

# RESTORING THE PRIDE

## FINANCIAL HIGHLIGHTS FOR THE PEOPLE OF THE STATE OF LOUISIANA

Since the beginning of his administration in 1995, Governor M.J. "Mike" Foster has been committed to making significant changes in the operation of the State government of Louisiana. One of his goals has been to enhance our education system by increasing teacher salaries. Another goal is to attract more industry to the State in order to expand the number of jobs available and, as a result, keep our graduates in Louisiana. A slogan of the administration has been that the State should be run like a business. The reader will see from the charts and statistics included that we are well on the way to meeting the governor's goals.

This report, "Restoring the Pride", is the fourth in the series of publications intended to provide an overview of selected financial information of the State of Louisiana. Its purpose is to provide in a simplified, easy to read format, the condition of the State for the fiscal year ended June 30, 2002. While not intended to replace the detailed accounting data

presented in the *Comprehensive Annual Financial Report (CAFR)*, "Restoring the Pride" is meant to enhance the understanding of Louisianians concerning the financial condition of the State.

"Restoring the Pride" presents selected financial, budgetary, economic, and demographic information of particular interest to Louisianians.

Your comments and observations concerning this publication are welcome and should be sent to the Office of Statewide Reporting and Accounting Policy to the attention of Mr. F. Howard Karlton, CPA at the following address:

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### NEW FINANCIAL REPORTING MODEL

This year is the first year that the State is required to include financial statements on a government-wide basis in accordance with the Governmental Accounting Standards Board Statement No. 34. While keeping the fund concept of previous years, this new reporting model adds two new government-wide statements, a *Management Discussion and Analysis*, as well as a reconciliation between the fund level and the government-wide statements. The two new statements differ from the fund level as they include assets, liabilities, and operating results using the full accrual basis of accounting which is similar to the accounting used by private sector businesses. The new statements include long-term debt, general fixed assets, as well as the amount, less the estimate that will not be collectable, of all of the taxes and fees owed to the State by taxpayers without regard to collection date. The intent is to give the reader an understanding of the true financial condition of the state.

For the year of implementation, much of the new information is not easily comparable to the prior year financial statements. The *Management Discussion and Analysis*, due to the absence of comparability, cannot show trends which will be apparent next year. However, even with the lack of comparability to previous years, the reader can see that the government-wide statements of the primary government reflect total assets of \$20.9 billion and total liabilities of \$6.6 billion resulting in a net asset balance of \$14.3 billion at June 30, 2002. The unrestricted net assets balance was a deficit of \$2.9 billion. This represents a negative balance after the State

pays all its obligations and sets aside assets it cannot spend due to legal requirements by the legislature, the State Constitution, and other agreements with donors and grantors. It should be emphasized that this situation does not mean Louisiana is bankrupt. Like private citizens who are making payments on their house, Louisiana will be using future earnings to make payments on the outstanding debt.

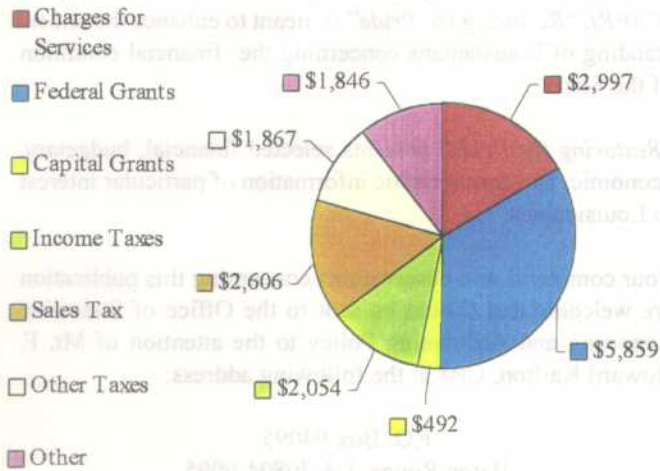
As mentioned earlier, the financial statements included in the CAFR are shown in two different ways. The government-wide statements are full accrual while the fund statements are modified accrual. Key differences between the two follow:

- \* Revenues are recognized when earned regardless of when they are collected (full accrual).
- \* Expenses are recorded for long-term obligations such as accrued vacation time regardless of when the payment is made.
- \* Certain transactions such as bond proceeds, capital lease payments, and fixed asset purchases that resulted in revenues and expenditures at the fund level have been reclassified as assets and liabilities in the government-wide statements.
- \* Certain expenses such as depreciation of capital assets and amortization of bond premiums and discounts that are not recorded in the fund level statements are recorded in the government-wide statements.

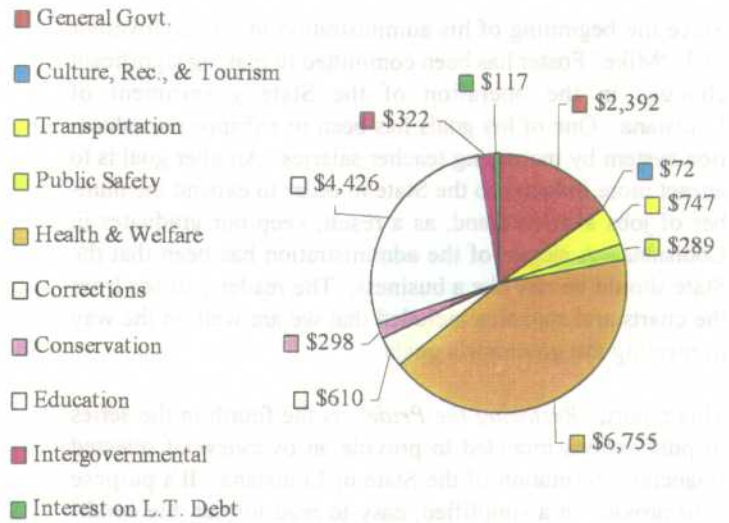
The charts on the following page depict the government-wide revenues and expenses of the State:

# GOVERNMENT-WIDE REVENUES & EXPENSES

Government-wide Revenues  
(In Millions)



Government-wide Expenses  
(In Millions)



## GENERAL FUND BALANCE SHEET

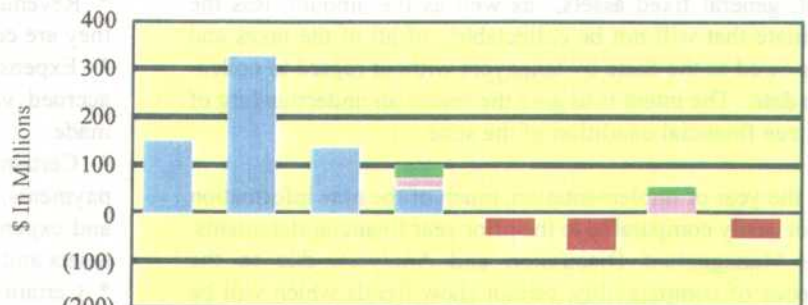
While the foregoing discussion on the government-wide financial statements under the new reporting model shows the condition of the entire State, of special interest is the balance sheet of the General Fund which is the chief operating fund of the State. Assets of \$1.811 billion and obligations of \$1.420 billion leave a total fund balance of \$391 million. The majority of this balance (the "reserved fund balance") is reserved

for many specific purposes, while the remaining amount (the "unreserved and undesignated fund balance") is theoretically the amount left over after all of the State's obligations have been met. For the fiscal year ended June 30, 2002, since liabilities and reservations exceeded the available assets, the fund experienced a deficit or negative posture of (\$34) as compared to a surplus of \$27 million in fiscal year 2001.

