



## **The FY97 Revenue Picture**

### **A Budget-Balancing Reprieve for FY97**

*For several reasons, the Revenue side of the state budget equation appears to be in relatively good shape for the upcoming fiscal year which begins July 1, 1997:*

- The House and Senate renewed the state sales taxes (4¢) on certain statutorily-exempted items, primarily food and utilities. These taxes have been in place in one form or another for the past eight years.
- The federal government guaranteed Louisiana \$2.6 billion in federal Medicaid funding to match the state's \$597 million. Without this guarantee, another \$320 million in state funding would have been needed for the FY97 targeted Medicaid program size of \$3.2 billion.
- The state surplus for FY95, coupled with a better than expected revenue picture in FY96, will allow the debt of the Louisiana Recovery District to be retired early. About \$150 million previously allocated for debt service payments will be freed for operating expenses in FY97.

### **The Budget Outlook -- FY98 - FY2000**

*As well as looking at FY97 in putting the budget together, the Legislature crafted a four year projection to assess the impact of budget actions into the near future. Some of the assumptions for the four year scenario include:*

- One cent (1¢) of the state sales taxes on certain statutorily-exempted items, primarily food and utilities, will expire on June 30, 1997.

- Costs in the Medicaid program will be contained and will reach the \$3.1 billion level by FY2000.
- A significant portion of expenditures in the budget which relied on expiring revenue sources are "non-recurring" in nature.

### **Unresolved Budget Issues**

*For both the FY97 and future budgets, however, there are a few outstanding issues:*

- The federal government guaranteed \$2.6 billion for the state's \$3.2 billion Medicaid program for only one year; without further Congressional action, the state will be slightly over \$200 million short for FY98.
- Questions remain as to whether or not the Medicaid program size can realistically be reduced to the \$3.1 billion targeted level by FY2000.
- The unfunded accrued liability of the state's risk management program remains at \$1 billion; funding originally proposed to partially address this problem was diverted and used to restore budget cuts.
- A \$22 million appropriation to fund a pay raise for K-12 non-instructional employees was made "contingent" upon revenues becoming available. At issue: even if FY97 revenues are sufficient, recurring revenues to fund this item in future years may not be available.
- Between \$5 and \$10 million in other "recurring" expenses appear to be funded in the FY97 budget with revenues that will expire in FY98.
- Tax exemptions passed by the Legislature may erode the state's revenue base by as much as \$5 million for future fiscal years.

## The FY97 Expenditure Picture

*Despite the improving revenue picture, the Legislature continued to control state expenditures by three primary methods: 1) requiring state agencies to find sufficient resources within their operating budgets to fund normal salary adjustments and inflationary costs without adding to their budgets for these purposes; 2) specifically reducing certain programs where appropriate; and 3) holding the line on the use of nonrecurring revenues for recurring expenditures.*

*State general fund appropriations increased by approximately 3% from FY96 to FY97. Despite this growth, the Department of Health and Hospitals experienced an approximate \$80 million loss in state general fund revenue while almost every other department realized marginal changes; Education, as a whole, received roughly an additional \$120 million in state general fund and lottery proceeds revenue.*

*For the first time in a number of years, cash was appropriated for capital outlay needs -- almost \$100 million -- including funding for deferred maintenance of state buildings and higher education facilities and for highway overlay.*

*The additional funding in Education includes a higher education faculty pay raise, a K-12 classroom teachers pay raise and additional funding in the Minimum Foundation Program.*

<b>Recurring Expenditures</b>	<b>Non-Recurring Expenditures</b>
	<i>Cash Utilization</i>
<ul style="list-style-type: none"><li>• K-12 Pay Raise</li><li>• Higher Education Faculty Pay Raise</li><li>• MFP Funding</li></ul>	<ul style="list-style-type: none"><li>• Additional Road Overlay</li><li>• Deferred Maintenance at Universities and State Buildings</li><li>• Repairs/Renovations for Housing</li><li>• Off-system Railroad Crossings and Bridge Program</li></ul>

*The pie graphs on the opposite page show state general purpose revenue appropriations by large categorical grouping for FY96 and for FY97. These pie charts show the emphasis placed on two areas of the budget:*

