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Commentary

The Public Affairs Research Council of Louisiana

New Patterns on the Spending Side

As the state budget takes shape, a new look is needed for TOPS, the Medicaid expansion and appropriations policy

As the Louisiana Senate takes up the state budget bills, a key question at the Capitol is whether new patterns are being established for how the Legislature will handle the annual appropriations process. If past experience is any indication, the upper chamber will reshape the House version of the budget with greater spending and adjust priorities more in line with the governor's wishes. Yet we may see this session that the Legislature also wants to set new policy courses affecting budget practices on several fiscal fronts. In particular, the waters are being tested for using a "standstill budget," for routinely spending less than 100% of the money available in order to avoid mid-year cuts, to reconcile a long-term plan for TOPS and to cope realistically with Medicaid spending.

Budget at a standstill

The House has delivered to the Senate its version of the budget for fiscal year 2018, which begins in July. The proposed budget keeps state general funding for agencies at roughly the levels of the budget for the current fiscal year. The House has coined it a "standstill budget." The logic seems to be that if an agency could get by with its funding levels this year, it should be able to manage with the same amount next year.

This approach differs from a "continuation budget," which is based on the amount of spending believed necessary for agencies to continue with the same

level of public services and activities. The governor's executive budget proposal released in February was largely on a continuation basis, framed by the estimated cost to run government at the same level of services as this year. A continuation budget is a concept that normally produces a larger spending level than a standstill budget. It assumes certain spending increases such as inflation or state employee pay raises.

Will the Legislature from now on insist on the "standstill" method as the first draft of each year's budget? Sen. Jack Donahue, a member and former chairman of the Senate Finance Committee, has moved his Senate Bill 100 through the Senate and to the House chamber. It would require that the administration's budget process each year begin with a presentation of both a continuation budget and a standstill budget, including specific charts allowing easier comparisons. This initiative is borne partly out of frustration over the confusing way appropriations figures are tracked and measured, as well as the inability to find a commonly shared understanding of what the budget numbers really mean. PAR sees merit in Donahue's approach as a companion method for evaluating state spending.

As the chairman of the House Appropriations Committee has said, at times the budget process seems like the agencies tell the Legislature how much to spend instead of the other way around. From a

short-term budgeting perspective in the middle of a session, that view is understandable. However, budgets are not just an annual cat-and-mouse accounting game. They are an accumulation of many past legislative decisions and government programs, some essentially required by the federal government, others deemed invaluable or sacred, and some perhaps just invisible to the process. And most of all, budgets are largely dictated by mandated spending requirements, such as pension debt, state employee health coverage expenses and certain obligations to local governments.

While some funding restorations are justified, a standstill budget is an appropriate starting point during tough economic times. But a standstill budget can in effect be a cut. That's because an agency is likely burdened with mandatory and growing expenses it must pay to the state retirement system, among other obligations beyond its own real control. Also, medical cost inflation usually outpaces general inflation and growth in the utilization of public health care services is frequently underestimated. As seen repeatedly in the past, these health care factors contribute to mid-year budget crises when reality is not embraced in the appropriations process.

It is the Legislature's job to participate with a governor in defining the scope and responsibilities of government programs and spending over the long term, not just in the annual budget mania. Many legislators oppose fundamental changes that could relieve mandatory spending requirements in the long term, such as what might result from pension reform. And when reforms are made, discipline is needed to stick with them. For example, the Legislature passed a prudent approach to granting cost-of-living adjustments for the state retirement systems, only to ignore the reform soon after.

Less-than-full budgeting

The House's budget attempts to spend about 98% of the state general fund revenue Louisiana is ex-

pected to collect for the next fiscal year. This type of budgeting, in which the Legislature stops short of spending all the money at its disposal, is a concept the governor also has endorsed but he did not want to implement it for the forthcoming year. In all, the House left \$235 million of its available revenue unappropriated, banking the money in case the state experiences another shortfall during the next year. By withholding the money, the Legislature could avoid or reduce a potential mid-year budget cut, which has happened all too often in recent times.

That \$235 million is the difference between the House's standstill budget and the governor's proposed executive budget, and much of the budget fight will be over this gap. If in the end the Legislature does indeed hold back some portion of this amount, that outcome would be remarkable. If less-than-full budgeting became a habit in the annual process, that would be all the more remarkable, and commendable.

