

LOUISIANA

Popular Annual Financial Report

For the fiscal year ended June 30, 2018



Introduction

The Popular Annual Financial Report (PAFR) is prepared within six months after the fiscal year-end in accordance with Louisiana Revised Statute (LRS) 39:80(B) with the express purpose of providing a brief, objective and easily understood analysis of the State's financial performance for the preceding year. It presents selected information about the State's revenues, expenditures, financial position, budget, service efforts and performance. The information is presented in a non-technical format and is intended to summarize and explain the basic financial condition and the operations of the State for the fiscal year covered by the Comprehensive Annual Financial Report (CAFR) for the State of Louisiana.

The CAFR is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is independently audited by the Louisiana Legislative Auditor. Conversely, the PAFR is unaudited and includes financial data that departs from GAAP.

A copy of the CAFR can be obtained on the Office of Statewide Reporting and Accounting Policy's (OSRAP) website at www.doa.la.gov/Pages/osrap/CAFR/CAFR.aspx. The source of all illustrations is the 2018 and/or prior years CAFRs unless otherwise indicated.

Basis of Accounting

GAAP Basis

The State's GAAP basis government-wide financial statements provide a broad overview of the finances of the State as a whole. The government-wide financial statements are presented on the full-accrual basis of accounting, which is similar to the basis of accounting used by private-sector entities. The government-wide statements provide information about the short and long-term economic effects of past policy decisions such as the administration of government programs, capital financing, debt issuance, and funding obligations for post-employment benefits for the State's employees. Consistent with the long-term focus, the government-wide financial statements report the State's economic resources rather than those financial resources that are currently available.

Budgetary Basis

The State's budgetary basis of accounting focuses on the short-term, rather than the long-term focus of the government-wide financial statements discussed above. Budgetary basis information is useful in 1) assessing whether the State was able to finance current year expenditures of current financial resources with current year collections of current financial resources and 2) demonstrating compliance with finance-related laws and regulations.

Financial Results

Financial Position

Financial position is the difference between a government's resources and the claims of other parties on those resources at a point in time. Financial position is strong if a government has ample resources in excess of the claims of others on those resources. The greater the financial position, the more a government is prepared to weather future revenue shortfalls or finance unexpected contingencies without disrupting the delivery of critical government services. The following tables depict the financial results of the state with emphasis on its primary government (discrete component units i.e., legally separate state entities are excluded).

**Condensed Statement of Net Position
(in thousands)**

Current and other assets	\$	14,578,334
Capital Assets		16,366,725
Total Assets		30,945,059
Total Deferred Outflows of Resources		1,684,391
Other Liabilities		4,340,086
Long-term debt outstanding		25,304,898
Total Liabilities		29,644,984
Total Deferred Inflows of Resources		744,129
Net Investment in Capital Assets		12,176,518
Restricted		5,777,025
Unrestricted		(15,713,206)
Total Net Position	\$	2,240,337

The Statement of Net Position summarizes the assets and deferred outflows of resources, and the liabilities and deferred inflows of resources, with the difference reported as net position. The State's financial position (net position) at June 30, 2018 was approximately \$2.2 billion. The largest portion of net position is the net investment in capital assets. The net investment in capital assets component of net position is equal to the carrying amount of the State's capital assets (i.e. land, roads, buildings, etc.) less the outstanding debt used to finance those assets. An additional \$5.8 billion of net position is subject to external restrictions. The unrestricted component of net position would normally be available to finance the State's on-going operations and obligations. However, unrestricted portion of net position was a negative \$15.7 billion at fiscal year end. The negative unrestricted net position is mainly due to the following:

- * A net pension liability and pension-related deferred inflows and outflows for the State's participation in various defined benefit plans of approximately \$5.6 billion.
- * The effect of continued issuance of long-term debt to fund annual expenses for capital grants to other entities of approximately \$3.4 billion.
- * An estimated liability for construction contracts of \$1.5 billion recognized as the State's share of the liability to construct and improve levee systems in the greater New Orleans area.
- * A liability for post-employment benefits other than pensions of \$6.4 billion attributable to continuous under-fundings of annual required contributions and due to the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*.
- * Unfunded reserves for incurred claims payable to outside parties for worker's compensation, disallowed costs, and various lawsuits for approximately \$2.1 billion

**Condensed Statement of Activities
(in thousands)**

Revenues

Program Revenues:

Charges for Services	\$	2,889,313
Operating Grants & Contributions		14,050,206
Capital Grants & Contributions		635,690

General Revenues:

Income Taxes		3,787,659
Sales & Use Taxes		4,342,563
Other Taxes		2,587,215
Other		1,361,645
Total Revenues		29,654,291

Total Expenses		28,756,406
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Net Increase (Decrease)		897,885
Net Position - Beginning, as Restated		1,342,452
Net Position - Ending	\$	2,240,337

The Statement of Activities reports how net position changed from the prior year. Louisiana's overall net position increased by \$897.9 million from the prior fiscal year. The following factors contributed to the changes in the state's net position:

- * Expenses for Public Safety decreased by \$923 million, which was mainly caused by a decrease in disaster relief.
- * Individual income tax collections increased by \$296 million from the prior year and tax refunds declined by \$161 million. This was mainly due to the federal tax law changes which were signed into law on December 22, 2017.



