

# The Louisiana Paradox:

A Philosophical Discussion  
of Louisiana's  
Chronic Fiscal Crisis

## The Louisiana Paradox:

*Louisiana is one of the leading spenders  
(per capita) in the south*

*Louisiana has major underfunding problems  
when addressing any particular agency or  
program.*

In this report the paradox will be explained -  
and (difficult) solutions will be proposed

An Example of the Paradox:

**Health Care Expenditures:**

La. hospital expenditures per capita rank near the top in the south

La. is second in the south in Medicaid/UCC expenditures per recipient

**Health Care Funding Needs:**

The state charity hospital system is in dire need of additional funding.

Many public parish and private hospitals are losing money and closing

Overcapacity is severe

**Health Care Results:**

La. ranks near the bottom of most categories

Despite dramatic increases in funding, La.'s rankings are falling dramatically relative to other states

## State Funds per Capita-97

State Rank	State	State Funds per Capita-97	National Rank
1	Ky	\$2,293	18
2	WV	\$2,203	23
3	Va	\$2,159	25
<b>4</b>	<b>La</b>	<b>\$2,113</b>	<b>29</b>
5	NC	\$2,069	33
6	SC	\$2,003	35
7	Ark	\$1,992	36
8	Ok	\$1,967	37
9	Al	\$1,836	42
10	Ga	\$1,830	43
11	Ms	\$1,827	44
12	Fl	\$1,770	46
13	Tx	\$1,638	\$48
14	Tn	\$1,545	\$49
	South	\$1,865	
	National	\$2,180	

La. is \$248/capita over the southern average.

\$ impact = \$1.079 billion

La. is the only state with a massive Charity system  
funded at the state level = \$270 million SGF

U.S. census data indicates that La. is 4th in the south in state funds per capita amounting to \$1.1 billion above the southern average.

However the DOA claims that they incorrectly reported federal highway funds as state funds.

What happens when we adjust for this error?

## Total Non-Federal State Revenue

### State Funds per Capita-97 -adjusted for DOA error

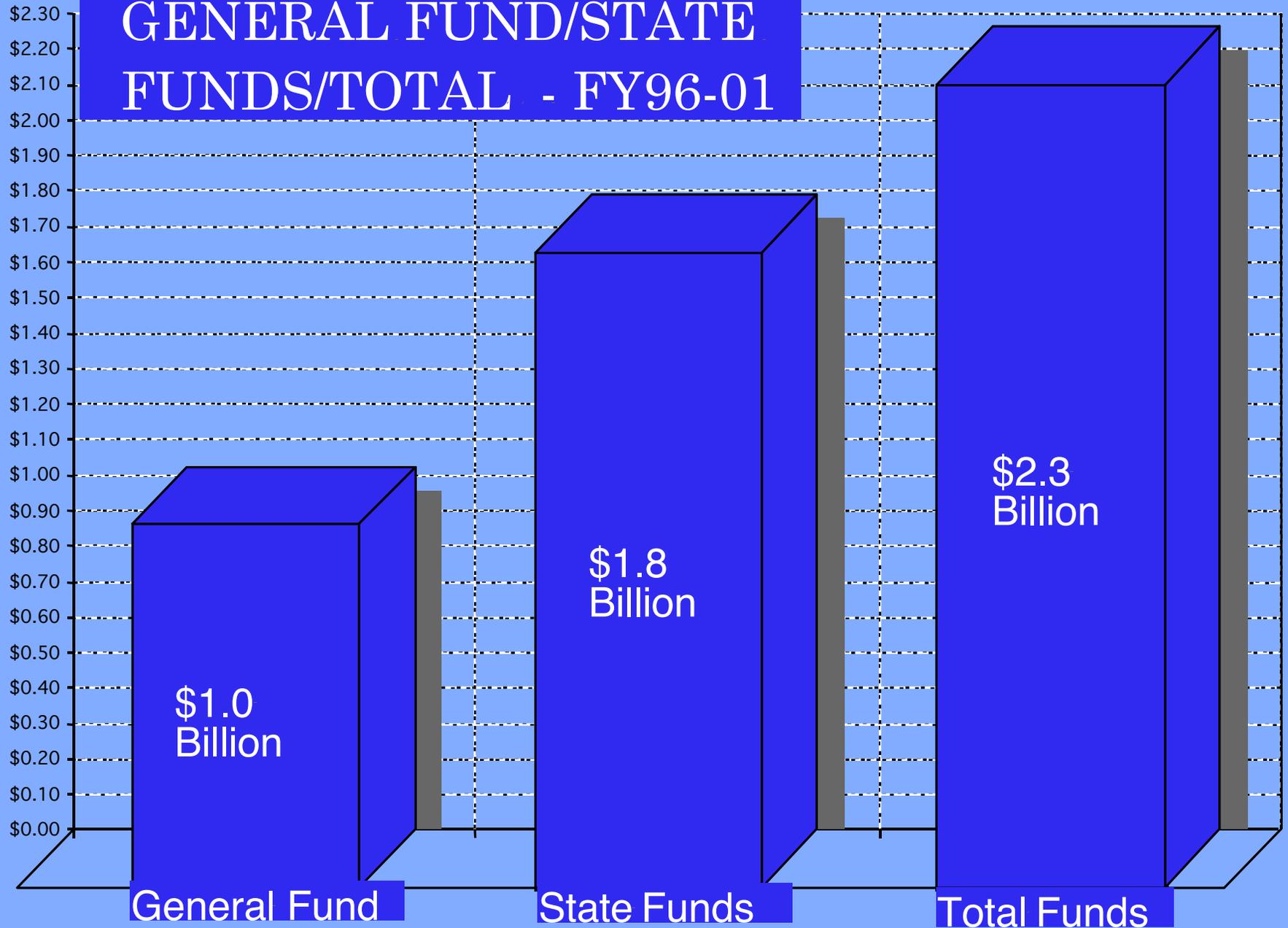
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	South	<b>\$1865</b>
	National	\$2,180

La. over the southern avg- |\$786.90

After correcting for the DOA's error in reporting federal highway funds as state funds.....

La. is still \$786 million over the southern average.

# NET GROWTH IN STATE GENERAL FUND/STATE FUNDS/TOTAL - FY96-01



The data used is from 1997.  
Since that time, the La. budget  
has continued to expand:

\$1.8 billion over 5 years (FY96 - 01)

\$2.3 billion in total funds

## Statewide

State	Full-Time Employees Per 1000 capita	State Rank	State	Full-Time Avg. Salaries	State Rank	Total Annual Payroll per capita	State Rank	
<b>Louisiana</b>	<b>19.75</b>	<b>1</b>	Virginia	\$37,428	<b>1</b>	<b>Louisiana</b>	<b>\$660.2</b>	<b>1</b>
Oklahoma	19.72	2	Florida	\$36,275	2	Arkansas	\$624.0	2
South Carolina	18.79	3	North Carolina	\$35,069	3	Oklahoma	\$612.4	3
Arkansas	18.12	4	Kentucky	\$34,504	4	South Carolina	\$612.0	4
Mississippi	17.62	5	Georgia	\$33,924	5	Mississippi	\$598.4	5
West Virginia	16.71	6	Texas	\$33,868	6	Kentucky	\$590.8	6
Alabama	16.39	7	Alabama	\$33,046	7	Virginia	\$590.5	7
Kentucky	15.69	8	Tennessee	\$32,981	8	Alabama	\$587.9	8
North Carolina	14.36	9	Arkansas	\$31,789	9	West Virginia	\$553.7	9
Virginia	14.08	10	Mississippi	\$31,686	10	North Carolina	\$547.5	10
Georgia	13.00	11	<b>Louisiana</b>	<b>\$31,078</b>	<b>11</b>	Georgia	\$487.5	11
Tennessee	12.88	12	West Virginia	\$30,766	12	Tennessee	\$471.3	12
Texas	12.14	13	South Carolina	\$30,720	13	Texas	\$447.8	13
Florida	10.70	14	Oklahoma	\$28,319	14	Florida	\$421.3	14
South	14.09		South	\$33,596		South	\$516.0	
United States	12.92		United States	\$38,725		United States	\$552.8	

The U.S. Census Dept. utilized a March, 1999, payroll run to generate data on state salaries.

The results?

Not surprisingly, La. is # 1 in payroll per capita, despite being # 11 in average salary.

*Fiscal Alternatives:  
(Fiscal Reform)  
Tax Reform vs. Expenditure Reform*

Louisianians have been misled into believing the following axiom:

Since Louisiana's tax base grows more slowly than the economy, it does not provide sufficient growth for state and/or local government operations. Therefore Louisiana must have fiscal reform.

