



## TREASURER OF THE STATE OF LOUISIANA

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TREASURER

May 15, 2012

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Hon. Bobby Jindal  
Governor  
State of Louisiana  
State Capitol Building  
4<sup>th</sup> Floor  
P.O. Box 94004  
Baton Rouge, Louisiana 70804

RE: HB 1, 2012 Regular Legislative Session

**BY UNITED STATES MAIL, FACSIMILE DELIVERY, HAND DELIVERY & ELECTRONIC MAIL**

Dear Governor Jindal:

Respectfully, please stop scaring our healthcare and higher education communities over the changes made to HB 1 by a majority vote of the Louisiana House of Representatives. It is not necessary to make the draconian reductions to the healthcare and higher education budgets you and your staff have suggested in order to achieve the fiscally responsible goals of the House.

In January 2008, the state had a \$1 billion budget surplus. One year later, we suffered our first mid-year budget shortfall (\$341 million). The overspending has continued every year. A majority of the House of Representatives is trying to stem this tide and return some stability to state finances.

The House has reduced the proposed \$25.5 billion budget by \$267 million in order to balance it in a responsible way. You can achieve those savings (the figures below are very conservative) without adversely impacting healthcare and higher education by doing the following:

1. Do not fill vacancies in the states labor force. Louisiana state government does not have control of its cost of labor. We spend \$5 billion a year on salaries, \$8 billion with benefits. In the last 6 years and 9 months, we have reduced the number of state government positions by 6,900 (a little over 1% per year), while increasing the cost of labor by \$650 million a year, including salaries, "other pay" (overtime, shift differential pay and incentive pay) and benefits, according to a February 2012 report by the Legislative Auditor. As you are aware, we have a large attrition rate in our labor force, around 16% according to the Department of Civil Service. Our goal should be to not fill a third of the vacancies next fiscal year, while giving the departments of state government the discretion to fill two-thirds. Done correctly, this will not impact state services. Minimum annual savings: \$75 million.

2. Require the executive branch departments to reorganize. They are top heavy. They have too many generals and not enough foot soldiers. Another Legislative Auditor report concludes that 22% of all the managers in classified service manage one employee. The average manager manages 4 employees. Adopt the recommendations of the SECURE study (Select Council on Revenues and Expenditures in Louisiana's Future) to limit layers of management to 4 or 5 with a maximum of 6 for large departments, allocate one manager per 10 staff, limit clerical staff to 15% or less of total staff, and consolidate units of government with 2-5 staff into larger, more efficient units taking care to consolidate regional and central headquarter administration where possible. Minimum annual savings: See No. 1 above.
3. Review every consulting contract issued by the executive branch and eliminate lower priority contract expenditures. We have, or have had, consulting contracts to analyze how our kids play at recess, encourage Hispanic citizens in Rapides Parish to use seatbelts, provide diversity training to GOHSEP supervisors, teach people how to use Facebook, give speeches to groups of senior citizens about problem gambling, lobby the legislature, recruit disadvantaged business enterprises to do business with DOTD, draft legislation, provide data to parents to support "informed school choice decisions," and create "sustainable relationships" with professional teacher unions. These and many other consulting contracts are not priorities. Eliminate them. For those contracts you decide to keep, ask for a 5% reduction in the contract value, as the private sector does every day during difficult economic times. Minimum annual savings: \$100 million.
4. Collect the money owed the state. The most current state accounts receivables report is nine months old. It shows that the taxpayers of Louisiana are owed \$1.3 billion, 55% of which is 6 months past due. It is clear that management of accounts receivable is not a state priority. It should be. Use centralized collection, automated notices, tax refund offsets and factoring of accounts receivable to collect money owed the state. Minimum annual savings: \$50 million.
5. Implement Louisiana law (LRS 22:1065, LaHipp) that allows the state to purchase private insurance for low income citizens when it's cheaper than Medicaid. The current vendor the state is using to do this, a Dallas company, uses automated phone messages and other less aggressive approaches. Make this a priority. Minimum annual savings: \$50 million.
6. Reform the state's Medicaid preferred pharmaceutical drug list to include the most effective drugs at the lowest price for each illness. Minimum annual savings: \$50 million.

7. Direct that annual spending per secure commitment in the Louisiana Office of Juvenile Justice be equal to the Southern average. Louisiana has 508 juveniles in secure facilities. We spend \$115,000 per youth (\$141,000 annually, according to the Justice Policy Institute). Florida spends \$70,000, Alabama \$85,000 and Arkansas \$34,000. Minimum annual savings: \$26 million.
8. As a condition of their contracts, require all state vendors and contractors to receive a tax clearance from the Department of Revenue certifying that their state taxes have been paid, and authorize the state to offset any future tax liabilities against contract payments owed the vendor or contractor. Minimum annual savings: \$15 million.
9. Competitively bid more state contracts for maintenance of state-owned computer hardware and software. State law currently allows agencies to award these maintenance contracts without competitive bid to the companies (like IBM) from which the agency originally purchased the hardware or software if the agency deems the hardware or software to be “mission critical.” Minimum annual savings: \$5 million.
10. Direct DHH to require all 10 of Louisiana’s Charity Hospitals to implement immediately the recommendations of the 2009 performance audit by Alvarez & Marsal of the interim Big Charity in New Orleans, which found \$72 million in savings at Big Charity alone. Minimum annual savings: \$25 million.

These reforms, which can be implemented next fiscal year, will easily save more than the \$267 million reduced in HB 1 by the House without hurting healthcare or higher education.

While I disagree with your current approach to balancing the budget, you are, of course, correct that the monies that fund healthcare and higher education in our state budget are not dedicated. This is why healthcare and higher education so easily and so often become “whipping boys.”

To solve this problem permanently, I encourage you, beginning immediately after the legislative session and for a six month period, to appoint a group of public officials and private sector business leaders to review every statutory dedication, tax exemption, tax exclusion, tax rebate and tax credit in state government. Some, of course, can and should be kept, but others that are no longer achieving the public policy for which they are intended can be eliminated. After this six month transparent and public review, call a special session of the legislature to make the necessary changes in these dedications and the state’s tax code. I believe these changes could be effected in a two to three week special session. It would be well worth the cost. We will not need to change the constitution. This will free up money for healthcare and higher education and other vital state needs.

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Please give this letter careful consideration. I mean no disrespect in writing it. We can reduce state spending, balance the budget responsibly, and address our long term fiscal problems without hurting or needlessly frightening the citizens in our healthcare delivery system or our colleges and universities.

Thank you for your time, and thank you for giving so much to Louisiana.

Sincerely,

A handwritten signature in black ink, appearing to read "John Kennedy". The signature is fluid and cursive, with a large loop at the end of the last name.

John Kennedy  
State Treasurer

JNK/dtm