State of Louisiana
Office of the Governor
GOVERNOR BOBBY JINDAL

FOR IMMEDIATE RELEASE
April 16, 2010
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Jindal's Plans to Address Shortfalls Protect Higher Education, Health Care, Avoid New Layoffs or Furloughs & No New Taxes

BATON ROUGE – Governor Bobby Jindal outlined a plan today to address the shortfall for the current year and next fiscal year that does not raise taxes, avoids additional layoffs or furloughs of state workers, and includes no additional reductions to higher education campuses.

Governor Jindal said, "We worked hard to protect higher education and health care. We are not proposing any additional reductions to higher education campuses in the FY 10-11 budget and we are not proposing any reductions to higher education in FY 09-10 beyond their expected savings from the current hiring and spending freezes already in place. We also did not propose any additional rate cuts in health care services. These plans also do not include any additional layoffs or furloughs of state workers.

"This highlights our continued work to protect critical services – especially in higher education and health care – even as we work to tighten the belt on state government and live within our means just as Louisiana businesses and families have to do during this recession.

"We knew that toward the end of the fiscal year it would not be responsible to ask agencies to make dramatic cuts with only a few months in the budget year left to absorb them. The plans we are announcing today work to protect critical services by avoiding dramatic reductions in health care and higher education especially – as they are the largest unprotected areas in the budget. These plans do not use any Rainy Day Funds in either this current FY 09-10 budget or the FY 10-11 budget.

"We committed to House and Senate leadership that we would work alongside them throughout this process to ensure that our critical services are protected and that we are balancing the budget in a way that brings us closer to the New Louisiana we have been working toward since day one."

The Revenue Estimating Conference (REC) made a revised estimate on Wednesday pegging the current year (FY 09-10) deficit at $319 million. This $319 million is combined with another $47.9 million in existing supplemental needs that contributed to a total $366.9 million shortfall. These supplemental funding needs are routine and happen regularly in the budgeting process. The Governor's plan for the FY 09-10 budget makes use of available funds and savings from the executive orders he issued to freeze expenditures and the hiring of new employees.

Governor Jindal is submitting the plan for the FY 09-10 budget shortfall to the House today and expects Representative Jim Fannin to file it as a supplemental bill.

Main components of the plan to address the FY 09-10 budget shortfall:

- $16 million – Funds in the Over-collections Fund
- $13 million – Saving due to the fact that the FY 10 budget was constructed assuming a GO bond sale of $500 million but the bond sale was reduced to $200 million – thus reducing the amount the state paid in debt service
- $2.4 million – Savings from lower than expected debt service rates
- $12.4 million – Savings from a bond premium that resulted from the fall general obligation bond sale
- $23.5 million – Unused funds appropriated to the Interim Emergency Board
- $17 million – Funds resulting from the state's settlement with the Eli Lily Drug Company
- $22.3 million – Savings from cuts to statutorily designated funds
- $35.5 million – Savings from executive department agencies resulting from the Governor's executive orders calling for a spending freeze and a hiring freeze
- $29.5 million – Savings from higher education resulting from the Governor's executive orders calling for a spending freeze and a hiring freeze. Specifically, the savings by the higher education system, which was identified by higher education leaders, breaks down to include:
    - UL – $14.2 million
    - LSU – $10.4 million
    - LCTCS – $2.728 million
    - Regents – $1.5 million
    - Southern – $688,195
- The remaining $195.3 million needed to meet the current budget year shortfall comes from DHH funds by first using certified public expenditures, and second, using cost reports that were saved to help pay down the LSU disallowance.

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Certified Public Expenditures (CPE):

DHH currently has a CPE fund balance of $62 million. To assist in resolving the most recent revenue shortfall and the Medicaid expenditure deficit, the state will use **$40.8 million in CPEs** in the current budget year.

Governor Jindal said, "We are using these funds instead of further cutting rates for providers because we already have rate reductions factored into our budget."

Previously, CPEs have been carried forward and in the future they will be used as a continuing means of financing in the year they are earned rather than being carried forward as was done in prior years.

Cost Reports Disallowances:

The remaining $154.5 million needed to meet the shortfall this year will come from submitting cost reports DHH saved to help pay for the LSU disallowance, which arose from payments to LSU between 1996 and 2007 that the federal government would not cover as allowable costs under the Medicare/Medicaid programs.

Cost reports are a fancy term for DHH's "invoices" to the federal government for Medicare/Medicaid expenses. Health care providers report their costs of providing Medicare/Medicaid services to DHH and the Department then sets reimbursement rates with the federal government.

The state has already settled two other disallowances leaving only the LSU one. The two settled disallowances totaled approximately $426 million and included the Road Hazard Disallowance and the Nursing Home Disallowance.