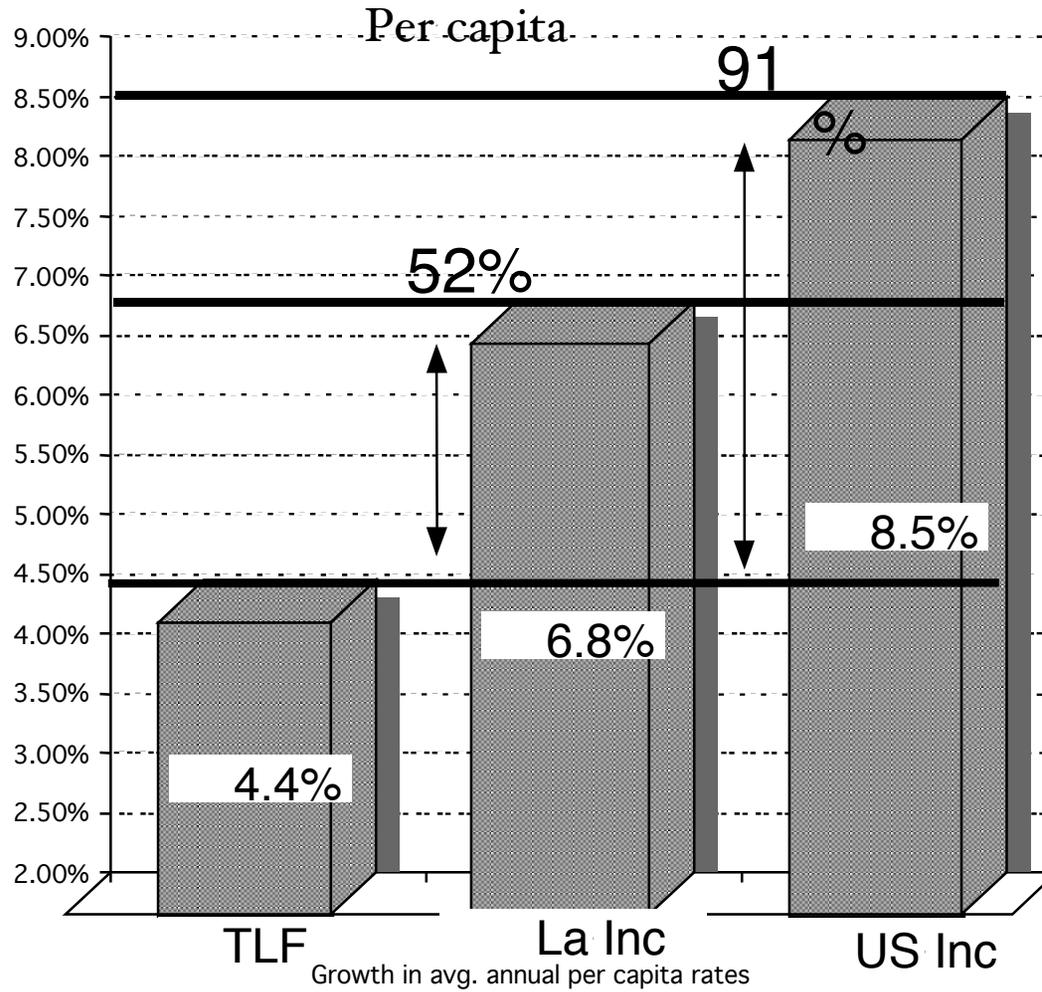
What is misleading is that the outside "experts" implicitly define "fiscal reform" as "tax reform" and "tax reform" as the need to increase taxes.

In fact, the book widely considered to be the Louisiana Bible on fiscal reform, “Louisiana’s Fiscal Alternatives” devotes only 13 pages of its 379 pages to expenditures (an overview) and no pages about expenditure reform. All 19 chapters are devoted to taxes.

La. needs to revamp its tax code, but tax increases should not be part of the effort. Furthermore, tax reform is not the most critical problem with our state government. Below we will demonstrate that expenditure reform is not only needed, but is essential for the future of our state. Additional funding has not nor will not solve the problem.

We must face the reality of the most momentous problem facing our state government - **inefficiency in the delivery of services.**

Taxes, Licenses, & Fees vs Income Growth



Demonstrating the flaw in the tax reform axiom:

The chart below compares the average annual per capita growth of the following data from 1982 to 2002:

- 1) State taxes, licenses and fees (TLF) - this is the category of revenues that the Revenue Estimating Conference uses to establish the state's level of spending. It encompasses taxes such as personal and corporate income taxes, sales taxes, mineral income, etc., but omits many state fees. It is a subset of "total state funds".
- 2) La. Personal Income
- 3) U.S. Personal Income

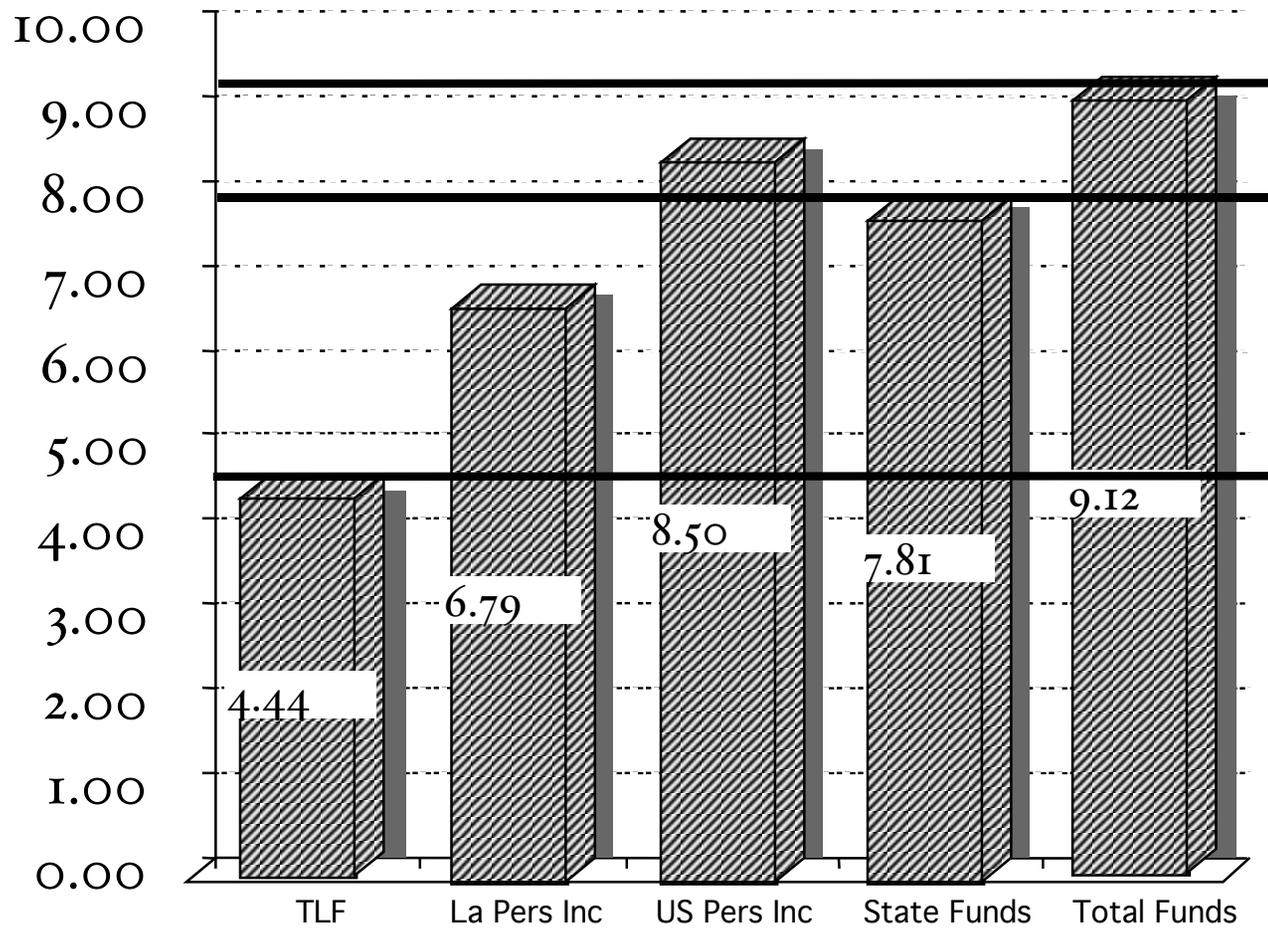
State taxes, licenses, and fees (TLF) has only averaged 4.44% annual growth for the past twenty years. This growth barely keeps pace with inflation, much less fund enhancements or keep pace with other states. La. personal income per capita outperformed TLF by 52% from 1982 to 2002 (forecast) and U.S. income growth (per cap) exceeded TLF (per cap) by 91%

This is the (flawed) “proof” that La. must have :

## **FISCAL REFORM** **(tax increases)**

However, the outside “experts” are wrong.

# TLF, State Funds, Total Funds



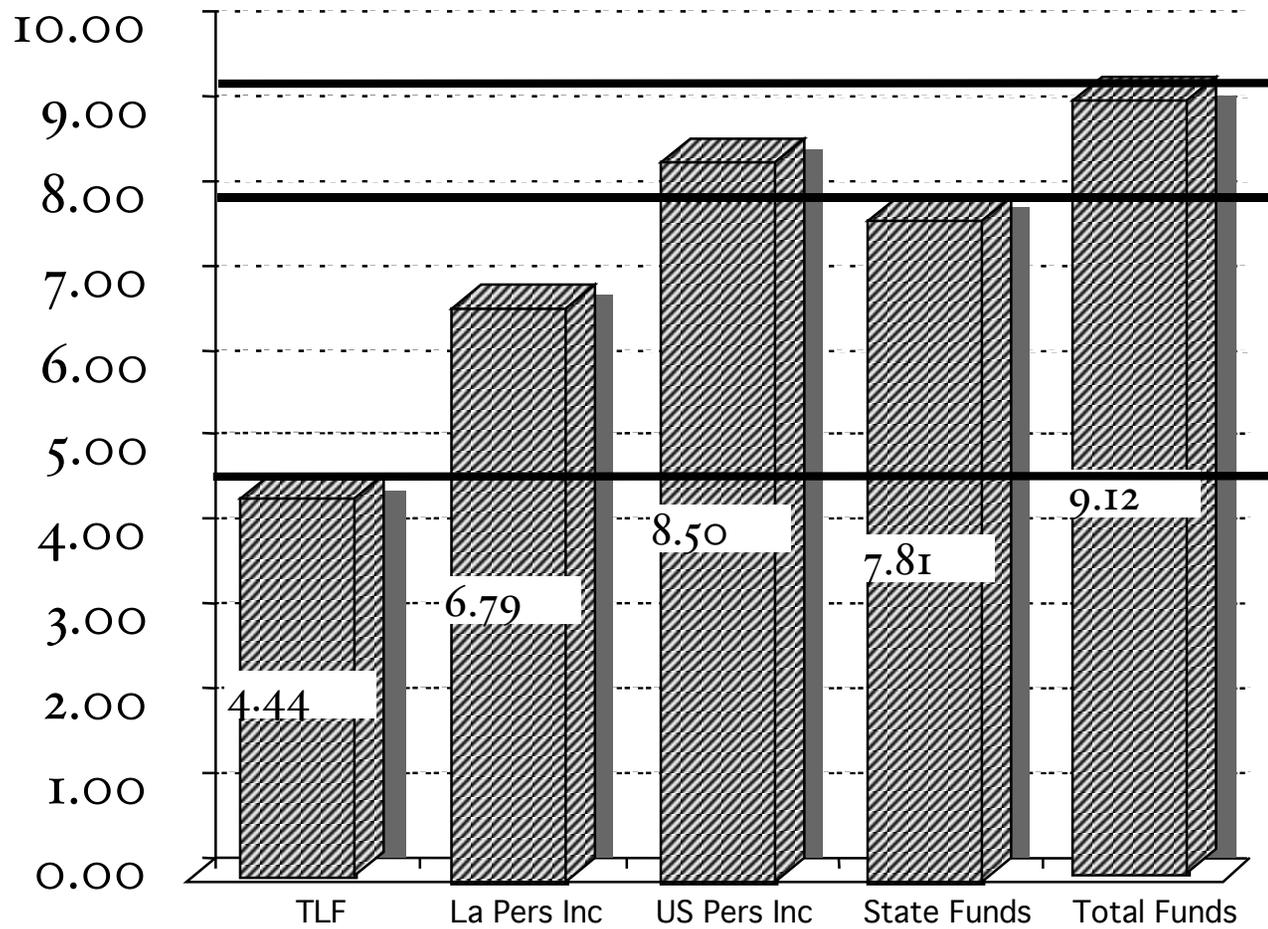
TLF is a subset of funding received by the state from the state's citizens and businesses.