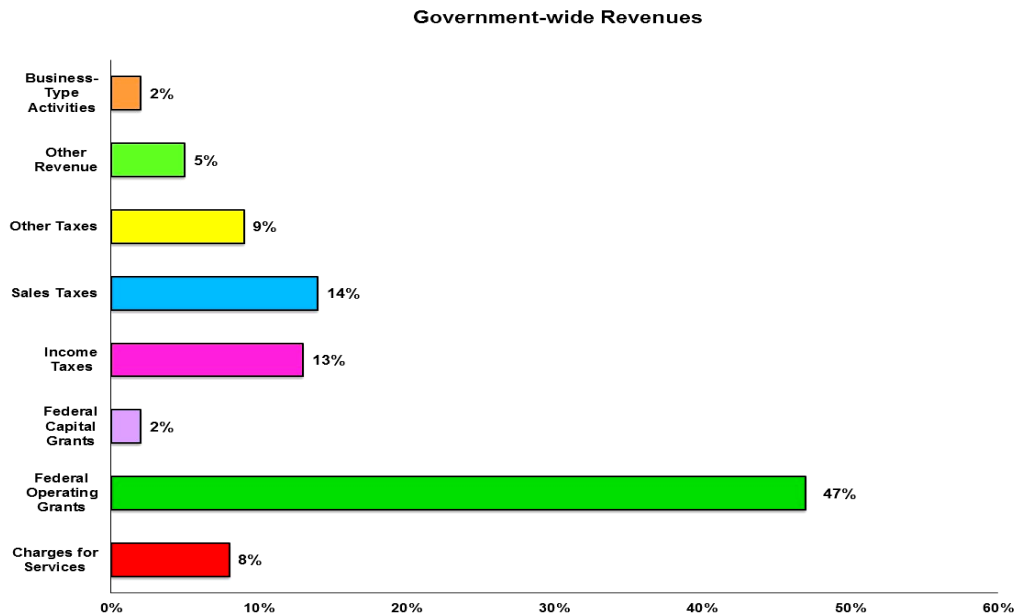
Government-wide Financial Analysis

Government-wide activities present the state's financial position and operating results. Discrete component units (e.g. Louisiana Lottery Corporation) are excluded from this analysis because the PAFR focuses on the State government-wide entities other than discrete component units. Fiduciary funds (such as pension funds) are also excluded from the State's government-wide financial statements in the CAFR, as well as the PAFR, because the State cannot use these assets to finance its operations.

The government-wide statements reflect assets and deferred outflows of resources totaling \$33 billion and liabilities and deferred inflows of resources of approximately \$30 billion. As a result, total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) equaled approximately \$3 billion at June 30, 2018. On the Statement of Activities (Operating Statement) total revenues exceeded total expenses by \$1.2 billion.

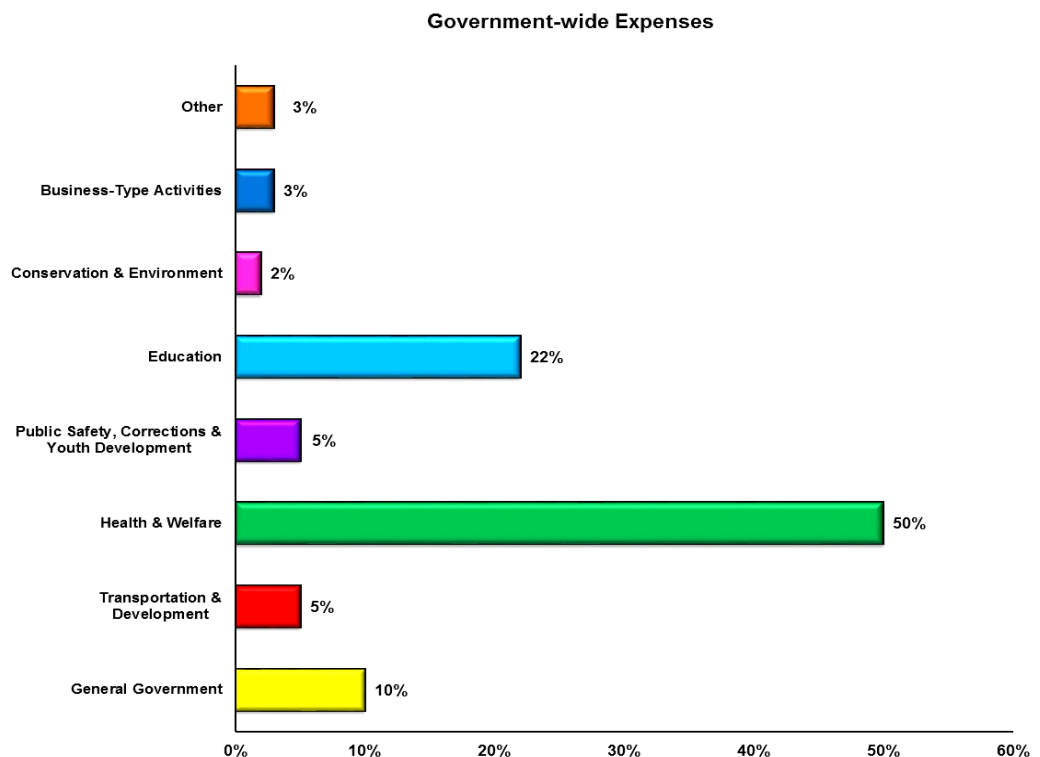
Government-Wide Revenues

State revenue totaled approximately \$29.7 billion in fiscal year 2017-2018. These revenues and other state assets were used to support government programs. The accompanying chart on the right displays revenue by source. Federal grants (capital and operating) comprised 49% of the State's revenue.



