.

Establish a payroll-based incentive program.

Regulatory Climate

Decrease the wage base for unemployment insurance from $8,500 to $7,000.

Establish an early reporting system for new hires.

Create a management/labor committee to develop recommendations for further reform of workers' compensation.

Investigate the feasibility of instituting a managed care system for workers' compensation medical benefits.

Infrastructure

Shift emphasis in highway program from construction to maintenance.

Set a limit on the number of projects that can be included in the long-range highway priority program based upon verification of the availability of funds.

Workforce Training

Phase in a comprehensive community college system.

Establish a fund for customized workforce training.

Develop a mechanism for communicating industry trends and the needs of business to educational system.

INFRASTRUCTURE

The Department of Transportation and Development (DOTD) should consistently apply the definitions of maintenance and construction when categorizing work.

DOTD should re-establish the maintenance planning function.

DOTD should update the annual program estimates for cost, type, and amount of maintenance work needed to maintain the roads and bridges.

DOTD should use the updated system to plan and evaluate departmental maintenance activity and to allocate resources.

DOTD should develop a formal process for evaluating the use of contract maintenance. This process should include an analysis of cost-effectiveness on a case-by-case basis, as well as a formal evaluation and report on the performance of maintenance contractors.

DOTD should use information from federally mandated management systems to annually determine the appropriate mix of construction and maintenance and request funding accordingly.

DOTD should use information obtained from management systems to prioritize maintenance as well as construction projects.

DOTD should consider making preventive maintenance a higher priority in order to avoid the higher costs of reconstruction and overlay.

CORRECTIONS AND JUSTICE

Review the findings from the Governor's Prison Population, Sentencing Practices, and Alternative Sanctions Task Force Final Report.

The Louisiana Sentencing Commission should develop an on-going tracking system to monitor the state's sentencing guidelines and their overall effect on the state's criminal justice system. Any monitoring effort should attempt to answer the following questions:

- What effects have the sentencing guidelines had on the length and uniformity of sentences for all types of crimes?
- Have the guidelines provided sentencing judges with enough flexibility to impose the most appropriate sentence in each case?
- What effects have the guidelines had on the numbers of non-violent offenders being incarcerated?
- What effects have the guidelines had on the numbers of violent offenders being granted early release?
- What percentages of offenders are serving their full sentences after being sentenced under the guidelines?
- What problems have judges, prosecutors, and the Department of Public Safety and Corrections experienced since implementation of the guidelines?

Request a performance audit on the Division of Probation and Parole. Such an audit would assess the efficiency and effectiveness of the Division's policies, procedures, goals, and objectives for the supervision of probationers and parolees.

Prison Enterprises should expand the PIE program.

Louisiana should convert additional prisons to private management, subject to approval by the Competitiveness/Privatization Council.

The Office of the Legislative Auditor should conduct an audit of a sample of parish jails, including rural and urban parishes, to determine the actual costs of housing a state inmate. The results of the audit should serve as a basis for determining the per diem amount.

LOUISIANA INSURANCE GUARANTY ASSOCIATION

The Department of Insurance and LIGA should work together to develop a mechanism that gets proceeds from companies in liquidation to LIGA as soon as they become available.

Consider excluding claims for non-economic damages from losses payable to LIGA.

Consider excluding claims of self-insureds and third party claimants with net worths of $50 million or more from the definition of a covered claim.

MANAGING AND MAINTAINING LOUISIANA'S PROPERTY

Request the Governor and the Legislature to take the necessary action pursuant to executive order and concurrent resolution to create a coordinating council within the Division of Administration composed of major agencies involved in land management. The coordinating council would have the responsibility of making specific recommendations to the Legislature for legislative amendments designed to facilitate greater coordination among major land managers. Also, the coordinating council would approve rules and regulations to be promulgated by the Division of Administration pursuant to LSA-R.S. 39:12 to address policies and procedures developed by the council. The council is to report to the Governor, the President of the Senate, and the Speaker of the House on or before December 31, 1995.