## UNRESERVED/UNDESIGNATED GENERAL FUND BALANCE

One measure of the financial performance of the State is the comparison of the unreserved and undesignated fund balance (the surplus or deficit) of the General Fund for the last several years. The unreserved/undesignated fund balance is theoretically the amount "left over" after assets are compared against liabilities. Per the Louisiana Constitution, any surplus can only be used for either capital construction, retiring or defeasance of debt, or providing payments against the unfunded accrued liability of the retirement systems. In addition, beginning in fiscal year 1998, 25% of any nonrecurring revenue, such as surpluses, must be placed in the Budget Stabilization or "Rainy Day" Fund. Fiscal Year 2002 closed with a General Fund deficit position of (\$34) million.

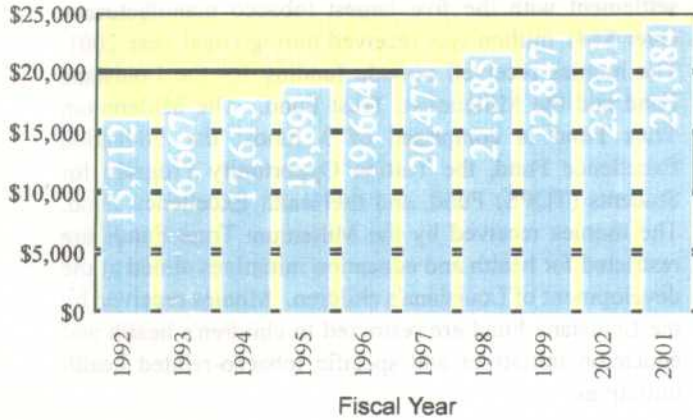
General Fund Surpluses and Deficits by Year and How the Surpluses Were Spent



	Fiscal Year and Amount							
	1995	1996	1997	1998	1999	2000	2001	2002
■ Rainy Day Fund	0	0	0	24	0	0	7	0
■ Capital Outlay	0	0	0	20	0	0	20	0
■ Defeasance of Debt	146	318	135	50	0	0	0	0
■ Deficit	0	0	0	0	(27)	(81)	0	(34)