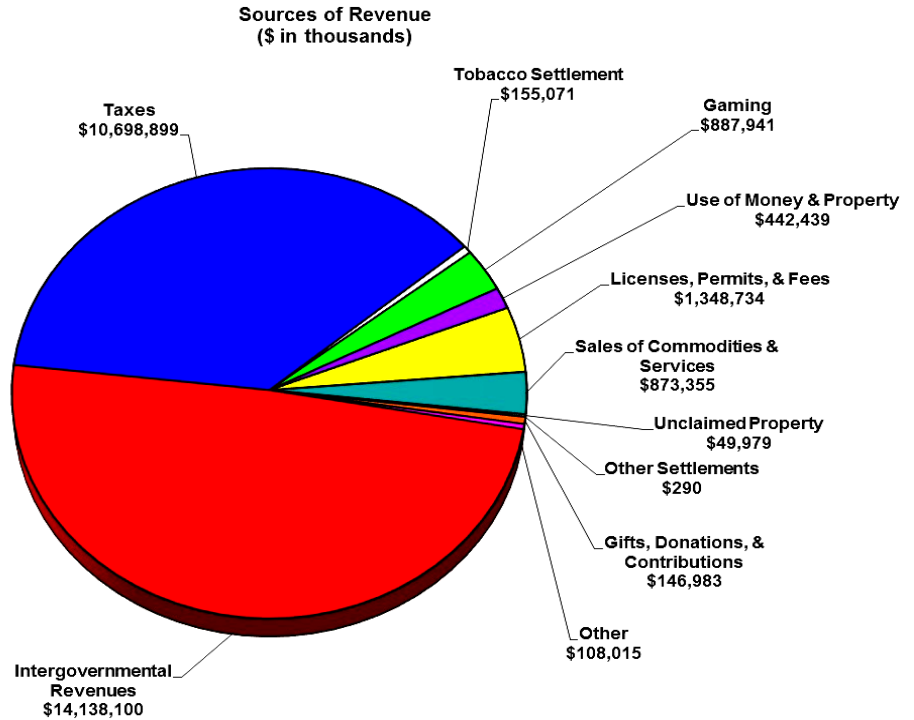
Government-Wide Expenses

On a government-wide basis, the State spent approximately \$28.5 billion. As depicted in the accompanying chart, health and welfare and education represent the State's largest spending categories accounting for 50% and 22% respectively. General government and public safety, corrections and youth development follow accounting for 10% and 5% respectively.

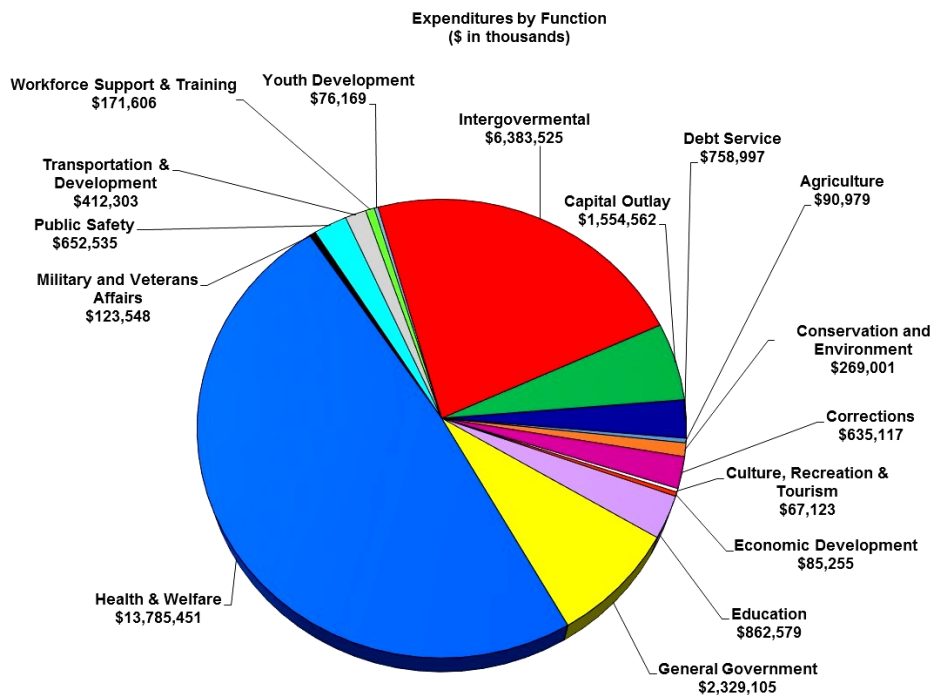


Governmental Funds

During fiscal year 2018, 49% of the State's receipts were from the federal government and 51% were derived from the State's own revenue generating authority. The State's own source revenues are comprised mainly of taxes supplemented with gaming revenues; licenses, permits, and fees; and sales of commodities and services. Taxes include sales and use, individual income, severance, gas and fuels, and insurance premium taxes. Gaming revenues consist of profit-sharing with the Louisiana Lottery Corporation and gaming franchise fees. Licenses, permits, and fees consist of charges to users related to regulated activities such as vehicle licenses collected by the Office of Motor Vehicles. Sales of commodities and services consist of sales to entities outside the primary government.



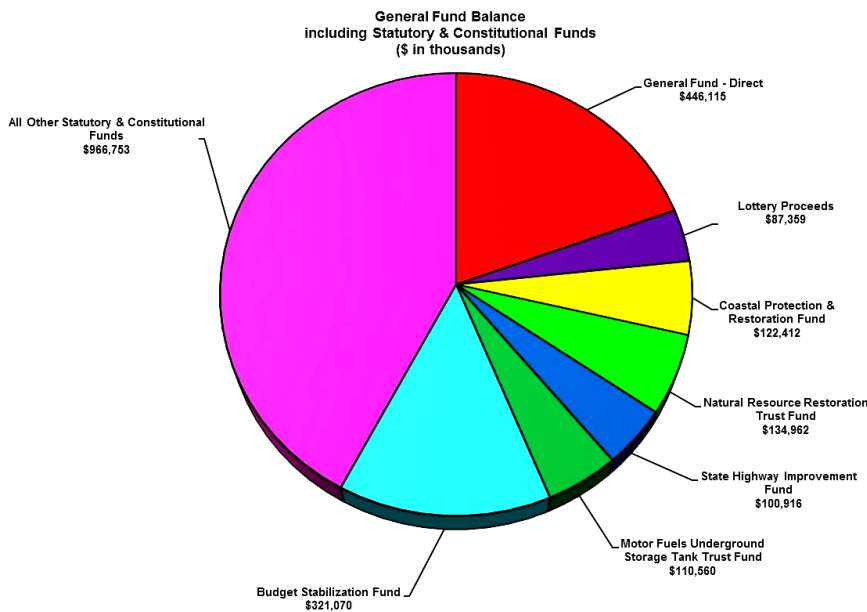
The State's expenditures are largely for health and welfare programs including large federal programs such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP). Another large portion of state expenditures are provided to local governments including funding for K – 12 education through the Minimum Foundation Program provided to public school districts and funds provided through revenue sharing programs to parishes. General government includes expenditures of the judicial and legislative branches as well as general administrative functions such as the Office of Group Benefits. Capital outlay includes expenditures for State-owned capital assets such as roads, bridges, and buildings and capital grants to other entities.