- Other - including Capital Outlay and Debt Service

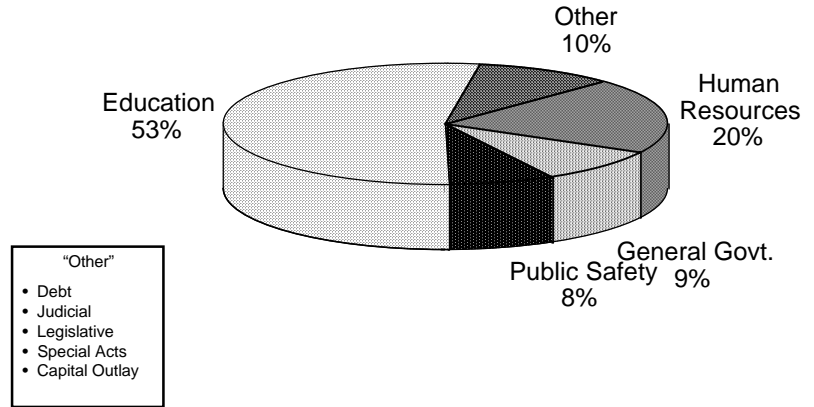
- The state used nonrecurring savings in debt service payments in FY96 to balance the state's Medicaid budget; therefore, FY97 shows the \$107 million increase in debt service needed to account for this action.
- An appropriation of almost \$100 million was made for capital outlay projects.
- As a result, the allocation of state general purpose revenue for FY96 to the Other category was about 10% of the budget and for FY97, the percentage increased to 13%.

- Human Resources - including Medical Vendor Payments

- The state used nonrecurring revenues from current and prior year cost reports and uncompensated care payments as match for federal funds in FY96.
- The federal government capped its participation in the Louisiana Medical Vendor Program at \$2.6 billion; to maintain a Medical Vendor Program size greater than \$3.2 billion, the state must appropriate 100% state funds.
- As a result, the allocation of state general purpose revenue for FY96 to the Human Resources category was about 20% of the budget and for FY97, the percentage decreased to 18%.

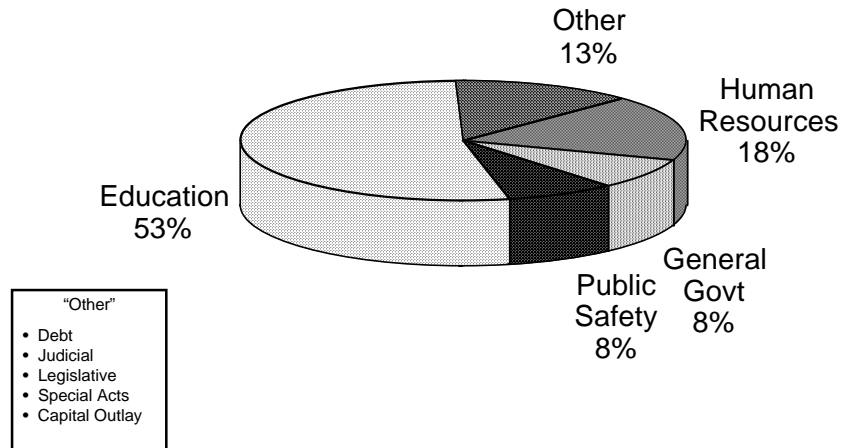
## Fiscal Year 1996 General Purpose Revenue \* Appropriations

\*General Purpose revenue includes State General Fund and Lottery and Casino Proceeds



## Fiscal Year 1997 General Purpose Revenue \* Appropriations

\*General Purpose revenue includes State General Fund and Lottery Proceeds



## **The FY97 Expenditure Picture - Human Resources**

### **The Medicaid Program**

*The size and the make-up of the state's Medicaid Program dominated budget discussions during the 1996 Regular Session. The targeted program size is \$3.2 billion for FY97, which means there will be an approximate \$100 million reduction in combined state and federal funding from the current year funding level, impacting both public and private health care providers. Some of the highlights of the session's Medicaid debates and the DHH plan for handling the budget cut are listed below:*

- Medically Needy Eligibility

Persons incurring high medical costs "spend down" their own resources in order to qualify for the need-based Medicaid program. During the session, DHH proposed to eliminate all optional eligibility programs, including the medically needy program, which were implemented several years ago to maximize federal funding. The elimination of the medically needy program will affect about 8% of the Medicaid population who are currently being served primarily by private providers. If no Medicaid funding or other resources are or become available, the alternative health care delivery system for the medically needy will most likely be the state's public hospital system.

- Other optional eligibility categories

DHH plans to discontinue eligibility for optional Medicaid coverage provided to certain persons qualifying for Supplemental Security Income (SSI) or Aid to Families with Dependent Children (AFDC).

- Private provider reimbursements

DHH has proposed the following reductions:

- Reduce rates for long term care facilities.
- Reduce certain fees paid for long term acute hospital services, physician services, community care services, outpatient therapy services, and outpatient hospital laboratory services.
- Limit prescriptions to 5 per month and initiate a recycling project for drugs.
- Reduce rates by 10% for rehabilitation services, for Early and Periodic Screening, Diagnosis and Treatment services, and for durable medical equipment.
- Reduce case management services and implement prior authorization procedures for certain home health services to effect savings.