## ECONOMIC DEMOGRAPHICS

Income Per Capita - Last 10 Years



Source: 2002 CAFR

Employment - Last 10 Years

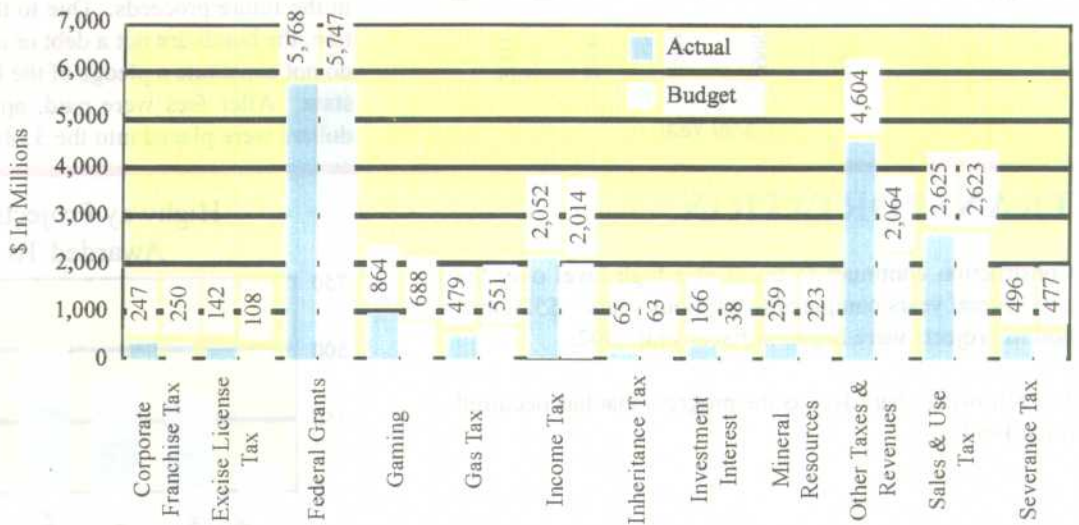


Source: 2002 CAFR

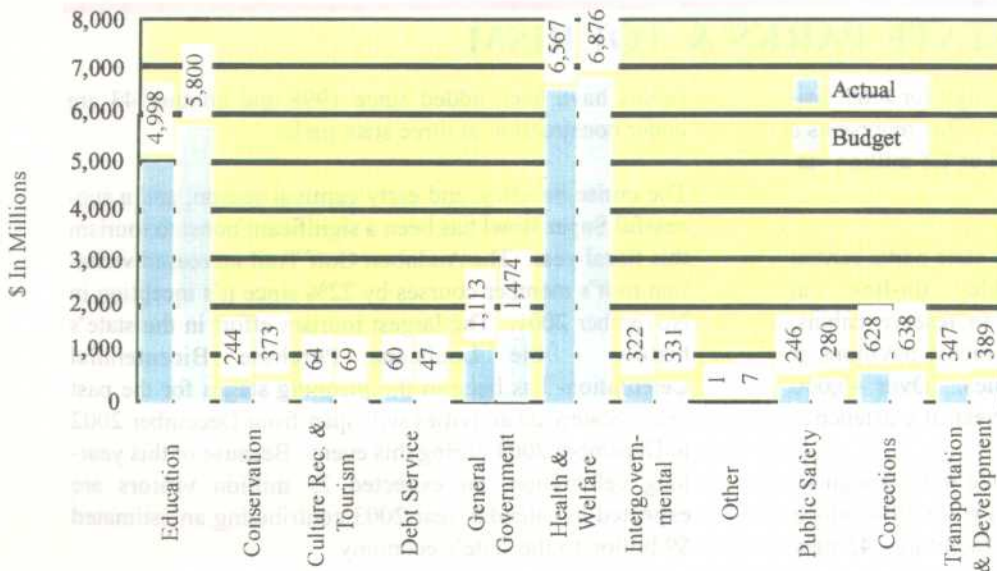
## BUDGETARY INFORMATION

The State of Louisiana is legally required to prepare a balanced annual budget, and all State agencies are required to adhere to the budget during the fiscal year. The revenues are presented by the source of the revenue, mostly from federal grants and various taxes. The chart depicts the budgeted and actual revenues to illustrate the performance of the State in adhering to the legally adopted revenue budget which includes the General Fund and other budgeted funds.

Revenues - Actual to Budget by Source of Revenue - FY '02 (In Millions)



General Fund Expenditures - Actual to Budget by Function of Government - FY '02 (In Millions)



While the foregoing chart depicted the revenue budget by all sources of revenue, the expenditures are budgeted for the General Fund since it is the chief operating fund of the State. This chart depicts the budgeted and actual expenditures of the General Fund by function of government such as education, transportation & development, and health & welfare to illustrate the State's performance in adhering to the legally adopted expenditure budget.

## EDUCATION (K-12)

### Improving Teacher Quality

As the following chart shows, teacher salaries have increased by more than \$6000 from fiscal year 1996 through fiscal year 2001. As of the publication date of this document, the figures for fiscal year 2002 were not available.



## TOBACCO SETTLEMENT

Louisiana is one of 46 states receiving a share of the 1998 settlement with the five largest tobacco manufacturers. Over \$141 million was received during fiscal year 2001. The monies received provide funding for the Louisiana Fund and the Millennium Trust Fund. The Millennium Trust Fund is comprised of 3 funds: the Education Excellence Fund, the Tuition Opportunity Program for Students (TOPS) Fund, and the Health Excellence Fund. The monies received by the Millennium Trust Funds are restricted for health and education initiatives aimed at the development of Louisiana's children. Monies received by the Louisiana Fund are restricted to children's health and education initiatives and specific tobacco-related health initiatives.

