

State warns of lean year ahead

Education, health care may face cuts

Thursday, October 30, 2008

By Jan Moller

BATON ROUGE -- With tax revenue at a standstill and expenses continuing to climb, Gov. Bobby Jindal's chief budget adviser has warned her Cabinet colleagues to prepare for a 30 percent cut in discretionary spending next year and suggested that reductions could begin much sooner.

In an e-mail sent to agency directors this week, Commissioner of Administration Angele Davis said the state faces a projected shortfall of \$1.3 billion in the 2009-10 fiscal year, which would have to be taken out of the \$4.4 billion general fund revenue that is not protected from cuts by state statute or by the state Constitution.

That means health care and higher education programs would be particularly vulnerable, since they are the largest state expenditures that are unprotected. According to a detailed budget analysis by the Louisiana State University System, those two areas can expect to absorb 63 percent of any cuts.

To mitigate the impact on next year's budget, which will be presented to lawmakers in March, the administration has been holding a series of meetings at which department heads have been asked to identify where money can be saved and whether any the savings could be implemented in the current fiscal year.

"What we're trying to do is be proactive, because we do know that Louisiana right now is working to recover from two very expensive hurricanes, and we're also in the midst of a national credit crisis and an economic downturn," Davis said.

She added that it's too soon to tell whether lawmakers will be asked to make midyear spending cuts in the current fiscal year, which ends June 30. "We're planning for a worst-case scenario," Davis said. "It's too early to publish a number (of spending cuts) that we're looking for. We want to wait to see what the fourth-quarter numbers look like."

In the LSU System, President John Lombardi has already met with the chancellors of the various campuses that he oversees and asked them to look for ways to cut expenses.

"This has the potential of being a big setback to progress for our institutions," system spokesman Charles Zewe said. "We don't yet know, however, what the extent of the cuts will be in terms of dollar figures. But our institutions are preparing to deal with the probability that they will have to trim expenses much sooner than the new fiscal year."

At the Department of Health and Hospitals, the state's obligations are expected to grow by \$450 million next year over spending levels in the current year, Secretary Alan Levine said this week. Much of the growth is in the Medicaid program, in which the state receives about \$7 in federal funding for every \$3 it spends, meaning the actual size of the cuts could be more than \$1 billion.

Levine said the expected spending increases are being driven by the rising cost of providing home-care services for the disabled, increased use of services and a decrease in the amount of federal matching money available for Medicaid.

The sobering news comes after three years of strong economic growth in Louisiana, fueled by record energy prices and post-hurricane reconstruction activity, that has produced a string of budget surpluses. But the national economic slowdown, combined with a leveling off in the energy sector, has led forecasters to predict that 2009-10 will be essentially flat.

Compounding the state's fiscal problem is a string of actions by the 2008 Legislature that will eat into next year's anticipated revenue. Chief among them is a \$359 million repeal of the "Stelly plan" income-tax changes, while another \$70 million in discretionary spending authority will be taken up by various other tax dedications and mandated spending increases.

Every \$1 per barrel deviation in oil prices from the official forecast means about \$12.5 million to the state budget. That means the price of oil would have to be nearly \$29 above the state's 2009-10 projections to make up for the budget impact of the Stelly tax cut. Those budget projections are based on an average oil price of \$72.17 per barrel.

"Every time the state has banked on higher oil prices saving their bacon they've been disappointed," said Bob Keaton, a former chief budget analyst for the state Senate who prepared a budget analysis for LSU.

Jim Brandt, president of the nonpartisan Public Affairs Research Council, said the Jindal administration is doing the right thing by getting an early start. "I think everyone is concerned, and rightly so," Brandt said. "It's good to get started on various scenarios now and have a clear look at the alternatives before the budget problems are directly upon us."

While budget cuts are nothing new for state government, the past three years of surpluses have brought a rare reprieve from the pitched battles that have often pitted health care interests against colleges and universities in a competition for funds.

Now that those battles appear to be resurfacing, albeit before a Legislature largely comprised of new members elected in the wake of term limits, it's unclear what effects they will have on Jindal's efforts to reshape state government.

"I think there's going to be a reluctance to proceed (with reform) more so in times of fiscal stress than there would be otherwise," Brandt said.

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