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Louisiana Budget Project

A responsible approach to Louisiana's budget

The \$31.8 billion proposed budget Gov. John Bel Edwards released Feb. 22 comes amid a period of financial stability in state government after a decade marked by fiscal turmoil. Steady economic growth, combined with the Legislature's decision to partially renew a sales tax that was due to expire last year, means the state can expect enough revenue in 2019-20 to fund key health care and education programs without any damaging cuts to services.

Nevertheless, uncertainty hangs over the annual budget deliberations due to House Speaker Taylor Barras' refusal to recognize an official revenue forecast for the fiscal year that begins July 1. Barras is one of four members of the Revenue Estimating Conference, which must adopt a forecast by unanimous vote before it can be used in state budgeting.

Without an official forecast in place, the governor had two unpleasant choices: He could submit an executive budget proposal based on a long-range forecast developed in June 2018, which did not include an official forecast for revenues that derive from dedicated fees or from "self-generated" revenues, such as college tuition payments. Or, he could base his budget recommendations on the revenue forecast developed by a state economist, but not yet recognized by the forecasting panel. He chose the latter, and explained his reasoning in [a message to the Legislature](#):

What is the Revenue Estimating Conference?

Established in response to the economic turmoil of the 1980s, the Revenue Estimating Conference (REC) is designed to insulate the budget process from political pressures and ensure that state budget are built on the most accurate, independent and transparent revenue estimates that are available. The four-person panel is comprised of the Governor, President of the Senate, Speaker of the House of Representative and a faculty member of a Louisiana university or college with expertise in forecasting revenue. The forecasts are prepared by state economists and adopted by the REC in votes that must be unanimous.

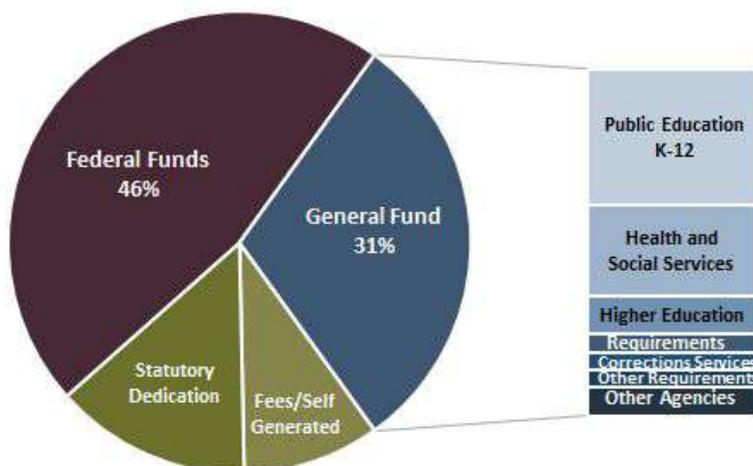
No public purpose is served for me to submit a document that has no substance or value and does not reflect the improved projected state revenue situation. Doing so would lead to absurd consequences and needless widespread confusion. I would be required to submit a document that does not reflect the state's true financial picture – without dedicated funds, self-generated fees, and revenues much less than the projected increase in taxes, licenses and fees. We are entering a short legislative session and we need to start the budget process with the true picture of the state's finances so we can do the people's business. We need to have a realistic budget proposal on the table right now and that's what I am submitting.

While it's not an executive budget, the proposed budget serves the same function: It lays out a blueprint for state spending in 2019-20, based on available revenues, and serves as the starting point for debate by the Legislature on Louisiana's priorities.

BUDGET OVERVIEW

The \$31.8 billion budget proposal covers the executive, legislative and judicial branches of government and represents about \$800 million more in investments than the budget approved last year. In recent years, the growth in the state budget has largely been concentrated in health care, where the expansion of the state's Medicaid program has brought an infusion of federal dollars. This year continues that trend with large contributions of federal dollars being leveraged for gains in both the state economy¹ and the health outcomes of low income Louisianans.

Figure 1. The largest share of Louisiana state budget is comprised of federal funds



The largest portion of the 2019-2020 state budget (\$14.7 billion) is comprised of federal dollars, most of which goes to health care services. The state general fund - money the state collects from sales, personal income, gambling and other taxes - is \$9.7 billion, while the remaining \$7.4 billion comes from fees charged for various services, "self-generated revenues," such as tuition, and money dedicated by law to a specific purpose, such as gasoline taxes that go toward road projects.