General Fund Balance Sheet

The balance sheet of the General Fund, the chief operating fund of the State, is generally of special interest to the public and legislators. The majority of funds created by legislative act or in the Constitution (commonly referred to as statutorily dedicated funds) are reported in the State General Fund for CAFR reporting purposes. Regardless of the CAFR presentation as required by generally accepted accounting principles, these funds are still maintained as individual self-balancing accounts in the State Treasury as required by state statute.

At June 30, 2018, the General Fund had assets of \$6.2 billion and liabilities of \$3.9 billion, leaving a total fund balance of \$2.3 billion. Of this balance, \$967 million is comprised of statutorily dedicated funds and \$446 million of General Fund (Direct) as shown on the chart to the left.



Governmental Accounting Standards Board (GASB) Statement No. 54 revised fund balance categories to focus on the extent to which the government is bound to honor constraints on the specific purposes for which fund sources can be used. The accompanying chart depicts four of the five fund categories of the General Fund for the past two fiscal years.

Nonspendable Fund Balance - amount that will never convert to cash, such as inventories of supplies, prepaid items, and permanent fund principal.

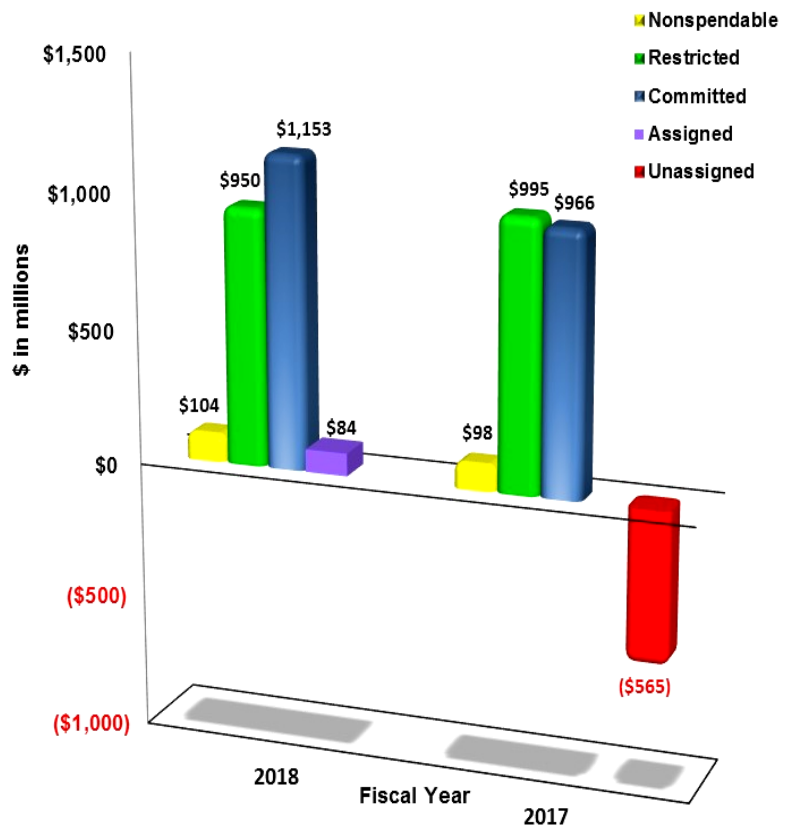
Restricted Fund Balance - includes amounts that have constraints placed on the use of the resources either by an external party or by imposition of law through constitutional provisions or enabling legislation.

Committed Fund Balance - the portion of fund balance constrained by limitations imposed by the Legislature. These are usually statutorily dedicated funds whose resources are to be used for specific purposes as defined in legislative acts.

Assigned Fund Balance - amount intended to be used for specific purposes and are usually created by the Joint Legislative Committee on the Budget approvals of year-end encumbrance roll-overs into the subsequent fiscal year.

Unassigned Fund Balance - the residual classification for the government's General Fund and includes all spendable amounts not contained in the other above classifications.