**Total State Funds** - This category includes TLF and also encompasses various fees such as tuition, etc. It includes all taxes licenses, and fees collected by the state that originate directly from La. citizens and business activity.

**Total Funds** - adds federal funds to the above.

The chart below compares total state funds and total funds to TLF and income growth.

# TLF, State Funds, Total Funds



**State funds per capita** grew at an annual average rate of **7.81%** over the past twenty years, **far exceeding the income growth of our citizens (6.79%) or TLF (4.4%)** during that time period.

**Total funds per capita**, which includes funds from the Federal government, grew at almost a double digit rate of **9.12%** annually.

Given this strong growth, the question that should be asked is.....

**“Why is Louisiana still struggling with a myriad of serious funding problems such as:**

a lack of teacher’s pay.....

higher education funding near the very bottom.....

top ranked health care spending but declining health care results.....

proposed health care budget cuts that are devastating....

and highway construction funding problems in the billions of dollars.....

....after having just  
experienced ....

*20 years of nearly*

*double digit*

*(9.12%) annual*

*average*

*budget growth?*

LA. HAS SUFFICIENT  
FUNDS TO DELIVER THE  
NECESSARY SERVICES.

And yet it can't seem to.....

**.....the state certainly appears to be underfunded:**

No merit or inflation funding for agencies in over a decade

The administration has imposed mid-year budget cuts in two consecutive years.

The DOA has proposed a reduction of over 70,000 emergency room visits in the Charity hospitals

The DOA has proposed a reduction of over \$300 million to the private health care providers

DOA has returned to the practice of raiding the risk management fund

The Administration is tinkering with every future revenue stream it can get (tobacco, UAL, ...)

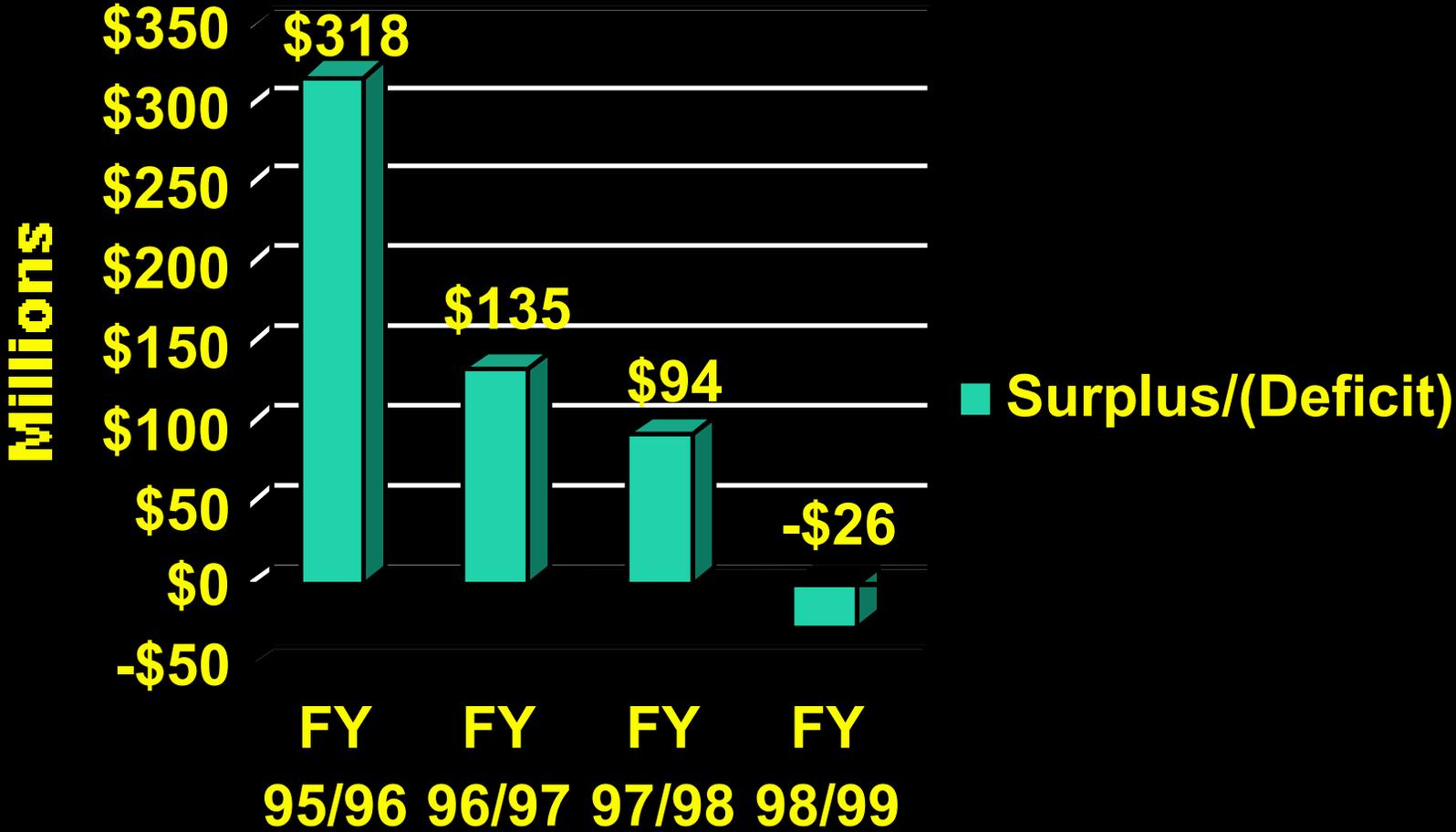
The Administration has had two consecutive tax raising years

DOA is freezing budget levels regardless of funding source

DOA has managed the state into two straight large end of year deficits

and the list goes on and on....

# State Surplus- the state's fisc deteriorated annually



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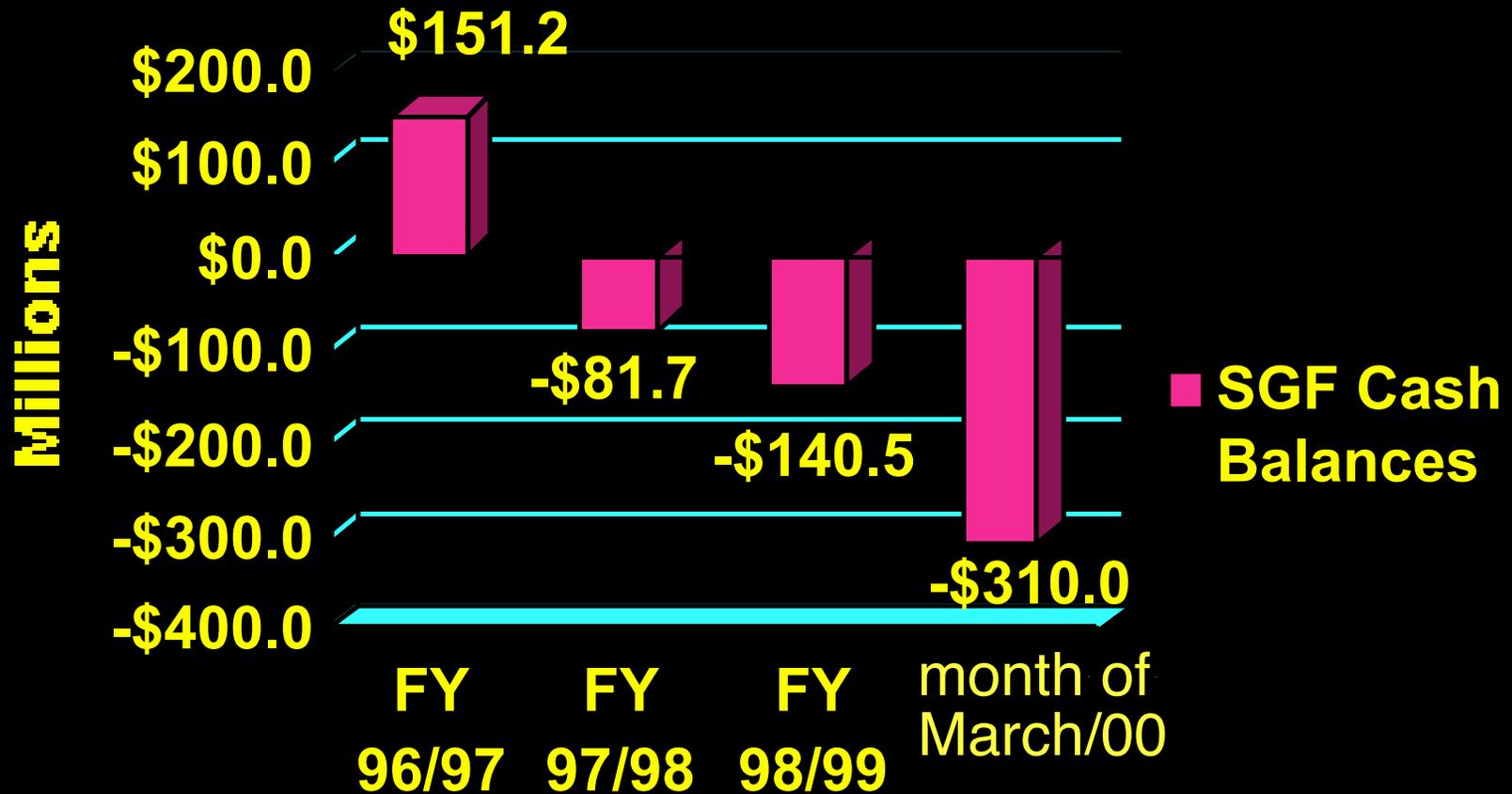
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# STATE CASH BALANCES (Monthly Avg.)