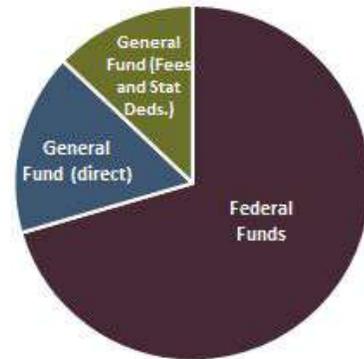
Most of the money in the state budget is spent on vital services in three main areas: health care and social services, public K-12 schools and higher education. Together these priorities account for about 75 percent of spending from both the general fund and overall budget. But much of this money is spent automatically, either because the state constitution or the law requires it. Less than \$4 billion of the entire budget is truly "discretionary" - meaning legislators can spend it any way they wish.

¹ According to a recent report from LSU, "[Medicaid Expansion and the Louisiana Economy](#)," (2018), since FY17 Medicaid expansion leveraged an infusion of \$1.85 billion in federal funds to generate \$3.57 billion in economic activity and has created or retained 19,000 jobs.

HEALTH AND SOCIAL SERVICES

Louisiana's investment in health and social services represents the largest single share of the state budget, totalling \$15.9 billion. The largest portion of this investment flows from federal dollars and totals more than \$11 billion, the majority of which goes toward the state's Medicaid program. It is also the fastest-growing part of the budget, thanks mainly to the expansion of Medicaid eligibility in 2016 to include low-income adults. More than 500,000 low-income adults have gained coverage through expansion, with the federal government covering most of the cost and the rest covered by fees charged to health insurers. The coverage gains are preserved in the budget proposal, and federal dollars will cover 91.5 percent of the cost of the expansion population for the coming budget year.

Figure 2. Health and Social Services are majority funded by federal dollars



For the non-expansion parts of the Medicaid program, the federal government is picking up 66.4 percent of the cost, up from 64.7 percent in the current year. That increase is expected to save the state \$26 million.

The overall budget for the Louisiana Department of Health is growing by nearly \$1 billion. But the state's share of that is just \$10.9 million - an increase of 0.44 percent over current-year spending. Federal funding is growing by \$780 million, or 7 percent above 2018-19 levels.

Most of the growth in Medicaid is driven by increased enrollment due to expansion, and by incentive payments to the private insurers that oversee the care of the expansion population. Even so, the monthly premium payments for these managed care organizations (MCOs) are at the lowest level that's considered actuarially sound, and the rates paid to some providers of home care services for the elderly and disabled are still below what they were in 2008.

The Department of Children and Family Services is poised for a modest 2.1 percent budget boost - \$16.7 million total - that will be used in part to provide a more streamlined application process for people who need to access benefits, such as food and cash assistance. It also will be used to provide group homes for adults who have recently aged out of the foster care system.

PUBLIC EDUCATION

The budget proposes an investment of \$5.5 billion in public education, including K-12 schools and early child care and education (ECCE). The vast majority of state support for public schools comes from the Minimum Foundation Program (MFP), the constitutional funding formula that funnels dollars to local

school districts. The MFP is the largest single draw on the state general fund, and is projected to cost around \$3.8 billion.

The budget proposal includes a \$140.2 million increase for public K-12 schools. The majority of this amount will go to school employee raises, with \$75.7 million allocated for \$1,000 across-the-board teacher and certified (nurses, counselors, etc.) personnel pay raises. Another \$25.6 million will be used for \$500 across-the-board raises for non-certified personnel, such as bus drivers, teaching assistants and cafeteria workers.

The remaining \$38.9 million will be used to increase base per pupil spending by 1.375 percent, bringing Louisiana’s base per pupil spending up to \$4,015 from \$3,961. For many years, per pupil spending increased by 2.75 percent each school year to help districts keep up with rising inflation costs and teacher pay increases. Since base per pupil spending was stagnated in 2008 as a response to the Great Recession, this increase would only be the second boost to per pupil spending in more than a decade.

A one-year bump is not enough

When state funding is stagnant as it has been for the majority of a decade, local communities must raise the money necessary to keep up with the rising costs of group benefits, pensions, classroom tools, maintenance and salaries. Forcing school districts, especially high-poverty school districts, to contribute more when the state doesn’t keep up its fair share places further barriers on the students and families of these communities who are trying to use public education as an economic mobility tool.