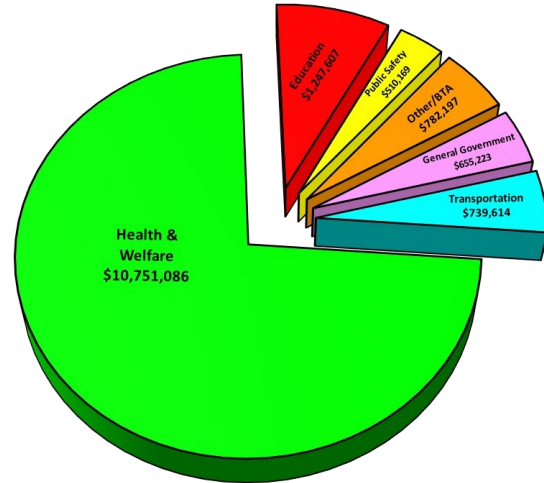
Components of General Fund Balance



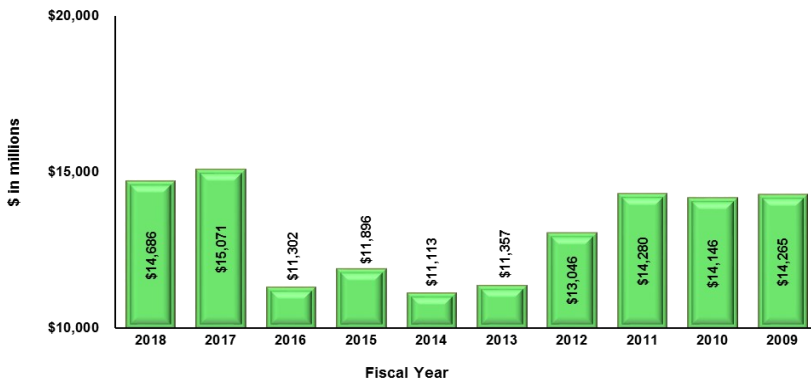
Federal Grant Revenue

The federal government awards financial assistance to the State in the form of federal grants. These federal grants have increased since 2016 to assist with recovery efforts from the March and August 2016 floods and expansion of the Medicaid program. For the fiscal year ended June 30, 2018, total grant revenue was \$14.7 billion with health and welfare programs receiving \$10.7 billion followed by education and transportation, receiving \$1.3 billion and \$740 million respectively. Various other state departments received the remaining \$1.7 billion.

Federal Grant Revenue by Function
(\$ in thousands)



Federal Grant Revenue
(Last 10 Fiscal Years)



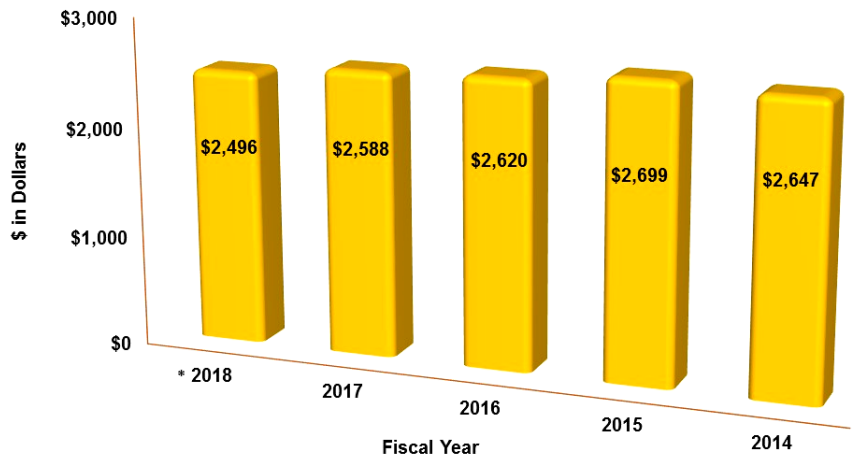
Bonded Debt

Bonds are issued to access monies today that otherwise wouldn't be collected until future periods. Issuing debt is useful in funding projects and programs today that would normally be completed over many years. However, if a government borrows too heavily, the government may have to spend a large portion of its revenues paying principal and interest on the debt, rather than providing governmental services to its citizens.

Assessing the extent to which a government has issued too much debt depends on many variables including the government's capacity to raise revenues, expenditure levels, and ability to access credit markets, and other factors. However, it's generally useful to benchmark certain debt metrics against other similar governments.

Debt per capita provides information about the debt burden placed on each citizen, who is ultimately responsible for repaying debt through taxes, fees, or other charges. According to Moody's *State Debt Medians 2018* report, the median debt per capita for states was \$987. Of the 50 states, Louisiana had the 16th most debt per capita.

Debt Service Per Capita
(Last 5 Fiscal Years)

