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Commentary

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Mid-year budget plan hides Coastal Fund raid and delayed health care payments

The Jindal administration is planning to address the latest mid-year state budget crisis with several potential solutions, at least two of which should be reconsidered. One is a raid on the state's Coastal Protection and Restoration Fund, a move that would sweep scarce and specially designated dollars for coastal protection and restoration into the general operating budget. Another is a proposed budget maneuver to push some of the state's Medicaid healthcare payments due this year into the next fiscal year, basically paying the state's bills late. Also, the administration needs to be more transparent and straightforward with the public about what these proposed budget adjustments really are and how they are going to be implemented.

Earlier this week the Louisiana Revenue Estimating Conference (REC) evaluated the latest revenue data and decided to reduce the state's income forecast for the current fiscal year by $370 million. Low oil and natural gas prices, weak corporate income tax collections and unexpectedly high utilization of tax credit programs are the primary contributors to this shortfall. Add that to the $117 million deficit from last fiscal year and we have $487 million worth of problems for the current year's budget. To make matters worse, one potential solution for new revenue has not yet materialized: $62 million in potential pharmaceutical lawsuit settlements. The state must now rectify its current year spending plan with the newly expected revenue figures.

The administration's plan relies on $149.7 million in cuts to agencies, $277.7 million in sweeps of cash from various dedicated funds, $31.7 million in additional revenues and $28.2 million drawn from the Rainy Day Fund. A two-thirds vote by the Legislature, through the mail, would be needed to approve a withdrawal from the Rainy Day Fund.

The Coastal Fund

The governor's proposed raid on the Coastal Fund is about $6.5 million. The Fund, containing various sources of one-time revenue including settlements from the BP oil spill, is protected in the Constitution from raids that would steer its money to non-coastal purposes. An exception is when the state is faced with mid-year budget cuts, when even the Coastal Fund can be tapped to pay for state operating expenses.

Until about six months ago, Governor Jindal had a strong record on coastal protection and his stewardship of the state's coastal programs. This newly proposed raid is an unfortunate continuation of both last year's raid and recent moves to use some coastal funding for highway improvements. Although the $6.5 million is about 4% of the $169.1 million in the Coastal Fund, its sweep represents much larger problems. Much of the $169.1

million includes federal and other non-state dollars. While the sweep earlier this year avoided touching non-state dollars, the administration has not made that clear this time. Any federal dollars in the Coastal Fund used to balance the operating budget are liable to result in the state having to reimburse the federal government. As an alternative, the state could tap this $6.5 million from the Rainy Day Fund, in addition to the $28.2 million withdrawal the administration already plans to make.

The Coastal Fund and its projects to restore and protect Louisiana's coastal regions are at a relatively early stage of development, with highly regulated BP settlement money beginning to flow into the Fund and much more coming in future years. Siphoning money from the Fund at this early juncture sends a clear message that Louisiana does not have the fiscal discipline required to get the job done. Such a move sets the precedent that it is acceptable for coastal funds to serve as a piggy bank the state can tap whenever regular revenue drops. One need only look at the Transportation Trust Fund to see where the path of raiding infrastructure dollars to pay for operating costs leads. And if Louisiana does not take coastal restoration seriously, why should people in Washington, who ultimately can make or break the state's long-range coastal plan?

Thankfully, recent efforts by the President and some members of Congress to divert offshore revenue sharing aimed at Louisiana as part of the Gulf of Mexico Energy Security Act (GOMESA) have been prevented. Starting next fiscal year, a much larger portion of the royalties paid by Gulf offshore oil and gas producers in federal waters that previously went to the federal government will be shared with the Gulf coast states. Starting in fiscal year 2017, this revenue source will bring in as much as $140 million annually for Louisiana. Congress could act to take that revenue sharing away. This is a great deal of money to jeopardize for $6.5 million worth of state budget bailout, especially when an alternative solution is readily available.

Health care payments delayed

Broken down by agency, the bulk ($339.9 million) of the administration's fixes is found in the Department of Health and Hospitals. This includes $132.6 million in replacement of state general funds with federal funds that were previously used to fix other holes in DHH's budget. It also includes $126.2 million from implementing Medicaid fraud identification initiatives by extending the Bayou Health payment review period from seven days to 21 days. While this might produce some savings from reducing fraud, the real "savings" come from pushing the last two weeks of state payments owed to Medicaid health care provider plans into next fiscal year.

This means the private companies behind Bayou Health will get a two week delay in compensation and that next year's budget will be that much deeper in the hole out the gate. In proposing its plan, the administration should have been more straightforward about the temporary nature of the cost savings instead of labeling the move primarily as an "anti-fraud" initiative.

The Rainy Day Fund

Some elements of the administration's plan should be commended. While it was obvious to many observers (including PAR) after the budget and tax bills passed back in June that there would be a mid-year shortfall, Jindal took action at the start of the fiscal year by issuing an executive order that froze hiring as well as expenditures for travel, operating services, supplies, professional services, acquisitions and major repairs, with a delineated list of exceptions for essential expenses such as direct patient care.

The administration is also using the Rainy Day Fund, officially called the Budget Stabilization Fund, in an acceptable manner. Large flows of mineral revenue helped fill the Rainy Day Fund in past years, and now a shortage of mineral revenue is contributing to the state's lower budget forecasts. Where real savings can be found they should be taken, but the Rainy Day Fund is eligible to be tapped at this time. If tapped, it should be done conservatively.

The administration so far is being conservative by proposing that $28.2 million be appropriated from the fund. A third of the fund's amount as of July 1 can be used to fill revenue shortfalls this fiscal year. The fund at the time had close to $500 million, of which a third is about $160 million. After the administration's proposed withdrawal, this still leaves approximately $132 million in potential Rainy Day money that could be used to deal with the mid-year shortfall. The Legislature should strongly consider using at least $6.5 million more to prevent the Coastal Fund sweep.

The administration's swift action to generate a deficit reduction plan so soon after the new revenue forecast is commendable. In doing so, the administration should have released in a more timely way the details of the plan. Questions remain as to what funds are being swept and for how much. What are the impacts on the provision of healthcare? Swift action is important, but citizens are owed a more transparent and frank explanation.

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