Urge the Legislature to increase the emphasis placed on purchasing, constructing, or lease-purchasing office space, with a diminished use of long-term leases, especially for certain core government functions.

Amend the provision of the Procurement Code requiring that building leases for 2,500 or more square feet be awarded to the low bidder to allow for consideration of other factors as specified in the bid documents, such as location, condition, suitability to needs, and timeliness of availability.

The Legislature should consider some or all of the alternatives presented in Chapter Three of the report for funding preventive maintenance.

Increase the threshold amount for approvals of change orders to $50,000 and index it to the Consumer Price Index.

Increase the threshold amount for higher education for projects not needing funding through the capital outlay appropriation to $300,000 and index it to the Consumer Price Index.

Institute an exemption for maintenance of existing facilities similar to the higher education exemption for other state agencies.

Amend the approval process for funding preventive maintenance using Act 971 funds by eliminating the Joint Legislative Committee on the Budget from the approval process, but requiring timely reporting to the Joint Legislative Committee on the Budget by the Board of Regents. Also, require the management boards to submit plans to the Board of Regents by September 15.

Direct the Division of Administration to promulgate preventive maintenance rules and regulations, as well as to develop preventive maintenance policies and procedures.

Recommend that the Division of Administration and the Board of Regents should provide incentives to perform preventive maintenance by linking it with prioritizing deferred maintenance funding from the capital outlay appropriation.

Under this arrangement, agencies with good preventive maintenance programs would receive a higher funding priority than those with poor preventive maintenance programs.

The Division of Administration should consider the economy and effectiveness of materials, type of construction, and architectural design for both maintenance and construction projects.

The Division of Administration should provide construction supervision with sufficient expertise at the project site to detect poor construction techniques and materials in a timely manner.

Encourage earliest possible implementation of the ISIS movable property module.

Require the state to implement a fleet management system that requires the replacement purchase of vehicles on a specific age and usage formula.

STATE GOVERNMENT - GENERAL

Eliminate funding for low impact programs such as Rural Development and Urban Development.

APPENDIX C

FISCAL SUMMARY

The following pages provide a detailed analysis of the fiscal implications of SECURE's work throughout the past 18 months. This analysis contains the following information: the Fiscal Summary on page 130, the Notes to Fiscal Summary on pages 131 through 136, and Areas of Potential Additional Savings Identified by SECURE on page 137.

Please note the fiscal summary is just that—a summary of the fiscal impacts associated with SECURE's savings and investment recommendations. As such, the fiscal summary should be read and evaluated in conjunction with the more complete data and information contained in the primary documents. We encourage the reader to use the more detailed reports and issue papers, rather than rely solely on this brief overview.

Projections of potential fiscal impacts that could be achieved through implementation of SECURE's recommendations are *estimates* and are not adjusted for inflation. The projected dollar impacts include all sources of funds (state, federal or other), unless otherwise noted, and assume full implementation of recommendations. The timing of the fiscal impacts depends upon the actual implementation schedule.

SECURE - FISCAL SUMMARY

Five Year Estimates* (in millions of dollars)