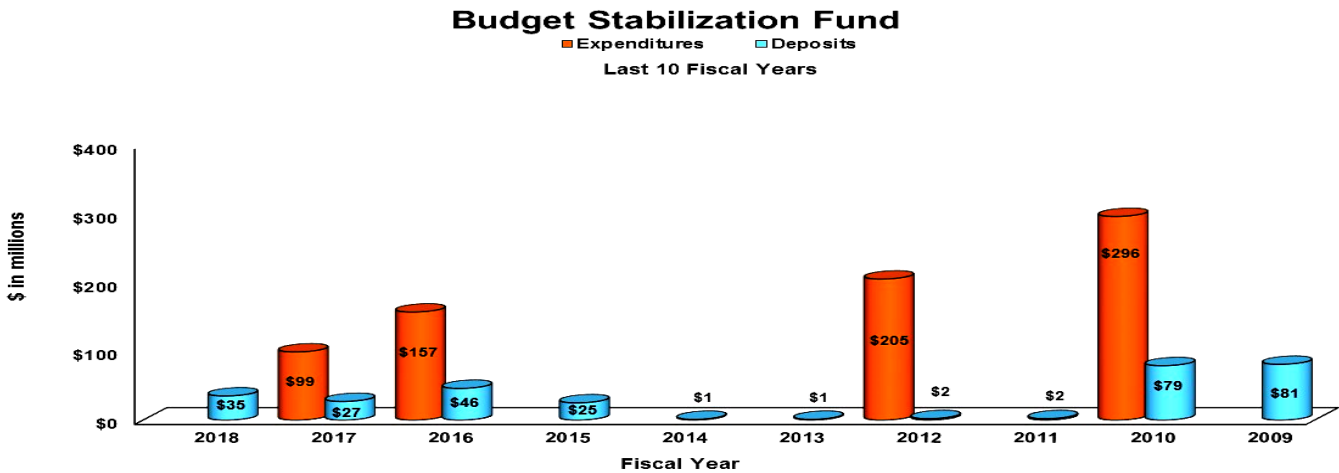


* - Estimated - Based on prior year population



Budget Stabilization Fund

The Budget Stabilization Fund was created in 1990 for use as a source of funding in times of declining revenues. The fund receives its monies from excess mineral revenues, non-recurring revenues, monies in excess of the expenditure limit, investment earnings, and other monies appropriated by the legislature. One-third of the fund balance can be spent if the official forecast for recurring revenues for the upcoming fiscal year is less than the official forecast of recurring revenues for the current fiscal year, or if a deficit for the current fiscal year is projected due to a decrease in recurring revenues. For fiscal year 2018, \$35 million in interest earnings was deposited into the Budget Stabilization Fund. According to LRS 39:94, no appropriation or deposit to the fund shall be made if such appropriation or deposit would cause the balance in the fund to exceed four percent of total State revenue receipts for the previous fiscal year. The Budget Stabilization Fund limit was \$971 million for fiscal year 2018. There were no expenditures from the fund for fiscal year 2018. The fund balance of the Budget Stabilization Fund was \$321 million at the end of fiscal year 2018.



Funding for Postemployment Benefits

The State provides pensions and post-employment benefits other than pensions (called OPEB which includes health and life insurance benefits) to its retirees. Defined benefit plans provide a pre-determined level of benefits for an uncertain amount of time. In the case of pensions, the State provides specified amounts to retirees until death that is predetermined by a formula based on the individual's earning history. In the case of OPEB, the State assumes the risk of paying a share of health care costs or health care premiums for retirees until death.

The State is a participating employer in seven defined benefit pension plans. Pension benefits are pre-funded. This means the State and participating employees contribute to the pension system while employees are in active service to pay for the pension benefits the employee is entitled to at retirement. Employee contributions are established in statute. Employer contributions are actuarially determined each year by the Public Employee Retirement System Actuarial Committee.

Funded Percentage of Actuarial Accrued Liability					
Last 5 Fiscal Years					
	2018	2017	2016	2015	2014
District Attorneys' Retirement System	93%	96%	98%	97%	92%
Louisiana Clerks' of Courts Retirement System	79%	82%	80%	79%	75%
Louisiana State Employees' Retirement System	65%	64%	63%	62%	59%
Registrar of Voters Employees' Retirement System	81%	85%	83%	82%	78%
Louisiana School Employees' Retirement System	75%	74%	73%	71%	67%
Louisiana State Police Retirement System	74%	73%	70%	69%	66%
Teachers' Retirement System of Louisiana	66%	65%	62%	61%	57%

Source: Retirement Systems' Actuarial Valuation Reports

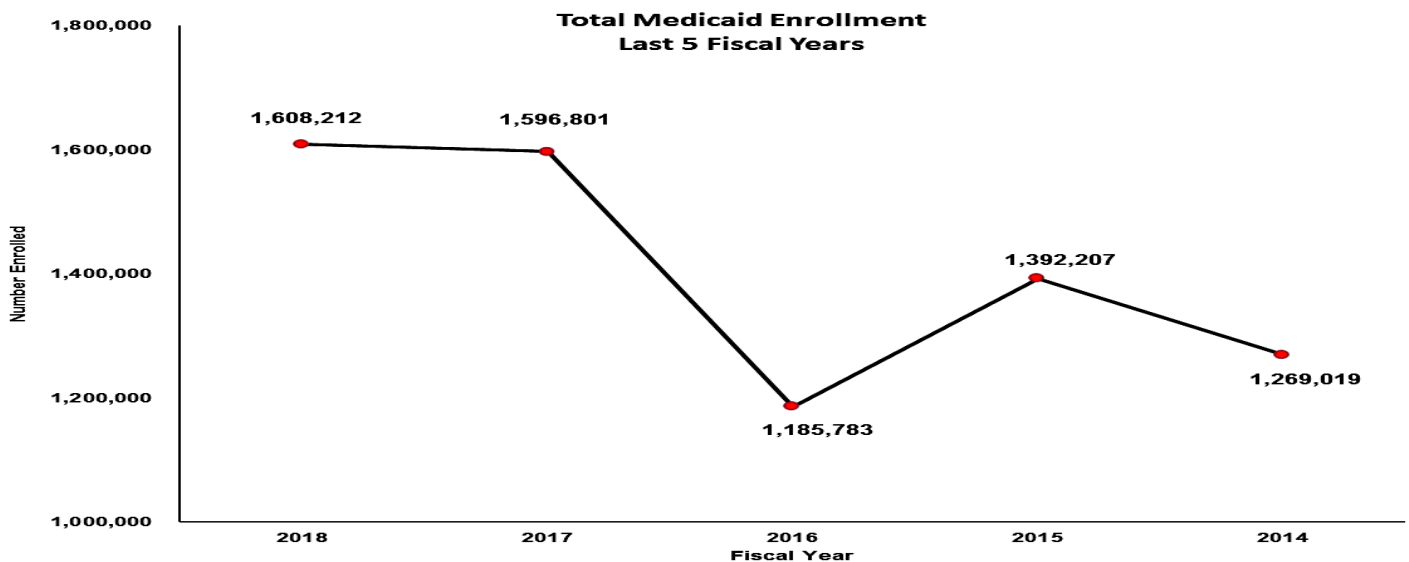


Healthy Louisiana

Louisiana is dedicated to providing its residents with the best social services and economic security available. Many programs and services have been established to aid individuals in need of benefits from the health and welfare system.