In addition , the Legislature specifically addressed the following programmatic areas in the General Appropriation Bill:

- Limited psychiatric rehabilitation option payments to \$8 million and prohibited payments to private mental health clinics.
- Limited non-emergency medical transportation services to \$9.5 million.
- Authorized chiropractic services up to \$6 million.
- Guaranteed funding of \$4.9 million for federally-qualified health centers.

- Of the \$11 million allocated for uncompensated care cost payments to private providers, \$5 million is guaranteed to rural hospitals.
- Added \$2 million for additional Mental Retardation/Developmental Disability (MR/DD) waiver slots.
- Uncompensated Care Cost Payments to Public Providers

The impact of uncompensated care cost payment reductions to public providers is as follows:

- The commissioner is directed to reduce the funding level provided in the General Appropriation Bill for the state's public hospital system by \$26 million.
- DHH psychiatric hospitals will be reduced by about 7%.

### **Louisiana Health Care Authority (LHCA) Facilities**

*Due to the special reimbursement rate policy initiated by the federal government for providers who served a "disproportionate" share of medically-indigent, the state's public hospital system received little to no state general fund support for the past several years.*

*However, with the recently-imposed cap on the availability of federal funds through Medicaid, state policy makers were put in the position of having to decide whether or not to restore state general fund support or to cut services provided through the facilities.*

In order to address the problems of funding the various public hospitals, the Legislature restored funding for LHCA facilities from two sources:

- Nonrecurring federal funds of \$11.7 million from prior year audit settlements were appropriated.
- State general fund of about \$27.5 million was added directly to the budgets for the LHCA facilities.

Including these restorations, the LHCA facilities still appear to be funded at about \$30 million less than current funding available for services.

### **The Department of Health and Hospitals (DHH)**

*DHH has authority for the state's health care programs and all of the state's health care facilities, except for the public hospitals under the control of LHCA. The Offices of Public Health, Substance Abuse, Mental Health, Citizens with Developmental Disabilities and their component institutions received an approximate 3% to 4% budget reduction from current year levels:*

*During the legislative process, restoration of budget cuts in the Office of Public Health were made as follows:*

- Hemophilia case management/blood factor-\$900,000.
- Ryan White grant/ HIV funding - \$2.2 million
- School-based health clinics - \$2.6 million
- Rural hospital grants - \$1 million
- Rural physician loan repayments -- \$546,000
- Children's Special Health Services - \$700,000
- Women Health Service Program - \$300,000

## **The Department of Social Services (DSS)**

*Most of the DSS funding is from the federal government and as a result, federal policy often sets the agenda for program expenditures.*

- A reduction in federal funding for the Aid to Families with Dependent Children (AFDC) was instituted due to a decrease in caseload numbers. Further, the caseload is expected to decline by an additional 4,000 by the end of the fiscal year.
- \$4.4 million in state general fund was appropriated for the foster care program to partially restore the services which had been reduced in Title IV federal programs.
- \$4 million was appropriated for housing weatherization in the Capital Outlay Bill.
- Child welfare funding of \$500,000 was provided for an additional 20 caseworkers.
- The Office of Community Services was funded almost \$500,000 in additional state general fund for juvenile delinquency programs, drug prevention education and economic self-sufficiency through community based programs.

## **The FY97 Expenditure Picture - Education**

### **K-12 Funding**

*The Minimum Foundation Program is the vehicle by which "per pupil" funding is provided from the state level to local school districts. In addition, there are other appropriations which augment K-12 funding levels:*

- MFP funding was increased by \$49 million - to be distributed through the formula which is intended to equalize funding among school districts.
- A \$60.2 million teacher pay plan is built into the revised formula which provides an across-the-board raise for all teachers of \$750; increases above this level depend on the MFP formula which will distribute pay plan revenue to local districts based on their relative wealth, although no state raise will exceed \$1,200. Ultimately, the teachers in the less wealthy districts may receive a greater state pay raise than those in the more wealthy (the so-called, "hold-harmless") districts. The more wealthy districts may give (or have already given) pay raises from local funding. Teachers outside of the MFP formula will also be given a pay raise for a cost of \$2.3 million.
- Non-instructional personnel will receive a \$500 pay raise if sufficient revenues (over those needed to fund the rest of the budget) become available during the fiscal year. The total cost for this purpose is \$22 million.
- Federal funding of \$8.3 million and \$650,000 in state general fund was provided for a new accountability initiative -- LEARN -- and the GOALS 2000 program.
- Almost \$2.9 million (contained in HB 161) for the continuation of the current teacher assessment program and about \$850,000 for norm-referenced testing for three grade levels was provided.