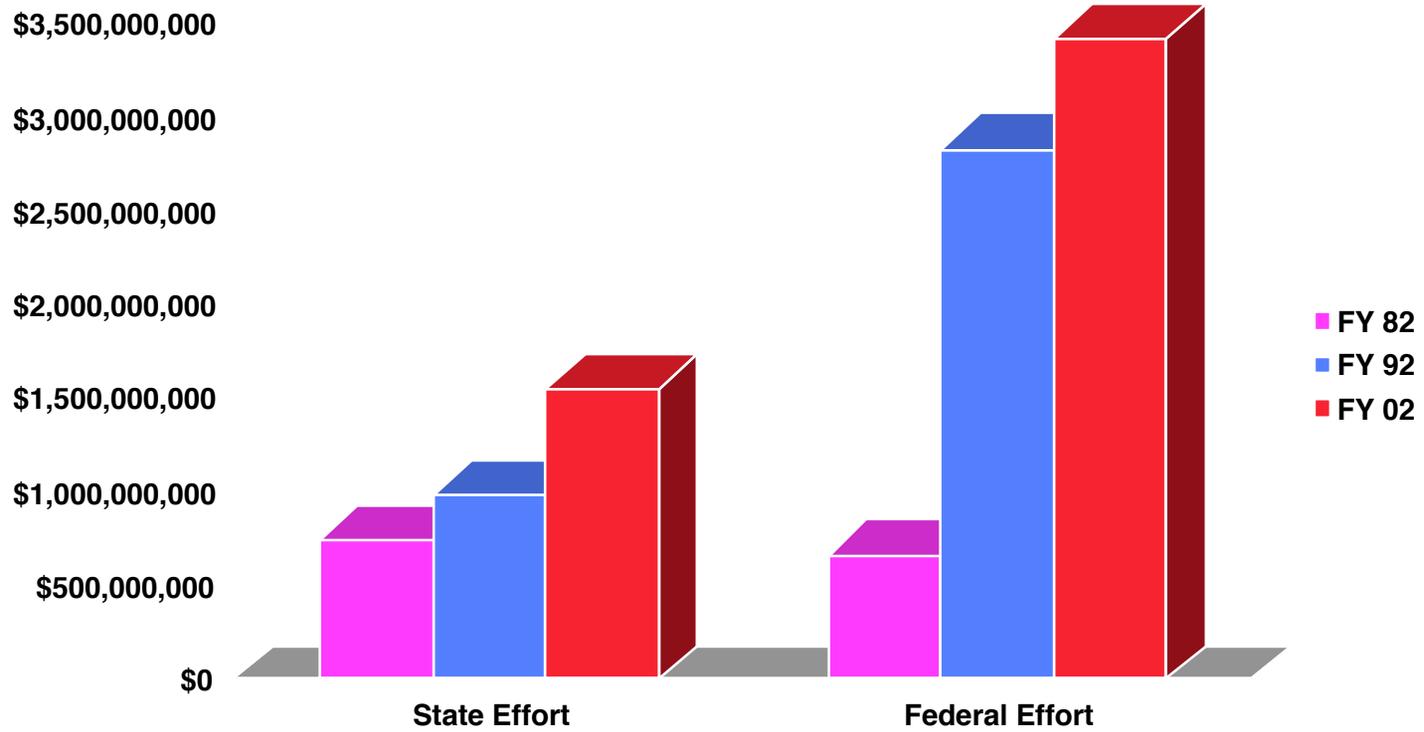
as the budget grew, cash was depleted, indicating excess spending over revenues



# Resolving the Paradox

An Analysis of  
Louisiana's Hospital Care

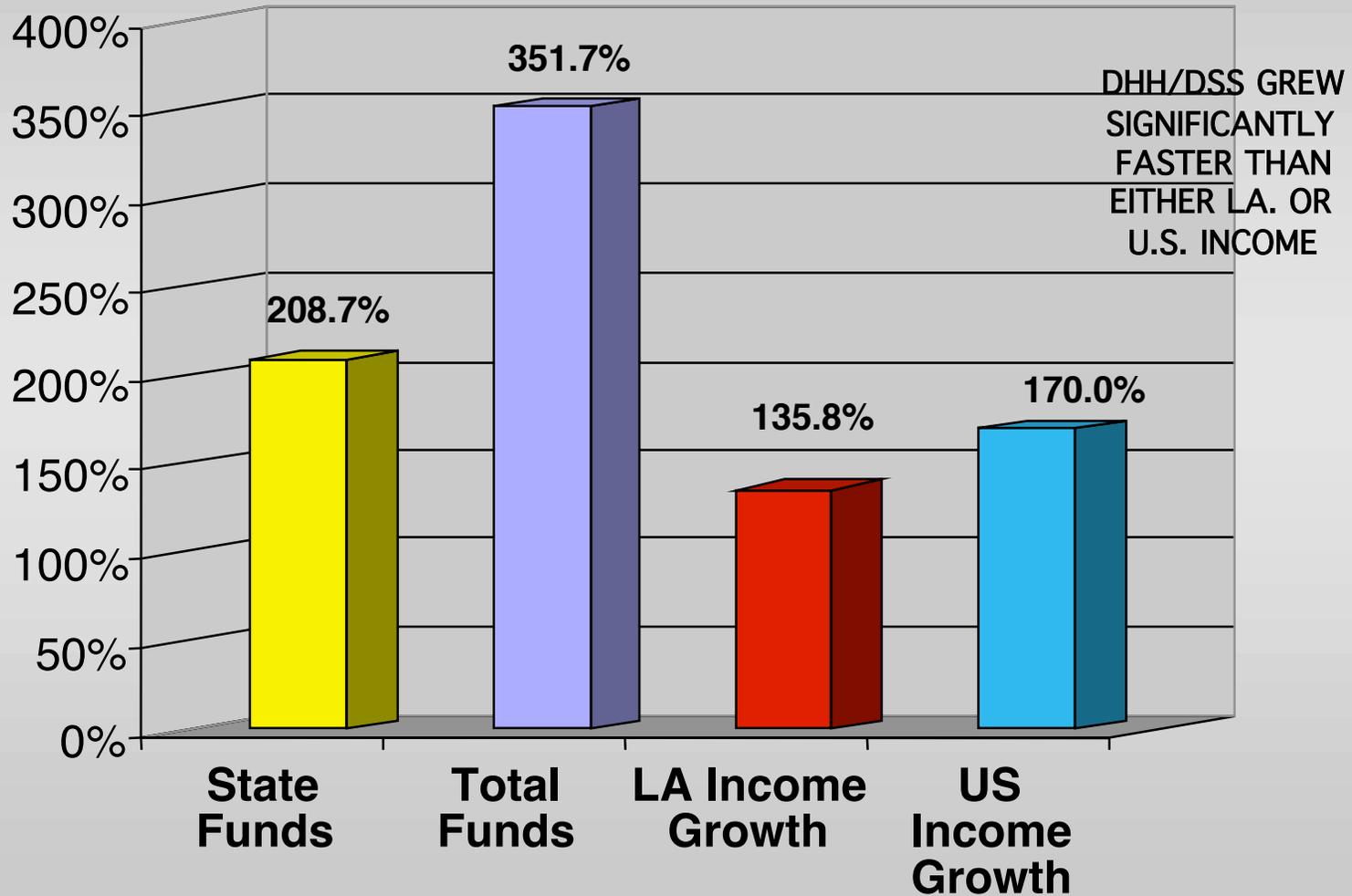
# DHH/DSS Means of Financing, FY 1982/92/02



## Louisiana Health Care & Social Services Systems

	1981-82	1991-92	2001-02
State General Fund	\$702,390,448	\$807,963,978	\$1,284,083,777
Fees & Self-Generated	\$41,943,579	\$177,553,955	\$136,249,411
Statutory Dedications*	\$0	\$684,757	\$132,766,093
Federal Funds	\$669,353,959	\$2,832,298,398	\$3,419,539,652
Total MOF <small>(minus IAT)*</small>	\$1,413,687,986	\$3,818,501,088	\$4,972,638,933