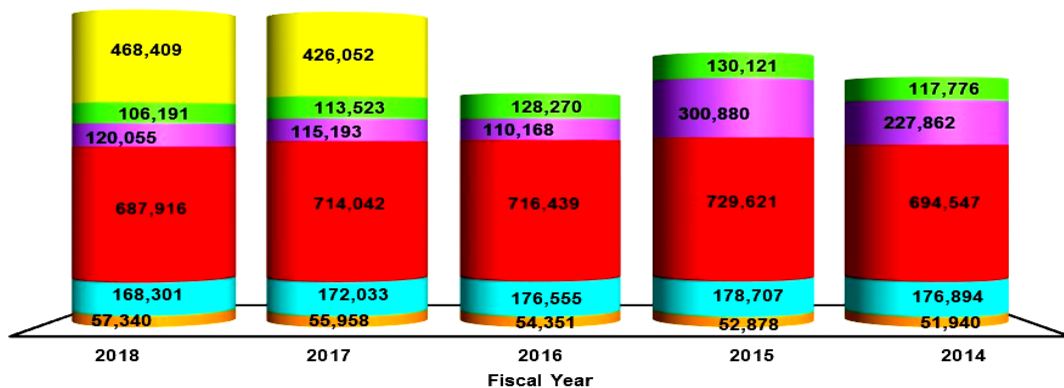
Medicaid is a means-tested entitlement program that finances the delivery of primary and acute medical services as well as long-term services and is jointly funded by the federal government and state governments. Healthy Louisiana (Medicaid Expansion) has provided more people with healthcare coverage and access to preventive care. In fiscal year 2018, the Medicaid program provided medical services for over one million low-income children, pregnant women, adults, seniors, and people with disabilities in Louisiana.

The charts below depict the total number of individuals enrolled in Medicaid for the past five fiscal years. The overall enrollment in the Medicaid program increased by 11,411 individuals between fiscal years 2017 and 2018.



- Medicaid Expansion
- Parents
- Adults
- Children
- Disabled
- Elderly

Medicaid Enrollment (Last 5 Fiscal Years)