The Governor's budget plan

The governor's executive budget proposes \$33 billion in total funding for the 2018 fiscal year. That budget includes an increase in federal funds of almost \$1.5 billion mostly associated with healthcare. The budget includes \$9.5 billion in general funding based on state-generated revenue. The executive budget represents a \$330 million general fund increase over the current-year budget, after the recent mid-year cuts are figured into the comparison. Had it not been for the 2017 mid-year cuts, the governor's 2018 budget would have shown a \$173 million general fund decrease.

The budget is buoyed by major tax revenue increases in the past two years, including a state sales tax jump from 4% to 5%. Unless renewed or replaced by some tax reform, the extra cent and other revenue measures will go away by the end of the next fiscal year, a looming revenue loss of more than \$1 billion. Legislators are not planning to close that gap fully with budget cuts. In the meantime, the governor

has identified \$440 million in additional expenditures for a list of his priorities beyond his proposed budget. The governor has been seeking to raise additional revenue to pay for these programs. But what is this list, and are there alternatives?

The governor's list

The largest items on this list include restored funding for healthcare and the public-private partnerships with hospitals at \$92 million, full funding for TOPS at a cost of \$82 million and a regular formula increase of state support for K-12 schools at \$75 million. Some of these items are to enhance programs, such as \$35 million more for GO Grant need-based college scholarships and adding resources for social services to handle their caseloads.

TABLE 1
Budget items the governor is proposing to fund if additional revenue is found

Governor's Priority List	
Full funding for TOPS *	\$81,862,855
Performance adjustments for state employees *	\$23,862,870
Restore funding for LDH and public/private partnerships *	\$91,691,587
Full funding for agencies *	\$48,058,018
Opening of Acadiana Youth Facility *	\$12,069,256
Tourism funding *	\$4,500,000
Match funding for DOTD	\$43,200,000
Funding for technology projects	\$10,000,000
DCFS caseloads	\$4,653,212
Corrections/contract rates for private prisons	\$10,872,890
MFP 2.75% base increase	\$74,954,042
GO Grants	\$34,800,000
Total	\$440,524,730
<i>*Continuation budget items</i>	

The challenge for the Legislature is to determine if these needs are worth raising \$440 million in new revenue, or whether funding of other priorities can be reduced to cover the costs. Some of these items are program expansions, which are harder to pass in tight budget and economic times. Other items undo cuts made in the current year's budget.

TOPS's turvy

Prior to this school year, the Taylor Opportunity Program for Students covered 100% of tuition and applicable fees for college students in Louisiana who qualified. Due to budget crunches and shifting priorities, the appropriations for TOPS this school year covers about 70% of tuition. College students and their parents are eager see TOPS funding fully restored, as are many of their elected representatives. The long-term stability of TOPS – whether at full funding or some lesser but reliable level – is important in serving its purpose as way to attract and retain students to Louisiana colleges. If TOPS funding see-saws between full funding in good years and partial funding in bad years, students will not be able to trust the program when choosing where to go to school or even if they can afford college.

The governor's proposed budget did not fully fund TOPS but he assigned full funding as a priority if the Legislature agrees to raise revenue. The House version of the budget fully funded TOPS by diverting \$82 million from healthcare. The exact impact of that \$82 million cut is unclear as the House did not specify where the cuts would come from, other than that the cuts should not be from certain programs.

The state seems to have found one of the worst situations possible with regard to TOPS. Students who committed to college tracks in Louisiana last year had the rug pulled out from under them. Students already committed for a college choice next year may get more money than anticipated. TOPS's value as an incentive for academic achievement drains away with each wide swing of the appropriations pendulum.

The Legislature last year had a partial answer to this issue with legislation setting a TOPS award level that would not automatically rise with tuition increases. This initiative assumed TOPS would be fully funded for at least the first year of the new plan. Budget shortfalls steamrolled over that new policy. Meanwhile, the Legislature is debating ways

to save money on TOPS by raising the bar for qualifications; while these measures deserve a serious discussion, they do not change the fundamental condition that TOPS currently lacks a stable funding outlook. Raising the bar on qualifications brings down the price of fixing the annual budget problem, but it is not the same as establishing a stable incentive program or a renewed trust in the Legislature's commitment to funding the program. The bottom line is, "full funding" of TOPS is not as important as consistent funding.