Note #		Year 1 1996-97	Year 2 1997-98	Year 3 1998-99	Year 4 1999-00	Year 5 2000-01	Five Year TOTAL
1	Projected surplus or deficit at current 4% annual growth rate, exclusve of Medicaid	$ (84)	$ (128)	$ (178)	$ (138)	$ (43)	**$ (571)**
	Major SECURE Fiscal Recommendations						
2	Increased state budget availability by limiting state budget growth to 2% annually, exclusive of Medicaid	0	110	228	352	484	**1,174**
3	Increased (decreased) revenues from implementing SECURE tax proposals	2	(3)	(10)	(15)	(23)	**(49)**
	Major SECURE Savings						
4	Organization and Staffing	85	170	175	175	175	**780**
5	Economic Development	2	2	2	2	2	**10**
6	Cash Management	25	25	25	25	25	**125**
7	Purchasing	70	70	70	70	70	**350**
8	Louisiana Insurance Guaranty Association (LIGA)	40	40	40	40	40	**200**
9	Eliminate Low Impact Programs	15	15	15	15	15	**75**
10	Other Major Savings Identified by SECURE	140	140	140	140	140	**700**
11	Net Increase in Availability	$ 379	$ 569	$ 685	$ 804	$ 928	**$ 3,365**
	Major SECURE Investments						
12	Public Education (includes teacher salary increases)	(145)	(225)	(285)	(345)	(410)	**(1,410)**
13	Higher Education	(80)	(155)	(235)	(315)	(390)	**(1,175)**
14	Salary Increases for State Government Employees		(15)	(30)	(45)	(60)	**(150)**
15	Enhanced Employee Training		(5)	(10)	(15)	(20)	**(50)**
16	Economic Development	(5)	(5)	(5)	(5)	(5)	**(25)**
17	Department of Health and Hospitals/ Department of Social Services Investment Recommendations	(15)	(15)	70	70	70	**180**
18	Total Investments	$ (245)	$ (420)	$ (495)	$ (655)	$ (815)	**$ (2,630)**
19	**Net Difference**	**$ 50**	**$ 21**	**$ 12**	**$ 11**	**$ 70**	**$ 164**

$xxx = $ Savings
($xxx) = $ Investments
* Not adjusted for inflation

NOTES TO FISCAL SUMMARY

1. **Projected surplus or deficit at current 4% annual growth rate, exclusive of Medicaid**

   SECURE's staff developed a fiscal model projecting the state's general fund revenues and expenditures. This line represents a baseline estimate, and SECURE's "starting point," based on current revenue forecasts and a typical 4% annual growth in government, exclusive of Medicaid.

2. **Increased state budget availability by limiting state budget growth to 2% annually, exclusive of Medicaid**

   SECURE's recommendation is that the state limit budget expenditure growth to no more than 2% annually for the next five years.

3. **Increased (decreased) revenues from implementing SECURE tax proposals**

   This line shows the effect of implementing all of SECURE's tax proposals.

4. **Organization and Staffing Savings**

   SECURE conducted detailed analysis of staffing levels for the state's five largest departments: the Department of Health and Hospitals (DHH), the Department of Social Services (DSS), the Department of Transportation and Development (DOTD), the Department of Public Safety and Corrections - Public Safety Services, and the Department of Public Safety and Corrections - Corrections Services. The 35,000 positions in these departments represent approximately 45% of the nearly 79,000 positions in Louisiana's executive branch of government.

   Based on the application of SECURE's Organizational Model, staffing levels can be reduced in these five departments by 3,200 - 3,500 positions. The large sample size used allows us to extrapolate the positions and savings identified to overall statewide staffing levels with a high degree of confidence. SECURE recommends that the Organizational Model be applied to all state departments to reduce statewide staffing levels by 7,400 to 7,900 positions, phased in over the next 18 to 24 months.

Department	Potential Position Reductions	Impact (millions of dollars)
Department of Health and Hospitals	1,160	$32.0
Department of Social Services	676	$20.8
Department of Transportation and Development	662 - 821	$18.8 - $23.4
Department of Public Safety and Corrections:		
Public Safety	130 - 190	$3.4 - $5.1
Corrections	625	$16.7
Department of Education	13	$0.4
TOTAL - Focus Departments	**3,266 - 3,485**	**$92.1 - $98.4**

Our savings calculations are based on the average state annual salary and benefit amount of $27,977 per employee. For the purposes of this summary, we have assumed that 7,650 positions will be eliminated: 3,825 in Year 1 and another 3,825 in Year 2.

Turnover rates were provided by individual departments and Civil Service. Average hours of annual leave accrued per employee were provided by Civil Service and used to determine the amount of severance pay employees would receive when leaving their agency. The state does not pay a portion of COBRA payments, therefore there were no costs to the state for continuation of benefits.

