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Legislative BULLETIN

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Curing Charity Hospital Ills

The time has come for the state to decide how best to provide the medical safety net for its 900,000 uninsured citizens.

Louisiana's unique system of nine state-operated charity hospitals has long served the medical needs of the poor and provided clinical training opportunities for doctors and other medical professionals. However, budget cuts have reduced service levels by about one third in the past five years. Deterioration in facilities and equipment has threatened accreditation for teaching programs. Replacement of the largest facility, the aging hospital in New Orleans, has been studied without action for more than 20 years.

For two basic reasons, a continuation of current trends is expected to result in a downward spiral in the hospital system, further reducing the state's ability to meet the medical needs of the poor. First, Medicaid payments (about three-fourths federal money) are made at twice the cost of service to hospitals which treat a disproportionately large share of uncompensated cases. If deteriorating hospital conditions cause more Medicaid patients to opt for private care, the extra money will not be available to fund services for the uninsured. Second, in a recent two-year period, the share of Louisiana medical school graduates accepting in-state residencies fell from 70% to 40%. A continued loss of this low cost source of medical manpower would be a blow to the charity system and the private sector.

In 1989 the Louisiana Health Care Authority (LHCA) was created to prepare a comprehensive plan for governing the charity hospital system. Based on that plan, Act 855 of 1990 created a governing board for the LHCA and local boards for each hospital. The act also provided for the transfer of the hospitals to the LHCA from the Department of Health and Hospitals (DHH), subject to legislative approval of a five-year strategic operational plan. If the plan is rejected in the 1991 regular session, the LHCA board and local boards are terminated.

The strategic plan, submitted this March, offers a persuasive argument for transferring the nine charity hospitals to the LHCA and presents a five-year capital improvements plan to be funded with revenue bonds. The plan places top priority on replacing three facilities (New Orleans, Baton Rouge and Alexandria) and replacing 90% of all medical equipment over five years old. (The LHCA proposes to accomplish its goals without additional state operational funding, but with state-funded debt service which would rise to $16 million a year by the fifth year.)

Proposed Legislation

HCR 73 (Roach) and SCR 30 (Brinkhaus) would accept the LHCA five-year plan and transfer the charity hospital system to the LHCA as provided in Act 855 of 1990.

HB 1604 (Roach) and SB 499 (Brinkhaus) would amend Act 855 of 1990 to abolish the Office of Hospitals, Office of Charity Hospital of Louisiana at New Orleans and the Southwest Louisiana Hospital Service District; transfer the charity hospitals to the LHCA (by January 1, 1992); limit the liability of LHCA board members; allow the LHCA to retain a surplus of $3,500 per bed to be used for capital purposes; permit future heads of facilities to be unclassified; and eliminate the LHCA termination provision.

HB 1736 (Roach) would amend Act 855 to accomplish the transfer

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Major Provisions of Act 855 of 1990

★ Louisiana Health Care Authority (LHCA) a separate political subdivision of the state.

★ LHCA 11-member governing board created (DHH Secretary and DOA Commissioner, ex officio; nine members appointed by governor from nominees; four-year staggered terms; Senate confirmation; expenses only).

★ Local board for each of nine charity hospitals (governor appoints similar to LHCA board).

★ LHCA to prepare comprehensive plan to serve indigent and continue opportunities for medical training.

If legislation transferring the nine charity hospitals to the LHCA is enacted in the 1991 regular session, the following provisions become effective:

★ LHCA board appoints its chief administrative officer with Senate confirmation.

★ Annual agreement between DHH and LHCA to provide medical services for uninsured and medically indigent.

★ DHH Secretary to coordinate LHCA and DHH services.

★ LHCA must use following state systems: automated financial and accounting, uniform payroll, comprehensive liability, workers' compensation, fire and medical malpractice insurance, state employees' group benefits, state procurement, telecommunications procurement, legal services.

★ LHCA may contract for purchases or services if documentation of cost reduction submitted to and approved by Joint Legislative Budget Committee. Must follow Public Bid Law or request for proposal requirements.

★ LHCA may issue bonds with annual debt service limit of $8.5 million for equipment and $38 million for facilities.

★ LHCA must establish annual operating budget for each facility with incentives for efficiency and increased collection. May distribute excess collections among facilities.

★ LHCA submits request for lump sum annual appropriation.