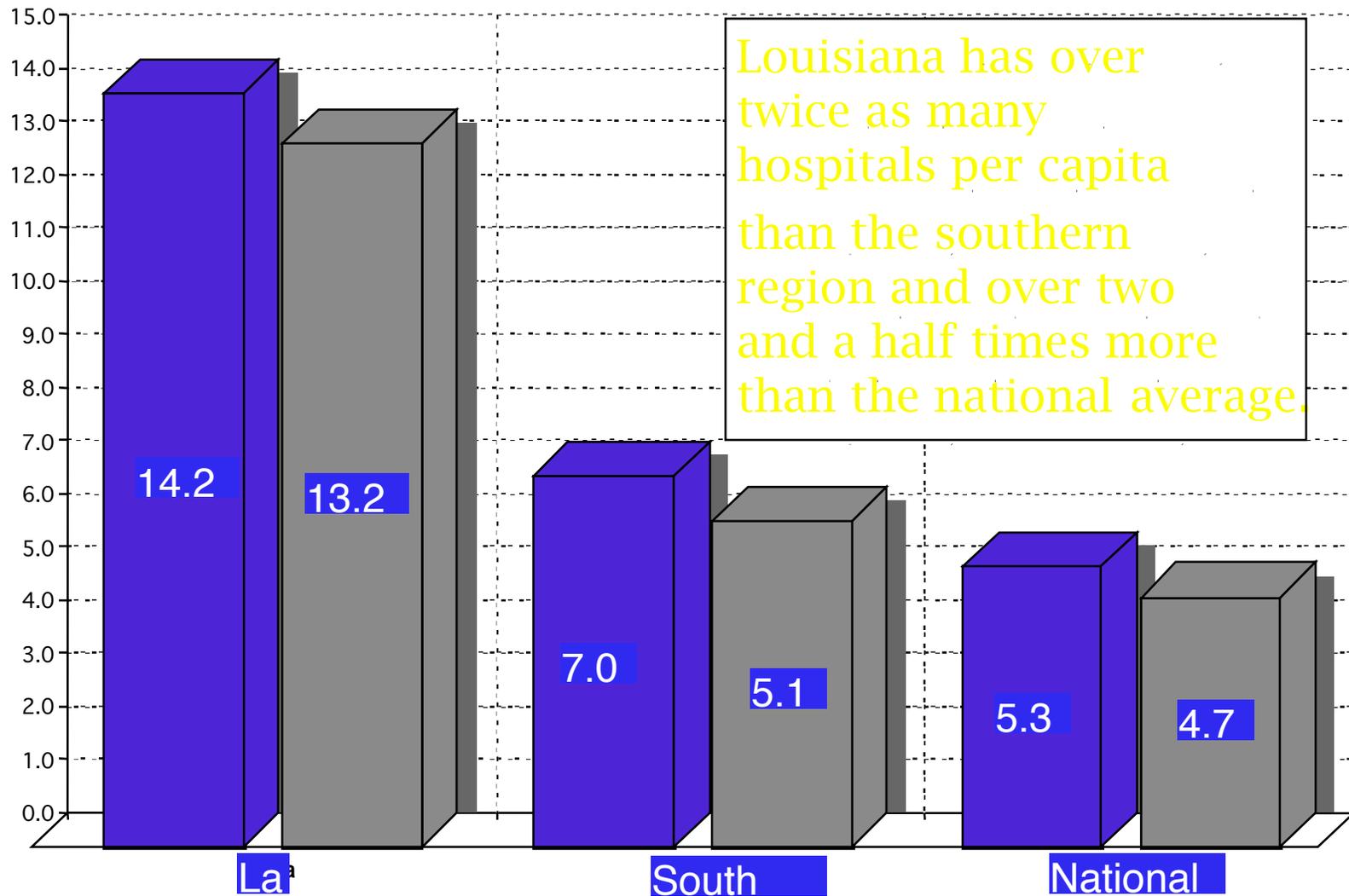
## DHH/DSS % Growth, FY82 & 02 LA. FUNDING VS. INCOME GROWTH



DHH/DSS spending over the past 20 years has far exceeded the growth of the Louisiana economy, expanding from \$1.4 billion to almost \$5 billion.

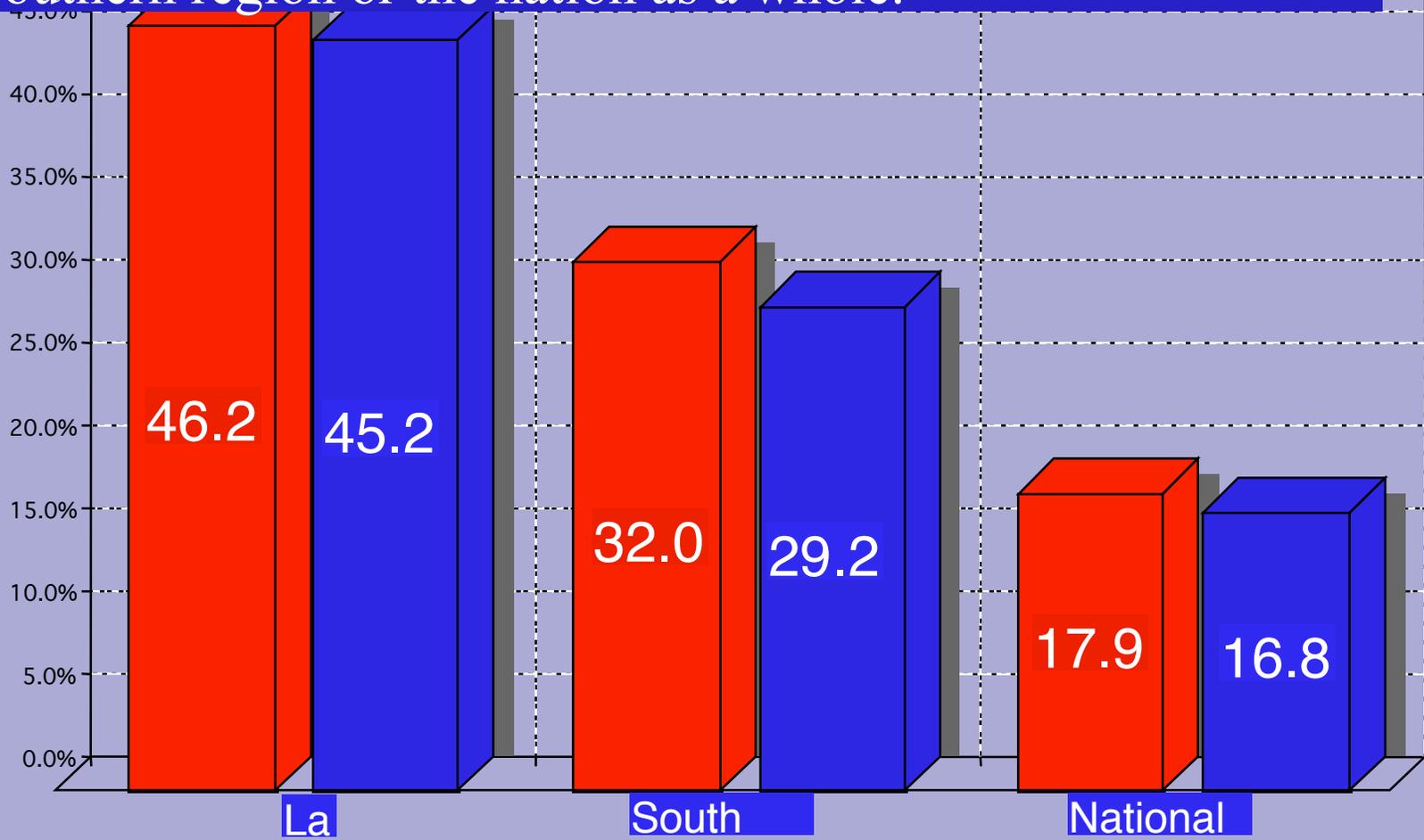
Total DHH/DSS spending exceeded the La. personal income growth by 169% and exceeded the U.S. personal income growth by 107%.

# # of Hospitals per million population



■ # Hosp/million pop-94    ■ # Hosp/million pop-98

Louisiana has many more hospitals than other states and, of these hospitals, La. has far more gov't run hospitals than the southern region or the nation as a whole.