Year 1 assumes implementation of one-half of all position reductions identified by applying SECURE's organizational model. The salary and benefits savings for these 3,825 positions is $105 million, reduced by payout of an average of 80 hours of annual leave per employee, or $4 million, and federal funding totaling $17 million, for a net savings of $84 million in state funding.

CALCULATION OF FEDERAL FUNDING IMPACT ON ORGANIZATION AND STAFFING SAVINGS FOR YEAR 1

Department	Percent of salaries federally funded	Average value of salary and benefits	Number of positions eliminated	Federally funded portions of salaries for positions
Department of Health and Hospitals	53.7%	$27,591	580	$9 million
Department of Social Services	62.6%	$30,280	338	$7 million
Department of Transportation and Development	12.2%	$28,522	331	$1 million
Department of Public Safety and Corrections - Public Safety Services	3%	26,792	65	$50,000
Department of Public Safety and Corrections - Corrections Services	0.2%	$26,792	313	$170,000
TOTAL-Focus Departments				**$17 million**

Years 2, 3, 4, and 5 assume full implementation; therefore, the federal funding impact from these position reductions is doubled from $17 million to $34 million.

Year 2 assumes full implementation of 7,650 position reductions. The salary and benefits savings for these positions is $210 million, reduced by payout of an average of 80 hours of annual leave for one-half of these positions, or $4 million, and federal funding totaling $34 million, for a net savings of $172 million in state funding.

Years 3, 4 and 5 also assume full implementation of position reductions. The salary and benefits savings for these positions is again $210 million, reduced by federal funding totaling $34 million, for a net savings to the state of $176 million.

5. Economic Development Savings

Savings are based on consolidation of economic development agencies, including state-created boards and commissions, and elimination of unnecessary programs during the consolidation process.

6. Cash Management Savings

SECURE identified over $60 million in potential additional state government revenues, improved investment return, and lowered cash management costs. This amount represents estimated savings and revenue enhancements, less those for the 8(g) Fund, which are dedicated to education.

7. Purchasing Savings

Per the Office of Legislative Auditor Performance Audit, *Selected State Purchasing Practices*, February 1995.

8. Louisiana Insurance Guaranty Association (LIGA) Savings

Per the Office of Legislative Auditor Staff Study, *Louisiana Insurance Guaranty Association*, February 1995. $75 million in savings per staff recommendation, $40 million adopted by SECURE.

9. Eliminate Low Impact Programs

SECURE recommends that the state eliminate the Governor's Office of Rural Development and the Governor's Office of Urban Development and the programs they offer. Elimination of the Rural Development Program and the Rural Development Fund would result in $6.7 million savings annually. Elimination of funding for the Urban Development program results in a savings of $10.4 million annually.

10. Other Major Savings Identified by SECURE

Over the past 18 months, SECURE has identified a number of specific opportunities for additional savings totaling over $140 million annually:

Area of Study	Savings (in millions of dollars)
General Government	
Forms re-engineering	$10
Lease decision system	2
Personnel and Benefits	
Enroll retirees >65 in Medicare	5
Increase non-PPO disincentives	12
Implement detection/prevention	10
Increase PPO maximums	9
Implement investment training*	10
General Fiscal	
Cap state's liability	35
Corrections and Justice	
More efficient use of prison space	22
Allow Prison Enterprises to purchase materials on open market	15
Health and Social Services	
Establish administrative hearing process for child support enforcement	2
Limit amount state will pay for Electronic Benefit Transfer	10
TOTAL Miscellaneous Major SECURE Savings	**$142**

*A 1% increase in return on investments due to implementation of investment training would yield an additional $80 million annually. The $10 million estimate used here represents a minimal improvement in investment performance.

11. Net Increase in Availability

Sum of items 2 through 10.