The budget also does not include additional funds for Early Childhood Education. Federal money currently assisting with Louisiana’s early childhood programs may be expiring, which will leave a gap of \$8.8 million. Lack of these funds could drastically increase the current waitlist of 3,500 children for early childhood services.

HIGHER EDUCATION

The budget calls for spending a total of \$2.8 billion on public colleges and universities, but most of that money comes through tuition and fees, which account for \$1.5 billion of the total. After a decade where [Louisiana led the nation in cutting state support](#) for public colleges and universities, the 2019-20 proposed budget calls for a modest \$6.2 million increase for academic campuses and

Figure 3. Public Education funding is majority General Fund dollars which funds the MFP

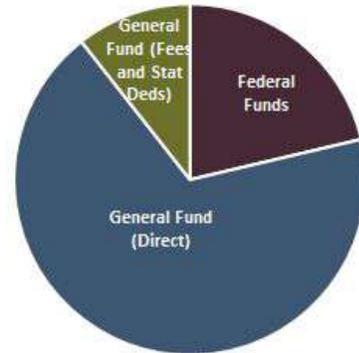
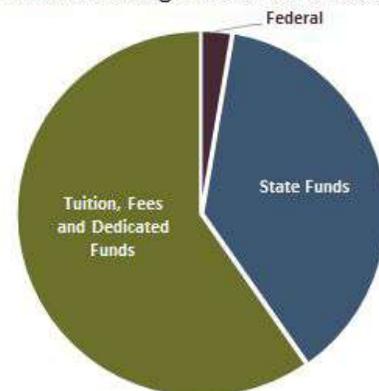


Figure 4. Higher Education is majority funded through tuition and fees



another \$4.5 million for “specialized units,” such as the LSU and Southern University Ag Centers.

This added funding is not enough to cover an \$18 million increase in mandatory costs that campuses are required to pay for things, such as employee retirement and insurance coverage.

The budget also proposes a \$15 million increase in spending on TOPS, the popular merit-based scholarship program, to account for increased participation. If approved, it would bring the total cost of the program above \$300 million. Funding for GO Grants, which go to students that demonstrate financial need, is flat at \$28.4 million. While TOPS operates as an entitlement program, serving everyone who qualifies, the budget for need-based aid doesn’t change based on the number of applicants, meaning the grants get smaller as more people apply.

Work left to be done

The Board of Regents had requested an additional \$168 million to increase affordability for families and students and support targeted at reinvestment in higher education. This increase, which was not included in the budget, would have allowed colleges and universities to cover increasing cost without raising fees and to give all faculty a \$1,000 pay raise. The Regents also called for an additional \$34 million to fully fund the GO Grants program, which did not make it into the budget.

Still, the proposed budget reverses the damaging trend of cuts to higher education, removes the uncertainty surrounding the TOPS program and keeps the GO Grants program stable. However, much more work is needed to keep college affordable for everyone while ensuring universities have the resources they need to train students for tomorrow’s economy.

CONCLUSION

The proposed budget is far from perfect. It is hamstrung by the state’s upside-down tax structure and continued reliance on cutting the pie into smaller pieces instead of considering how to grow the pie. Its reliance on sales tax revenue to fill the general fund continues to balance the budget on the backs of low-income and minority residents. Although the proposed budget represents the kind of financial stability Louisiana hasn’t experienced in several years, it still falls short of meeting the state’s needs in some critical areas:

- Funding for need-based aid program, GO Grants, to ensure that post-secondary education is affordable for anyone willing to put in the work to get a degree or certificate;
- Investing state dollars where they have the greatest payoff - in high-quality early care and education programs for children 0-3 that get kids ready for school and allow parents to work;
- Vital gains in the Medicaid program are threatened by low rates for some providers that could discourage participation in the program;
- The funding formula for K-12 education will continue to lag behind other states unless it’s adjusted for inflation each year.

These important investments would help grow Louisiana's economy and help create a healthier, more educated and productive workforce. But it requires reform of the state's broken tax structure and doing away with some of the unproductive tax breaks that hold Louisiana back.² Still, the 2019-20 proposed budget represents a good start toward a more sustainable economic future.

The proposed budget may be found [here](#). The administration's presentation to the Joint Legislative Committee on the Budget is [here](#).

-By Stacey Roussel, Neva Butkus and Davante Lewis

² [Blueprint for a stronger Louisiana \(2017\)](#)