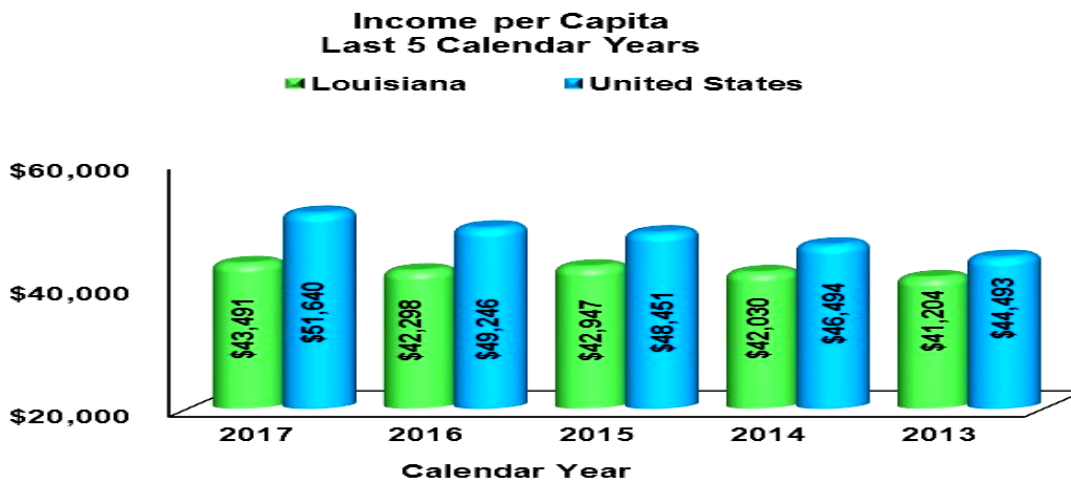
Source: Louisiana Department of Health



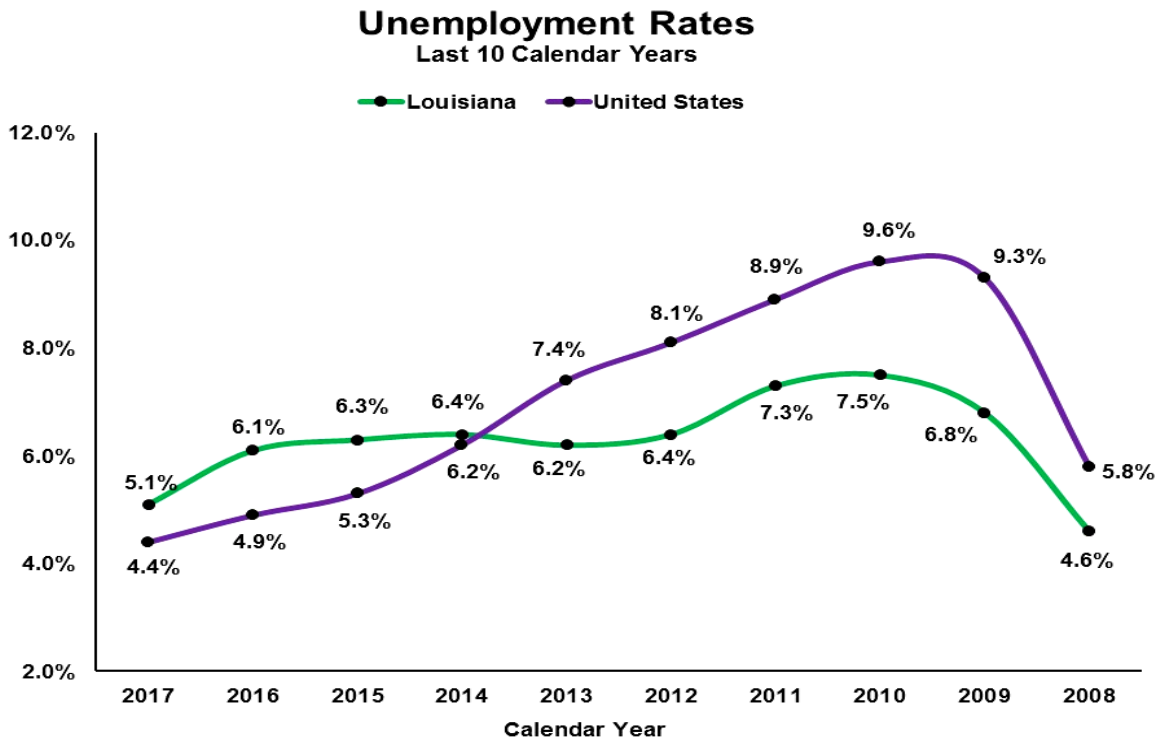
Key Economic Factors

Income per capita measures the average income earned per person in a given area in a specified year. Louisiana's income per capita has increased by \$1,193 since 2016. Income per capita is calculated by dividing the total income by the population. Louisiana's population increased by 2,000 in 2017. The chart below illustrates Louisiana's income per capita compared to the US income per capita.

Unemployment occurs when an individual who is actively searching for employment is unable to find work. Unemployment is often a measure of the health of the economy. The most frequent measure of unemployment is the unemployment rate. Louisiana's unemployment rate decreased by 1% in 2017. The line graph below depicts Louisiana's steady unemployment rate over the past 10 calendar years when compared to a declining national unemployment rate.

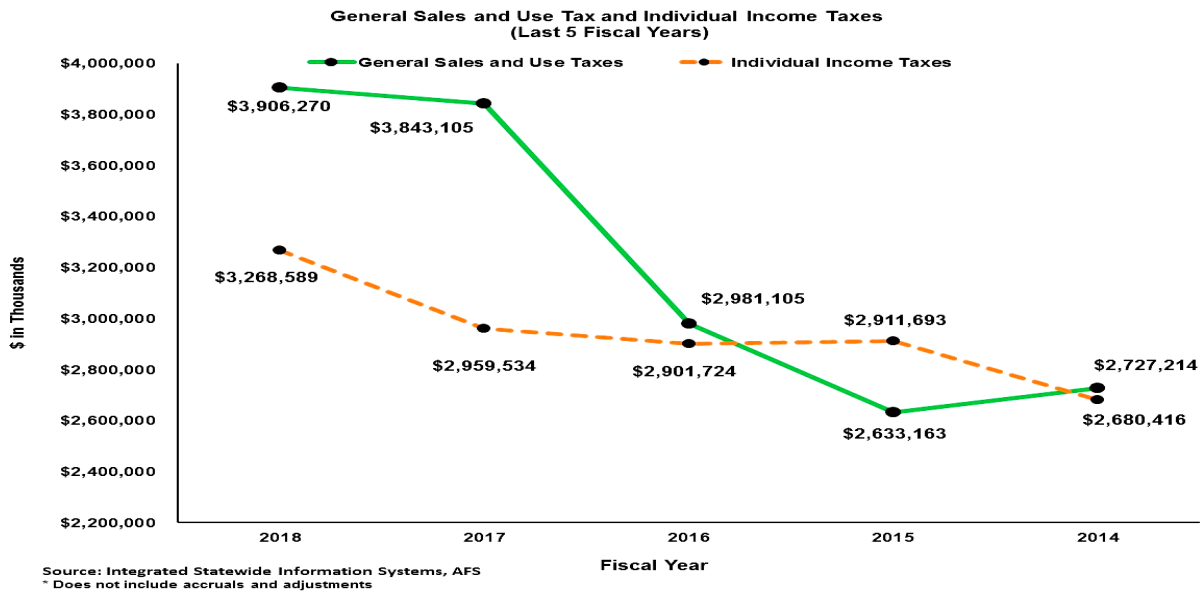


Source: 2018 CAFR & Bureau of Economic Analysis



Source: 2018 CAFR & U.S. Dept. of Labor - Bureau of Labor Statistics

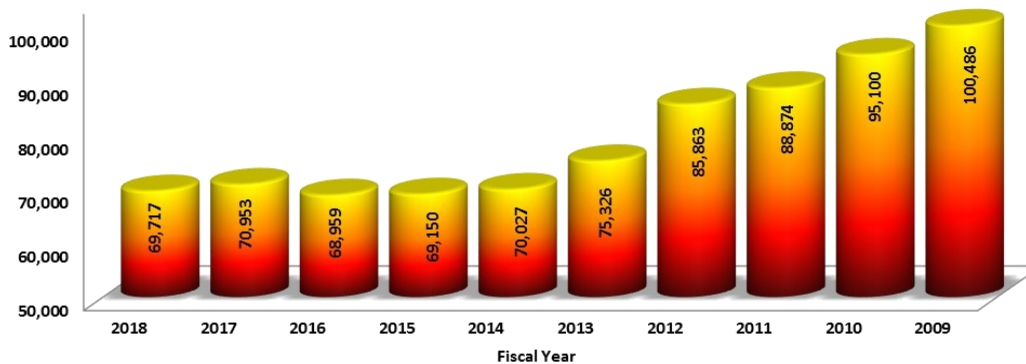
Two of the state's largest tax revenue streams are general sales and use taxes and individual income taxes. The chart below shows the trends in general sales and use taxes and individual income taxes over the last five fiscal years. General sales and use taxes has increased over the last five years with the largest increase between 2016 and 2017 mainly due to the additional one cent sales tax effective April 1, 2016 (fiscal year 2017). Individual income taxes has also increased over the last five fiscal years due to increases in personal incomes.



Number of State Employees

Louisiana employed 69,717 state civil service employees in fiscal year 2018. The total number of employees consist of 39,818 classified employees and 29,899 unclassified employees. This represented a decrease of 1,236 (1.74%) full-time positions in the fiscal year 2018 budget.

Louisiana State Employees *Last 10 Fiscal Years*



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