The Road Hazard disallowance involved the state's self-insurance fund and was originally issued by the U.S. Department of Health and Human Services in 2005. The state worked to reduce this disallowance to the original base amount of approximately $150 million, a more than 50 percent reduction in the total disallowance. Payment of this disallowance will be over a 10-year period with the first annual payment due July 1, 2013.

The Nursing Home disallowance involved $116 million in Federal Financial Participation-related to payments made to non-state government owned nursing homes as part of an Intergovernmental Transfer between the state and these homes between 1999 and 2001. DHH was advised to settle outside of the appeals process and sought JLCB approval to pay the disallowance by transferring funds from the Elderly Trust Fund to the State Treasury to make payments to the federal government. The first repayment on this disallowance was made March 31, 2010 and payments will continue over the next four to five quarters

The third ongoing disallowance negotiation, the LSU one, is related to more than $362 million in DSH overpayments by DHH to LSU between 1996 and 2007. DHH is still in the appeals process, negotiating the payment with the federal government. DHH believes it can offset $76 million of this potential disallowance, bringing the total down to $286 million.

DHH has been withholding Medicaid cost report settlements totaling $244.5 million, in order to accumulate savings to be used as a possible payment to help settle this disallowance. DHH expects these payments to be due in FY 11 and FY 12.

Main Components of the $47.9 million in existing supplemental needs in the current FY 09-10 budget:

- $25.8 million – Shortfalls in funding for the local housing of state offenders
- $8 million – Replacing lost federal funds and self generated revenues at Jackson Barracks and other military institutions
- $5.6 million – Supplemental pay needed for municipal police, firefighters and deputy sheriffs
- $4.9 million – To address a projected shortfall in TOPS

As the Governor noted, having supplemental needs in a current budget year is routine and happens regularly in the budgeting process.

DHH Deficit

In addition to these supplemental needs on top of the REC projected deficit, DHH has a department shortfall totaling **$108.7 million**. Fully, $22.6 million of this $108.7 million total shortfall is an expenditure deficit from paying out more than expected for increased utilization to public and private providers. Fully, $6 million of this total is from utilization at the LSU Health Care Services Division and $15 million is for private Medicaid providers. The remaining $86.1 million is a portion of DHH's midyear shortfall in December, which is in accordance with the plan the department presented to address their December shortfall.

- DHH will use the remainder of the total $62 million in CPEs to address their own department deficit. This amounts to around **$21.2 million in CPEs**.

Additional components:

- $44.7 million will come from unused Medical Assistance Trust Fund (MATF) dollars
- $9.4 million is from increased federal funds for DHH
- $24.6 million are from DHH overcollections – available fund balances within DHH
- $9.6 million is Uncompensated Care unused funds
- $4.9 million in funding comes from submitting a LSU-S cost report

Many of these federal funds have to be spent no later than the end of FY 11.

Components of plan to address the FY 10-11 budget shortfall:
For FY 10-11, REC projected a $244.7 million shortfall. Adding to this total, the state will need to restore the money from the cost reports used in the FY 10 budget so the state can pay down the LSU disallowance. This adds another $154.5 million to the REC projection, which brings the total to $399.2 million in additional funds needed for the FY 10-11 budget.

Governor Jindal said, "It is important for us to restore the $154.5 million for the LSU disallowance because payments will come due in 2011 and we must not make our financial challenges even worse by not paying this money we expect to owe the federal government."

"In our budget, we assumed the state's FMAP rate would fall from 81 percent to 63 percent due to the faulty federal FMAP formula starting in January 2011. We now know that is not the case under current law or under what is in the President's budget or what Congress is expected to soon approve."

The Governor's plan to address this shortfall includes $106 million in existing funds from federal legislation to address the effects of the faulty FMAP formula on the state's Medicaid funding. This $106 million (which represents a 68.04 percent federal match rate in current law) is expected to increase by $321.4 million (which will reflect an 81.48 percent federal match rate) to a total of $427.4 million when newer legislation supersedes this provision. This legislation currently in Congress will grant Medicaid assistance to all states. It is attached to popular tax extender legislation and versions of the legislation have passed both the House and the Senate separately.

The Governor noted that the plan for the FY 10-11 shortfall will have $28.2 million more than needed. The Governor said the remaining funds will go towards paying back the cost reports used in order to eventually help pay down the LSU disallowance.

Governor Jindal said, "I want to be very clear on this point – we expect there will be those who want to use this federal money to grow government. This would be one of the worst things we could do, as we expect future budget challenges in FY 11-12.

"Instead, we will use a majority of these federal dollars to pay back the federal government. We will not use cost reports in FY 10-11 to meet our shortfall just so we can use more federal funding to grow government with a one-time influx of funds that would only make our financial obligations worse down the road."

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