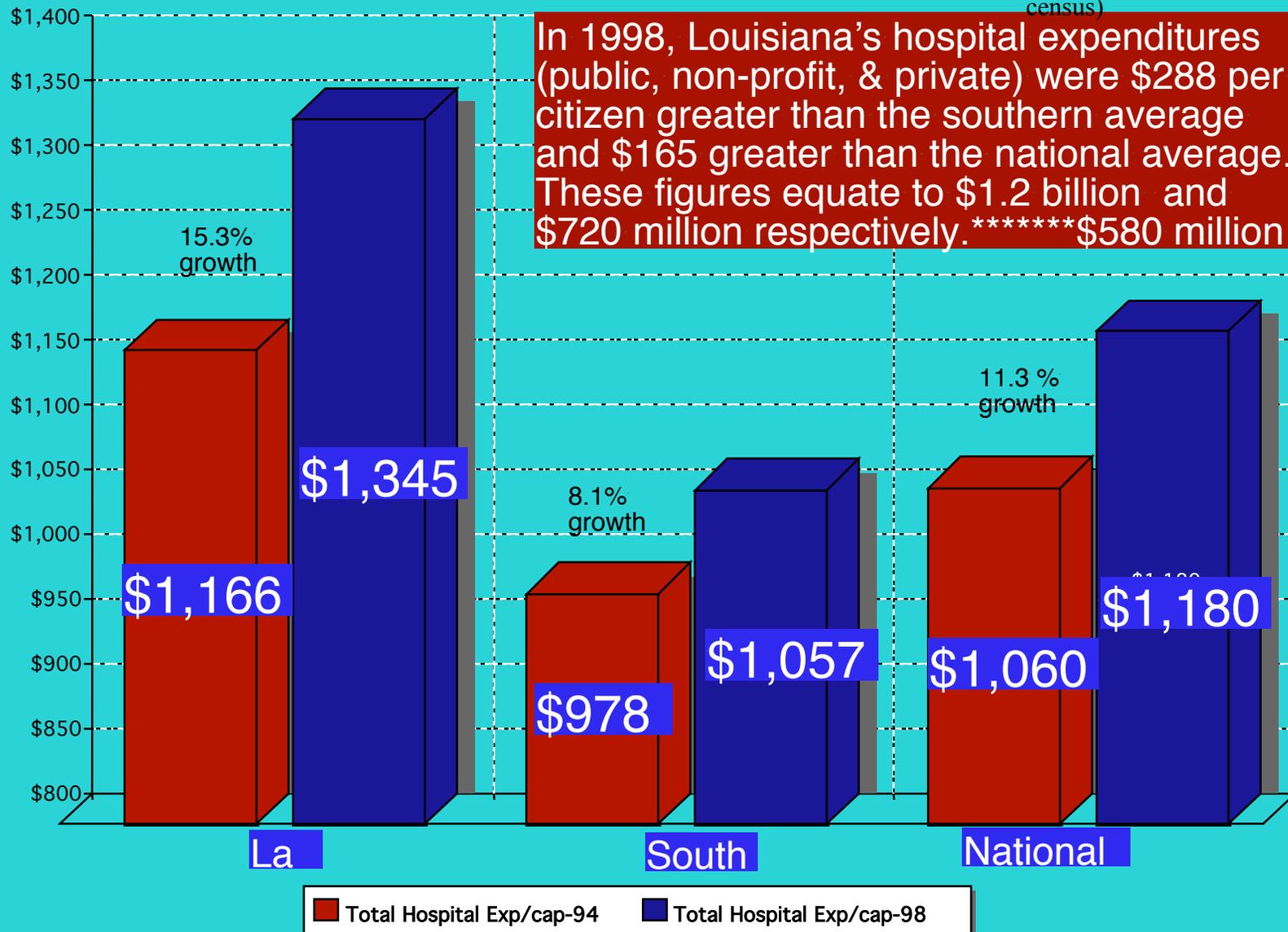


(source: AHA)

**Gov. Hospitals/Total Hospitals, 94- &98**

# Total Hospital Expenditures: 94-98/capita

(source: AHA, US census)



## Features of Louisiana's hospitals:

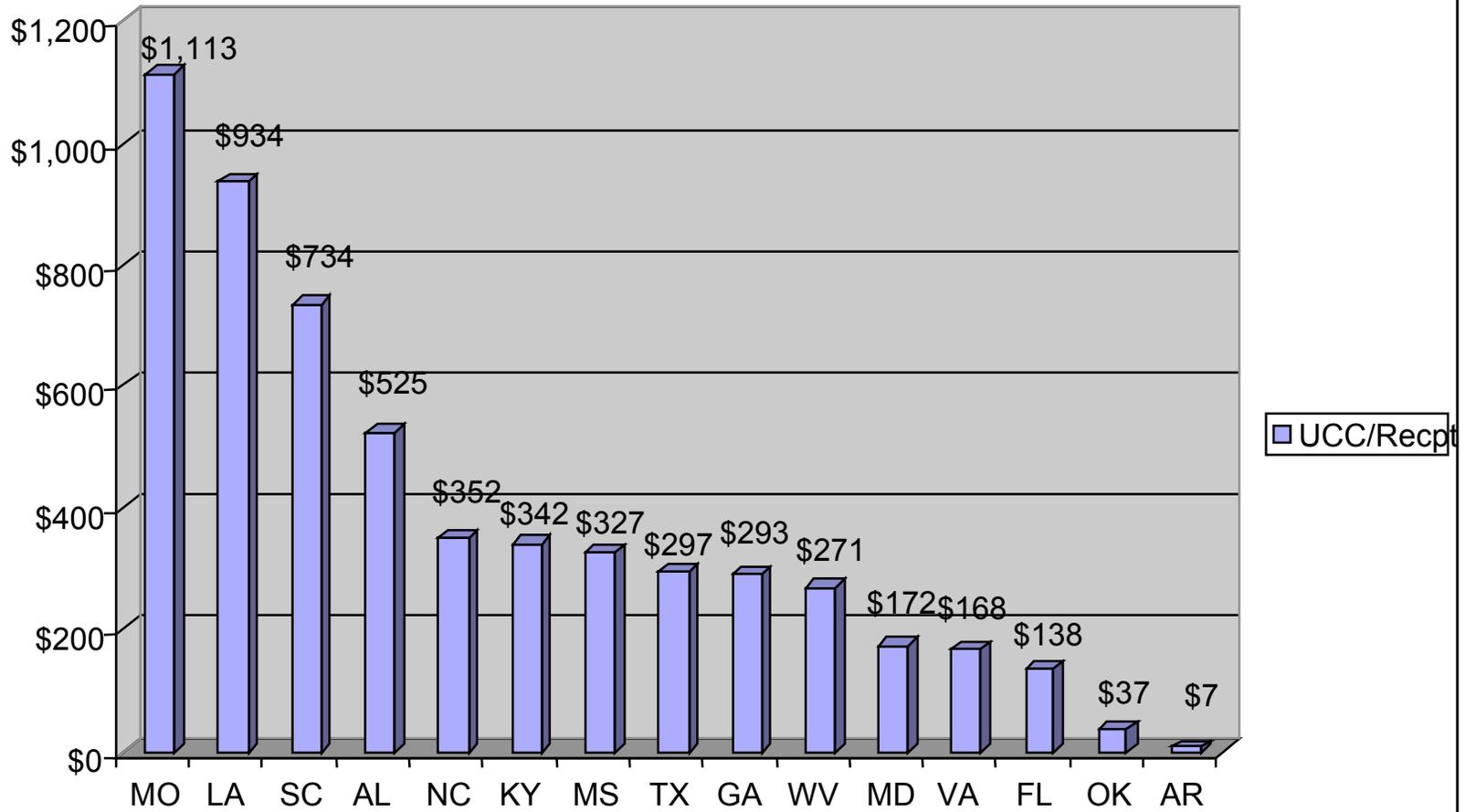
> twice as many hospitals as the southern average (public and private)

More public hospitals than the southern average (45% to 29%)

More public hospitals than the national average (45% to 17%)

Hundreds of million of dollars more in expenditures than the southern or national average

### FFY 99 Uncompensated Care Cost (UCC)



Source: Medicaid Comparative Data Report for FFY 99

## Medicaid expenditures:

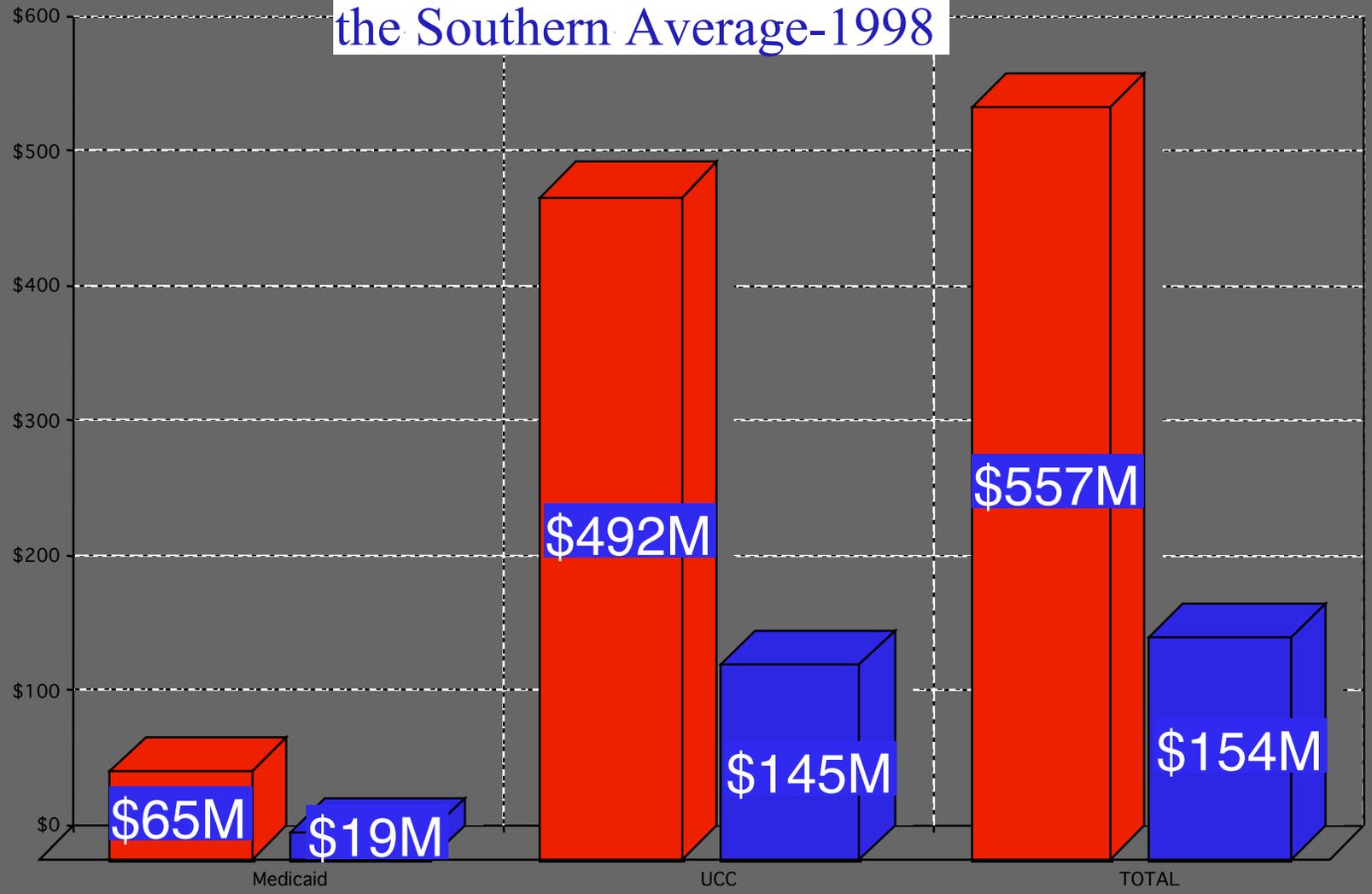
The administration's position is that La. is very close to the southern average in Medicaid spending (\$65 million in total \$ and \$19 in state \$)

However, they conveniently omit the hundreds of millions (\$733 million in FY00/01) in Uncompensated Care Costs (UCC) payments which, when counted, place Louisiana's Medicaid/UCC program at almost \$557 million greater than the southern average (FY98) of which \$154 million is state general fund.