★ LHCA sets rules for billing and payments systems with legislative oversight.

★ LHCA must comply with Public Records and Open Meetings Laws, Governmental Ethics Code and is subject to audit by legislative auditor.

★ Civil service retained for employees transferred from DHH; senior managers in central staff are unclassified.

proposed in HB 1604 and make other changes recommended by the LHCA strategic plan. These include renaming the hospitals "medical centers," defining the role of local boards, and providing for local board appointment of hospital heads with LHCA board approval.

DHH is expected to press for passage of the short version (HB 1604) this session and defer seeking approval of other changes in HB 1736 until a later session.

Comment

How best to provide medical care for the indigent involves a multitude of complex issues. However, the Legislature faces a relatively simple choice this session--whether to accept or reject the transfer of the charity hospital system to the LHCA.

The decision rests on two basic questions:

1. Should the state continue its commitment to provide indigent care through a system of state charity hospitals? If so,

2. Would governance of the system be improved by placing it under a separate governmental entity--the LHCA?

Continuing the charity hospital system has been a foregone conclusion during the past two-year LHCA planning process for several good reasons. The system has a long history, political acceptance, well-developed relationships (e. g., with medical schools) and a dependent clientele.

Other states use a wide range of alternative approaches to provide indigent care:

- payment for care in the private sector;
- local assumption of responsibility through local public hospitals;
- expanded Medicaid or a state-funded medicaid-type program;
- encouraging or mandating insurance coverage;
- requiring private facilities to provide uncompensated care;
- encouraging private sector charity.

Most of these alternatives would involve a shifting of costs--to local governments, to employers, to increased insurance and hospital rates to cover free services, or to the indigent (in out-of-pocket costs or foregone services).

Privatization--either of service delivery or hospital management--has been suggested as having the potential for greater efficiency. While this contention has not been tested, charity hospital costs per unit of service have been shown to be lower than private hospital costs. Such contracts, however, still would be possible under the LHCA governance approach.

Assuming the state is to continue a system of charity hospitals, the LHCA makes a number of points supporting a change in governance:

- The system has been allowed to deteriorate badly and a strong commitment is needed to restore it.
- Leadership has lacked focus and continuity, changing with successive administrations.
- Multiple layers of decisionmaking cause delay and dilute concerns for hospital needs.
- Charity hospitals face a number of constraints on operational flexibility not encountered by their private counterparts in budgeting and transferring funds, staffing, purchasing and inventory management. They also have capital financing limitations (e. g., lack of revenue bond option).

Much of what the LHCA has proposed to accomplish in its strategic plan could be done under the present governing structure. The question is whether it *would* be done. The LHCA as a separate entity would be able to pursue its single-minded purpose with greater vigor, flexibility and continuity. An important advantage would be its ability to use state funding under its indigent services agreement with DHH and Medicare funding as revenues to back $400 million or more in revenue bonds for rebuilding.

The local boards would allow input from people in the service areas and could help raise additional private funding. Clarification of the role of the local boards is required however; if not in this session, then soon.

The transfer proposal builds in a number of protections, oversight and review by DHH, the Legislature and legislative auditor. Still, creating a separate governing authority does not assure freedom from political meddling or abuse. Its effectiveness would ride on the calibre and commitment of the people serving on the LHCA and local hospital boards. If problems arose, the hospitals could be returned to DHH by legislative action.

Formula Funding of Public Higher Education: Myth vs. Reality

Myth: Louisiana's public colleges and universities are funded by a formula which distributes money equitably and is based on the average of southern states.

***Reality:** Formula funding has virtually vanished, allocations among institutions are inequitable, and Louisiana has a long way to go just to reach the southern states' **average** funding level.*

Louisiana's constitution requires the Board of Regents to include a "formula for equitable distribution of funds to the institutions of higher education" in its master plans. This has been interpreted to mean funding through a formula.

Regents devised a formula, based on full-time equivalent (FTE) students at each institution and cost factors at the average of the 15 Southern Regional Education Board (SREB) states. It is not submitted for legislative approval, but the Legislature has discretion in funding it. In recent years, the formula has not been used.

Current higher education financing equates to a 67% statewide average of 100% formula funding, but this varies among institutions, from 58% at Delgado to 149% at Southern-Shreveport. The formula had a "hold harmless" provision, now deleted, which caused variations.