K-12 education

In the distant past, state funding of K-12 education could expect an annual 2.75% increase in funding through the Minimum Foundation Program. In recent years due to tight budgets, those increases could be described as sporadic at best. While the governor's budget does not contain a per-student increase, it does contain other funding for public schools. Districts would get \$8 million for high cost services for students with disabilities and \$10 million for supplemental courses. The House budget removes these dollars, though it does have an adjustment for student enrollment as required by the constitution. Perhaps a compromise would be to use \$18 million proposed by the governor to provide a small formula increase instead. This move would provide greater flexibility to local school districts to administer the money in a manner appropriate for their students, including coverage of students with disabilities as determined locally. Additionally, at the request of the House Education Committee, the Board of Elementary and Secondary Education amended its proposed funding formula to add \$7 million for flood affected schools. This money is not yet included in the state's budget.

Transportation funding

The administration reported that the Department of Transportation and Development will be short \$43 million needed to match federal funds for infrastructure projects. This shortfall would mean even less

money for already underfunded transportation needs. This estimate relies on some assumptions that may or may not materialize, such as a potential 5% reduction to the Transportation Trust Fund if the state encounters a shortfall in fiscal 2018. However, this problem will eventually be an issue in future years as credits the state received from the federal government for the completion of LA 1 are exhausted. This program is not necessarily something that should be dealt with as part of the overall operating budget. These matching funds are more properly handled in the context of transportation funding and the related revenue measures.

Medicaid expansion finances

One of the most significant policy moves under Gov. John Bel Edwards was Louisiana's adoption of the Medicaid expansion for low-income adults under the Affordable Care Act, or Obamacare. Early last year the Louisiana Department of Health, which oversees the program, estimated the state would realize a savings of approximately \$184 million by taking advantage of the federal government's funding for the program. Some of the savings would stem from the likelihood that low-income patients under the old system would have been treated by more expensive means. Considering the large enrollment and conditions associated with the expansion in Louisiana, the Legislature and other stakeholders need to scrutinize and track of the state's true cost. Long-term budget planning requires this attention. If the expansion is to continue, the state needs to accurately anticipate cost increases in this program and how those costs will be paid.

The state health department reports that as of May 8, 2017, enrollment of adults in the Medicaid expansion had reached 422,979, which far exceeds original projections. Officials had thought enrollment would be 375,000 adults by July 1, 2017. An eventual enrollment of more than 500,000 seems likely. In November 2016, the health department asked the Legislature for \$376 million in additional expenditure authority, increasing the estimated price tag for

the expansion program to \$2.3 billion for this fiscal year. The department reported at the time that the enrollees by and large were older and sicker than expected, and therefore they cost more to cover.

Under the Affordable Care Act, the federal government provided 100% of the Medicaid expansion funding for 2016. But starting January 1, 2017, the state match for the expansion program became 5%. This match rate will increase next January to 6% and will rise to 10% by 2020. A new hospital assessment fee and a new tax on managed care organizations have helped secure financing sources to cover the state's cost of the expansion in this first fiscal year of enrollment. But PAR urges that both enrollment and patient costs be closely monitored as both have so far exceeded expectations. If the state enrolls more than expected and the patients cost more than expected, then the forecasted savings – which may have been reasonable assumptions at the time -- must be re-evaluated in the public discussion.

This component of the Medicaid expansion is about cost, and of course that is a critical issue. However, any overall evaluation of the state's expansion effort should include considerations of health care delivery and the impacts on such things as the private insurance market, the labor force and our hospitals and other health care service providers. Congress is debating a new health care coverage plan that could

replace Obamacare, but even if implemented in a way that would eliminate or alter the Medicaid expansion for adults, a long phase-in of the new federal plan is likely.

Looking ahead

In the long term, both the Legislature and the governor need to work continuously to restructure state spending. This includes working on dedicated funds, retirement costs, sentencing reform and healthcare initiatives to lower costs. A great deal of effort and analysis has gone into improving the state's tax structure. Given the sorry condition of Louisiana's tax system, a reform effort is wholly appropriate and improvements must be made. However, policy makers must also work to reform the spending side of the equation.

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