# Louisiana Medicaid & UCC Expenditures in Excess of the Southern Average-1998

Source: Legislative Fiscal Office Medicaid Survey, 1999

TOTAL EXCESS    SGF EXCESS



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# HCSD Medicaid Claims

Millions

\$200

\$150

\$100

\$50

\$0

\$154.1

\$155.4

\$104.1

\$96.2

\$87.1

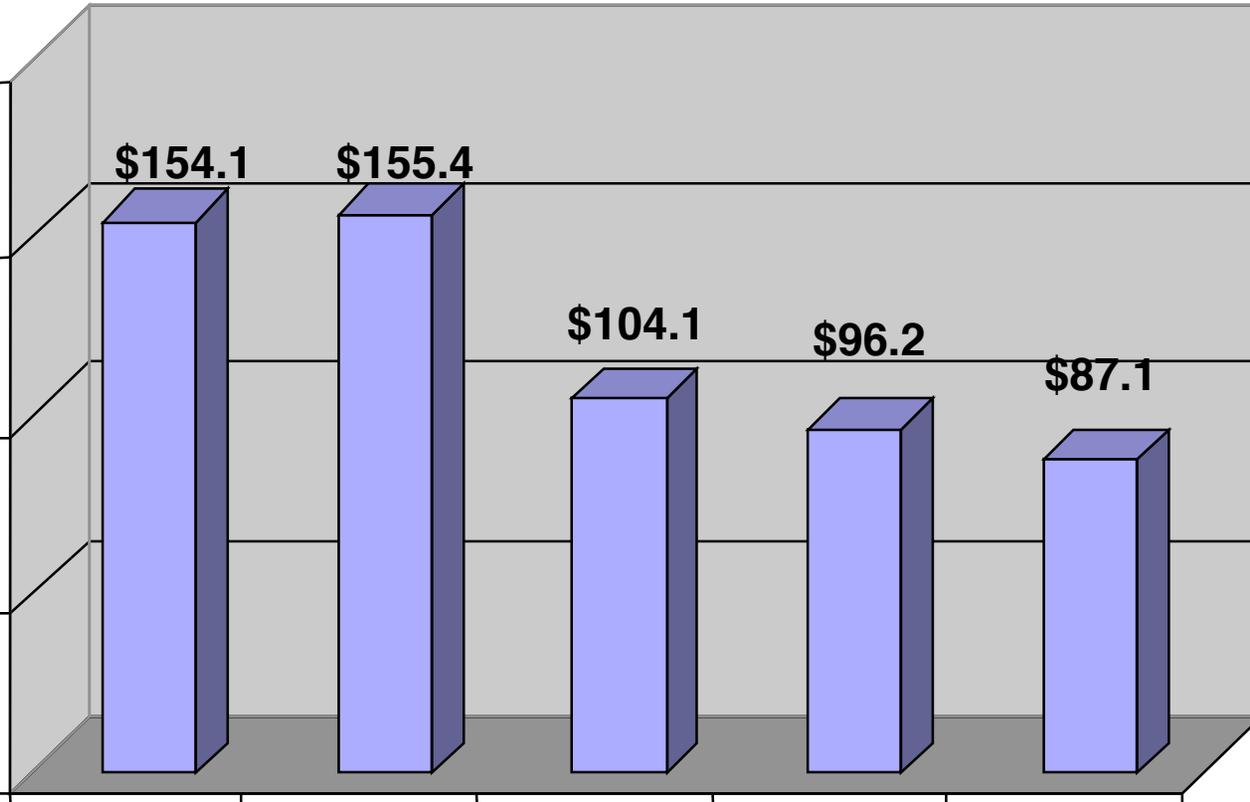
FY 96

FY 97

FY 98

FY 99

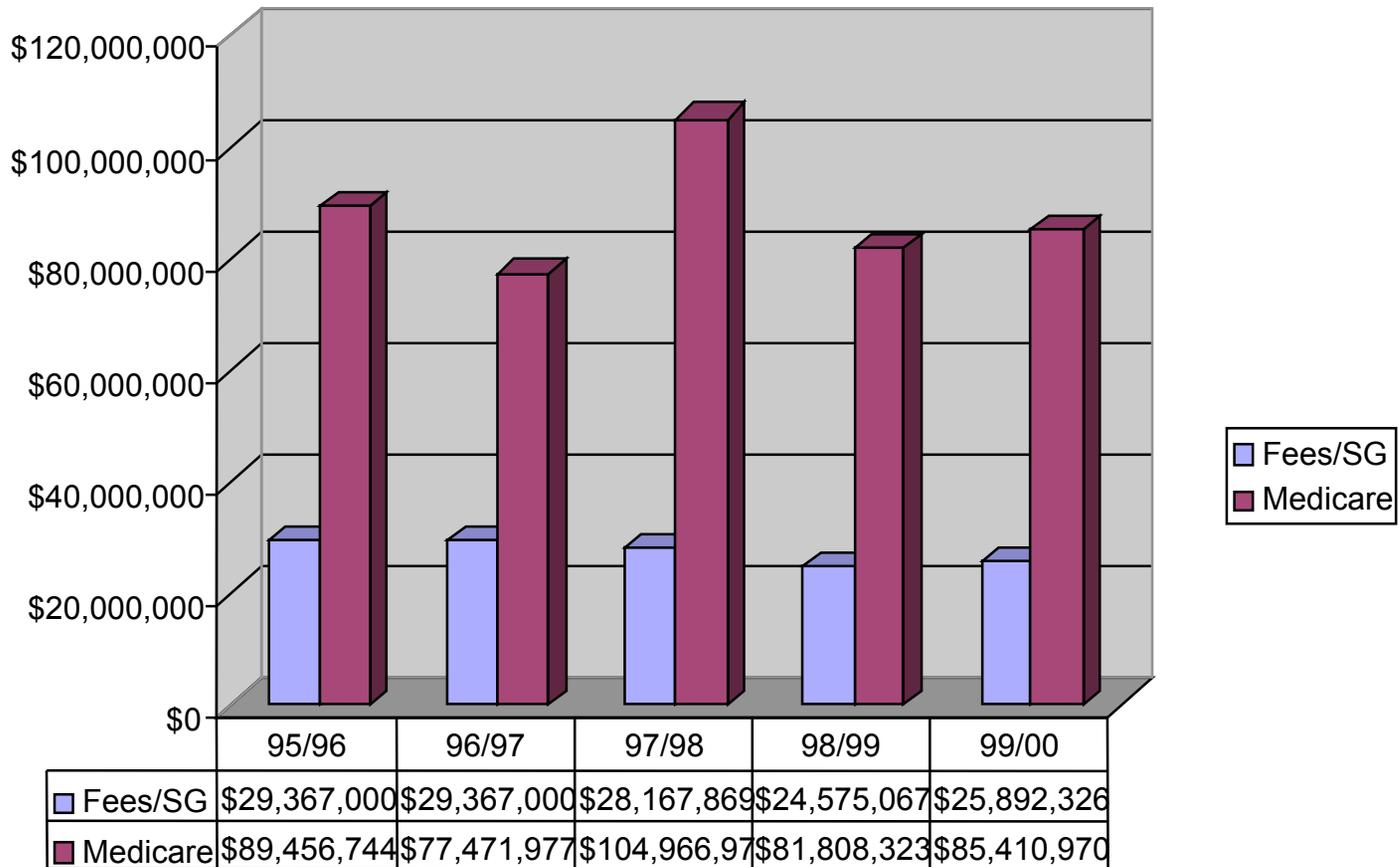
FY 00



When LSU was granted the authority to run the state's charity system, it was anticipated that collections from Medicare and commercial fees would rise substantially to help fund the system. This has not occurred.

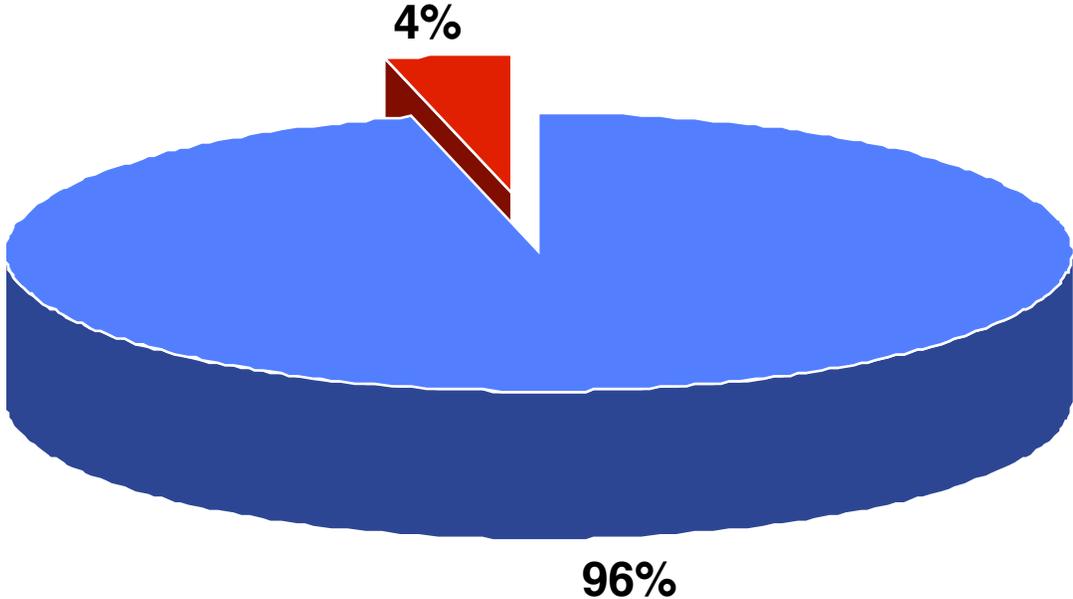
Furthermore, Medicaid claims declined sharply under LSU's management and massive UCC payments keep the state's charity system afloat.