Formula funding at 100% would cost an estimated $580 million--$193 million more than now provided. Instead of funding at the SREB average, Louisiana ranks last or next to last in most measurements. (See Tables 1 and 2.)

During the past five years, Louisiana was the only SREB state to reduce the amount of state taxes for public higher education. Louisiana had a 0.9% *decrease*; the SREB average *increased* 6%.

Louisiana student tuition and fees were increased in an effort to fill the gap in state financing. The proportion that student charges represent of higher education unrestricted revenue in Louisiana and the SREB states has been:

Fiscal Year	Louisiana	SREB Average
1979-80	13.9%	16.6%
1988-89	29.5	19.9

Louisiana ranked 13th among the 15 SREB states in fiscal 1979-80 and first (highest percentage) in fiscal 1988-89.

TABLE 1
Appropriations Per FTE Higher Education Student, FY 1989-90

Type of Public Institution	Louisiana	SREB Average	Louisiana as Percent of SREB Average
Doctoral	$3,165	$5,230	60.5%
Master's	2,750	3,814	72.1

Louisiana ranked 15th of the 15 SREB states for doctoral and master's institutions.

TABLE 2
Average Faculty Salaries at Public Institutions, FY 1989-90

Type of Public Institution	Louisiana	SREB Average	Louisiana as Percent of SREB Average
Doctoral	$34,327	$42,495	80.8%
Master's	30,043	35,167	85.4

Louisiana ranked 15th of the 15 SREB states for doctoral institutions and 14th of 15 SREB states for master's institutions.

Proposed Higher Education Budgets

The proposed state budget recommends public higher education receive a $2 million increase in general fund appropriations. An additional $29.8 million from the general fund is recommended to finance some aspects of the formula, but this would be offset by decreases in items not included in the formula such as the higher education boards and the Louisiana Universities Marine Consortium.

The $29.8 million increase to finance aspects of the formula are:

- $10 million to raise the level of formula funding for seven institutions to 64.2% of full funding.
- $0.8 million to add nursing instructors at seven formula schools.
- $19.4 million to increase faculty pay by 5%. Last year a 12% increase was provided, and the 12% increase was promised for two more years to bring faculty salaries up to the southern average. A 12% pay increase for fiscal 1991-92 would cost an estimated $46.6 million.
- $1.3 million *decrease* for Southern-Shreveport to lower its formula level from 149% to 100%.

Other Proposed Legislation

Two similar proposed constitutional amendments--SB 10 (Bankston) and HB 144 (Orr)--would change procedures for approving and funding the higher education funding formula. Both would:

- Require that Regents annually develop and adopt a formula to allocate funds equitably to public institutions of higher education.
- Regents would submit its adopted formula to the Legislature for approval and funding. The Legislature could approve or reject the formula, but not amend it. It could recommend amendments to Regents for approval and resubmission.
- If the Legislature did not approve Regents' most recent formula, the last formula approved by Regents and the Legislature would continue.
- The Legislature would have to fund the formula at 100%.
- The governor could not cut funding of the formula unless the act appropriating the money gave him that authority and two thirds of elected legislators concurred.

SB 10 would allow formula money to be appropriated to each institution or to their management boards. HB 144 would appropriate formula funds to each institution and repeal the current constitutional provision, not followed, that funds be appropriated to the management boards for distribution to institutions.

Comment

Financing of higher education is in the portion of the state budget that is "cuttable," while many other state programs are protected against cuts by constitutional dedications and mandates, court orders, consent decrees, and the lure of federal dollars which require state matching.

Present policies and procedures for higher education formula funding fail to assure adequate and equitable funding. SB 10 and HB 144 would have constitutional requirements similar to those for the state Minimum Foundation Program (MFP) state aid formula for elementary-secondary schools. Providing the same constitutional guarantees for the higher education formula as now provided for the MFP would put the Legislature in an even tighter bind on discretionary funding of the budget.

Higher education has been a low budget priority. As a result, Louisiana has been suffering a brain drain of faculty, students and research grants, and its prospects for future progress are being diminished.

The Legislature must give higher education a higher budget priority--either voluntarily or through a forced funding mechanism such as proposed by SB 10 and HB 144. However, because 100% financing of the formula at the outset would be difficult to accomplish, there should be a phase-in schedule of several years to attain full formula funding.

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