## **Higher Education Funding**

*In general, Higher Education funding is appropriated at a "standstill" level with the following exceptions:*

- A \$48.3 million faculty pay plan, effective 9/1/96, was added to the budget. Since a high percentage of higher education costs is faculty pay, increases in faculty pay are directly linked to bringing state support for higher education closer to Southern Regional Education Board (SREB) comparisons.
- Deferred maintenance on higher education buildings has been cited as an ongoing problem; for FY97, about \$30 million is appropriated for this purpose.
- Increases for new eligibles for the Louisiana Honors Scholarship Program (top 5%) and for the Tuition Assistance Plan (3.0 grade point average; need-based) were added -- about \$2 million.

## **Community Colleges**

*Part of the consent decree on higher education was the establishment of a Baton Rouge community college; the General Appropriation Bill contains \$1.5 million for operations and the Capital Outlay Bill contains \$6.6 million for acquisition and construction. In addition, there are planning funds of \$200,000 for the Lafayette community college.*

## **Vocational-Technical Education Funding**

*The funding level remains static, although the debate centered around eliminating the regional office structure. Funding to partially restore the regional offices was added by amendment on the Senate floor at the same time partial funding for other newly-added positions was eliminated.*

## **The FY97 Expenditure Picture - Public Safety and Corrections**

### **Public Safety Services**

*In addition to increased funding available to Public Safety for enforcement activities related to Riverboat Casinos, other items were funded as follows:*

- Additional officers for the Detectives and Narcotics Sections and the Crime Laboratory were included.
- Interagency transfers from the Riverboat Gaming Enforcement Fund were added for distribution to local law enforcement agencies for their costs associated with the Automated Fingerprint Identification System (AFIS).
- Interagency transfers from the Riverboat Gaming Enforcement Fund were appropriated for the operations of the Louisiana Gaming Control Board established in the First Extraordinary Session of 1996.

### **Corrections Services**

*Under constant scrutiny by the federal courts, the state continues to expand prison capacity:*

- About \$10.4 million was added for increased housing of state inmates in parish jails.
- About \$1.9 million for 20 additional beds at the Talullah Correctional Center for Youth and \$771,000 for the Caddo Detention Center to provide residential care for geriatric and disable inmates was included.
- Approximately \$1 million was appropriated for an inmate trash clean-up project in six major metropolitan areas.

## **The FY97 Expenditure Picture - Other Government**

### **Executive Office**

*New funding, approximately \$650,000, was provided for eight (8) additional staff members for the Governor's office.*

*Additional funding for pay raises, not to exceed \$650,000 (including roughly \$266,000 in state general fund), was appropriated for cabinet level appointees.*

*An appropriation of \$500,000 was made for the Youth Challenge Program.*

### **Economic Development**

*\$5 million from the Louisiana Economic Development Corporation was allocated for the Economic Development Award Program, which is a new infrastructure incentive program to recruit and retain business entities.*

*A variety of economic programs received new or additional funding for FY97; some of the programs include: Louisiana Partnership for Technology and Innovation, METROVISION Partnership, the Independence College Bowl and the Superbowl.*

### **Culture, Recreation, and Tourism**

*\$1.6 million was appropriated for the restoration (including acquisitions), promotion, and staffing of Louisiana state parks.*

*Another \$2.6 million was provided for the needs in the Offices of the State Library , Film and Video, Cultural Development and Tourism .*

### **Supplemental Pay**

*Included in the FY97 budget is an average \$75 per month increase in state supplemental pay (to \$278 per month) for deputy sheriffs, municipal police and firefighters.*

### **Risk Management**

*The state's unfunded accrued liability (UAL) in regard to potential judgments against the state is about \$1 billion. About \$115 million is appropriated in state general fund for judgments in FY97. Another \$123 million, originally intended as partial payment to build reserves against this UAL, was diverted for other purposes.*

### **Parish Transportation**

*The maintenance and repair of parish roads received an \$8 million enhancement in state funding.*

*Moreover, the off-system railroad crossings and bridge program received an enhancement in statutory dedications of \$700,000 and \$4 million in state general fund (HB 210).*

*\$1.5 million for non-emergency medical transportation services to be provided through mass transit was allocated from the Medical Vendor Program in DHH.*

### **Overlay**

*An additional enhancement of \$50 million, of which \$37 million is state general fund, over the FY96 level of spending, was directed into the state's overlay program.*