### HCS D non-Medicaid revenue



**no significant changes in non-medicaid revenue**

# State Public vs. Local Gov't/Private UCC (Total = \$733 M)



The state takes for itself about \$700 million of the \$733 million appropriated in UCC funding

- State Owned Providers
- Non-State Owned Providers

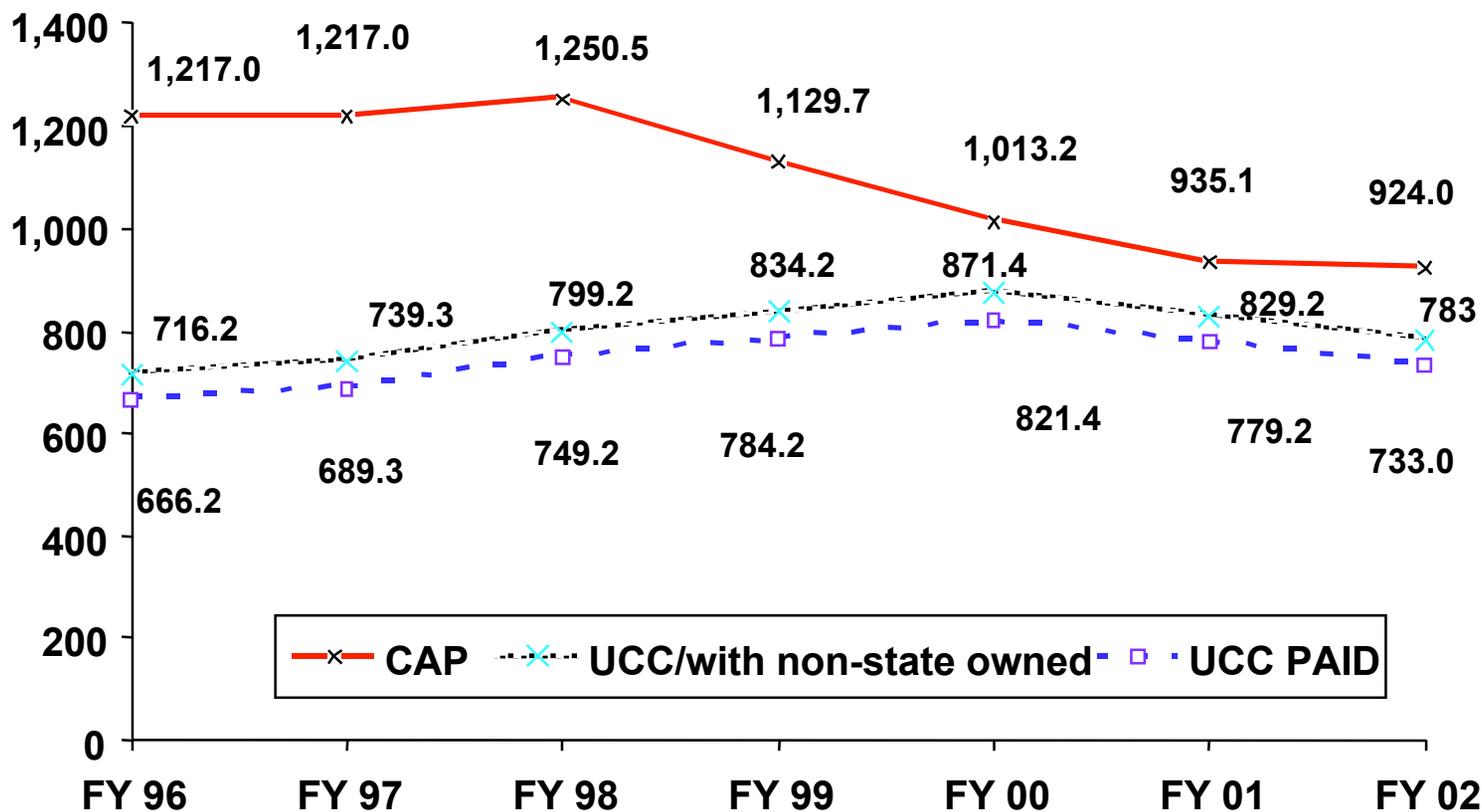
The UCC program serves the indigent population that is not served by the Medicaid program. A significant but undefined portion of this population is served by parish or private hospitals.

Since the state hospitals and agencies utilize 96% of the total UCC, the parish and private hospitals are left with little or no compensation for their costs of serving this population.

The current reimbursement rates for private providers are already lower than most states in the SLC (and the DOA has proposed a further reduction of 27%).

# UNCOMPENSATED CARE COST REIMBURSEMENT

The chart reflects the amount of UCC actually paid for the state fiscal years from FY 96 to FY 00 as compared to the respective UCC programmatic cap for these State fiscal years. FY 01 excludes UCC from hospital IGT.



**Due to the incredibly torpid managerial arrangement between La.'s state public, public parish, and private hospitals, \$300 to \$400 million of UCC dollars in reimbursement for indigent services have been lost.**

The chart entitled "Reimbursement" plots an estimate of the potential dollars that could have been received. This chart demonstrates that the Federal cap on UCC payments was not a legitimate issue in not paying these providers for their services.

## DOA Proposed HCSD Reductions:

11.5% in Uncompensated Care IAT, 14.6% in state general fund direct

\$60 million total \$ reduction (\$19+ million State \$)

### Impact:

1,313 positions eliminated. From 97/98 to the FY01/02 Executive Budget, HCSD has potentially lost 2,102 positions.

**Under these cuts, the delivery of both inpatient and outpatient medical services will be severely impacted.**

Emergency room visits at Charity hospitals alone for FY 01/02 are projected to be reduced by 74,924 less than the current year (this is completely unrealistic).

It has become an annual rite for the DOA to submit what is essentially an unbalanced budget and rely on the Legislature to make the difficult decisions to balance the budget in an workable manner.

These irresponsible cuts are not HCSD's original proposal for absorbing their target cuts. **These cuts are strictly the responsibility of the DOA (discussed later).**

## **DOA Reductions to the Private Providers:**

Total Funds = (\$300M+)

State Funds = (\$95M+)

The current reimbursement rates for private providers are already lower than most states in the SLC, and a 27% cut would cause severe reductions and/or loss of services for Medicaid and LaCHIP recipients.

These cuts could place the program in a position of noncompliance with HCFA (Federal) regulations related to reasonable reimbursement for services rendered.

Once again, the DOA proposed reduction is unrealistic. The legislature will be forced to make the difficult decisions to undo this reduction (or, hopefully, revenue forecasts will be increased sufficiently).

## LFO summary/observation:

- 1 La. is a top spender in health care.
- 2 Medicaid reimbursement rates for private providers are lower than most states in the SLC.
- 3 The state public sector is appropriated 96% of the \$733 million UCC dollars (uncompensated care costs).
- 4 The private sector has to “eat” indigent care costs or simply not participate in serving the working poor (when possible).
- 5 Low rates discourage private vendors from participating.

6 Low eligibility rates cause the working poor to be Medicaid ineligible, ergo they must become UCC participants.

7 UCC participants must go to the Charity hospitals for care.

8 Prescriptions drugs are not covered for UCC participants.

9 Thus their “choice” of care has been eliminated and the Charity system has captive participants.

10 The LFO is not accusing anyone of malice. We are noting the functional impact of torpid state policies and the corresponding shortcomings due to current mode of delivering services.

*As Louisiana spends more and more on health care (much more than the southern avg.) the results, rather than improving, have been rapidly falling relative to other states.*

*Louisiana's results are similar to Alabama, Arkansas and Mississippi's, but we spend hundreds of millions more than they do.*

Louisiana's charity system, a hangnail from the 1930's in its current posture, is the principal factor making La. different than other states. This facet creates an unhealthy competitive climate between the state's facilities and the regional providers. As discussed above, the state hordes 96% of the UCC and, incredibly, has refused to allow compensation to the regionals - despite the fact that it would have been 100% federal dollars.

**Why has Louisiana denied to its citizens hundreds of millions of dollars that they justly earned by serving the state's indigent population?**

The only rationale ever provided to the LFO was that the Charity system didn't want the UCC payments to reach the cap. Were the cap to be reached, the state would have to make tough decisions as to whom would receive the UCC payments.

But the facts are that, until very recently, we have not been close to the cap. An injection of hundreds of millions of dollars has a large positive impact on the entire state economy.

**Why would we want the Feds to give our money to someone else rather than reimbursing our citizens for their expenses?**

Yet another example of La.'s torpid health care system is the issue surrounding UCC reimbursement for LSU's doctor services.

The state plan does not allow such reimbursement, but could. LSU has petitioned DHH to change the plan but, as of this date, without success.

LSU estimates that this is costing Louisiana \$25 to \$35 million per year and \$75 million year to date.

Meanwhile, as the volume of recipients at the Charities continues to decline, the state has not made the logical adjustments. Under our (torpid) system, we are guaranteed that regional resources will not be coordinated to ensure services needed by that region are rendered.

Currently, the state (state and regional) has a serious overcapacity in inpatient beds (services). The state's response has been to maintain the status quo.

In fact, the LFO has been informed from very reliable sources within the administration that the DOA rejected LSU's (confidential) proposal to convert a number of hospitals to outpatient clinics (a move that is very long overdue).

**By converting resources to more outpatient care and less inpatient LSU could have attained the following:**

- 1) providing the services needed by the population
- 2) providing better care at a lower cost
- 3) reducing the inpatient overcapacity thereby making our hospitals financially healthier
- 4) provide preventative care and its many associated benefits

## LFO Recommendation:

The LFO strongly recommends that the state move to a **regional management model**, where the decisions regarding infrastructure and services are determined regionally according to each region's needs.

This would allow for the proper mix (of state charity/parish/private non profit/ and private for profit resources) thus providing better care at lower costs.