12. Public Education Investments (including teacher salary increases)

SECURE recommends that teacher salary increases be phased in over a four-year period, for a maximum of $135 million in Year 5:

Year 2: $45 million
Year 3: $75 million
Year 4: $105 million
Year 5: $135 million

The estimate is based on

Difference between current average teacher's salary and SREB average	$4,000
Multiplied by number of teachers in state	x 45,000
	=$180 million
Plus benefits (equal to 1/3 of salary)	+ $60 million
	=$240 million
Less portion of MFP increase applied to teacher salaries (70% of $150 million)	- $105 million
	=$135 million

SECURE recommends that the additional monies available for public education be invested in school finance (MFP), technology, early childhood programs, school to work programs, staff development, increased accountability and alternative delivery systems.

13. Higher Education Investments

SECURE recommends investing in community colleges, higher education finance and improved articulation among higher education institutions.

14. Salary Increases for State Government Employees

SECURE recommends investment be phased in over 4 years; per the Office of Legislative Auditor Preliminary Staff Study, *Louisiana Employee Benefits*, March 1995.

15. Enhanced Employee Training

$540,000 to $19 million annually based on the SECURE *Performance Audit of Personnel and Benefits*, April 1994. Cost projections assume phase in of $5 million per year, for a maximum of $20 million per year after 4 years.

16. Economic Development Investments

SECURE recommends that the state allocate $2-3 million annually in flexible funding for the Department of Economic Development, plus an additional $2-3 million annually to the department for a customized workforce training fund.

17. Department of Health and Hospitals/Department of Social Services Investment Recommendations

SECURE recommends that the state invest in a comprehensive eligibility determinations and benefit delivery system for the Department of Health and Hospitals and Department of Social Services. The investment totals $30 million spread equally over Years 1 and 2; the return on investment in Years 3 through 5 is estimated at $70 to $140 million based on the experience of other states and counties. The more conservative $70 million estimate is used in this Fiscal Summary.

18. Total Investments

Sum of items 12 through 17.

19. Net Difference

The sum of projected annual surplus or deficit (item 1), net increase in availability from major SECURE fiscal and savings recommendations (item 11), and total investments (item 18). The potential increased availability of state general funds can be applied to deferred maintenance, unfunded accrued liabilities, and debt retirement.

AREAS OF POTENTIAL ADDITIONAL SAVINGS IDENTIFIED BY SECURE

SECURE's available time and resources limited our ability to fully review three major areas of state government's activities—technology, health care and employee benefits. However, based upon our preliminary work in these areas, we believe there are significant—even huge—opportunities to save money and do a better job.

Technology. Louisiana lacks adequate technology and telecommunications throughout state government. While major investments will be necessary, savings in increased productivity, reduced staffing needs and better information will be very large.

Health care. Louisiana's publicly funded health care budgets have nearly quadrupled in the past five years, potentially crippling the state's fiscal health. Our state has significantly higher benefits, more services, and lower eligibility standards than every comparable state. We believe that reengineering the state's public health care system will produce significant savings and improved service delivery.

Employee benefits. This is a hugely complicated and costly area. When the work is completed, we believe that the opportunities to reengineer benefit programs and salary levels are substantial.

APPENDIX D

ACKNOWLEDGMENTS

This report represents a huge and historic undertaking by the state of Louisiana. The members of SECURE are grateful to the many people who contributed their expertise, time and concern for the state's best interest.

Special thanks go to officials of state government at all levels, who provided information, conducted analyses, and shared their experience and insight with us. The Council was impressed with their professionalism, willingness to cooperate and commitment to providing the best services possible. We are particularly appreciative of the tremendous amount of cooperation and support from the Legislative Auditor's Office, which provided a substantial portion of audit staff resources to work on the project.

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In a project of this scope, it is impossible to include the names of everyone who influenced our work and our report. We extend our thanks to all involved, particularly:

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LOUISIANA STATE EMPLOYEES

A special thanks goes out to the hundreds of state employees and retirees who thought enough about the future of our state to offer ideas on how to improve government operations. Thanks for helping us SECURE Louisiana's Future.

APPENDIX E

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