During the 2002 fiscal year, Louisiana sold 60% of the future proceeds of the tobacco settlement to the Tobacco Settlement Financing Corporation. This special purpose public corporate entity sold bonds to purchase the interest in the future proceeds. Due to the nature of the corporation, the bonds are not a debt or obligation of the state and do not constitute a pledge of the full faith and credit of the state. After fees were paid, approximately \$1.2 billion dollars were placed into the 3 Millennium Trust Funds.

## TRANSPORTATION

Construction continues to occur at a high level over the past several years compared to previous years. \$520 million in projects were begun in fiscal year 2002.

The following chart depicts the progress that has occurred since 1992.



## STATE PARKS & TOURISM

State Parks once again set an all-time high for total visitors with 2 million for fiscal year 2002. This represents a 50 percent increase since the 1997 total of 1.3 million visitors.

Now in its third year of operation, the state parks central registration system is available on-line at [www.crt.state.la.us](http://www.crt.state.la.us) and can be used to reserve cabins, campsites, lodges, meeting rooms, or picnic pavilions at any of Louisiana's 17 recreational sites. Over 45,000 reservations were arranged in its first year of existence.

A total of \$100 million has been invested in land acquisition, new construction, and renovations since 1996 which has stimulated visitation to state park facilities. 42 new

cabins have been added since 1998 and another 43 are under construction at three state parks.

The cruise industry, and early carnival season, and a successful Super Bowl has been a significant boost to tourism this fiscal year. The Audubon Golf Trail increased visitation to its member courses by 22% since its inception in November 2001. The largest tourism effort in the state's history - the Louisiana Purchase Bicentennial Celebration - has been in the planning stages for the past year. Statewide activities will span from December 2002 to December 2003 during this event. Because of this year-long celebration, an expected 25 million visitors are expected in calendar year 2003 contributing an estimated \$9 billion to the state's economy.

## RETIREMENT SYSTEMS FUNDING

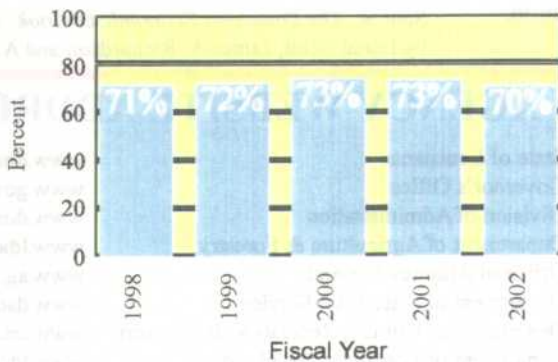
### UAL and Funded Percentages

The "Unfunded Accrued Liability" (UAL) is the amount the State expects to pay in future retiree benefits over and above current resources. The "Funded Percentage" is the percentage of the liability currently funded. A retirement system with an unfunded accrued liability would have a percentage funded of less than 100%. The State's four retirement systems currently have an unfunded accrued liability.

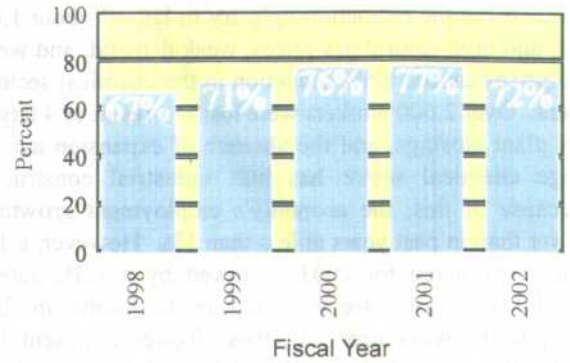
Funded percentages of the liabilities decreased this year after significant increases over the previous 5 years. The following graphs show the trends of the funded percentages for the 3 retirement systems with UAL's over the past 5 years. The Louisiana School Employees' Retirement System which is now experiencing an unfunded accrued liability, is not graphed because in past years it

did not have an unfunded accrued liability. It was funded at 103% and had a surplus of \$44 million in 2001 and is now experiencing an unfunded accrued liability of \$149 and a funded percentage of 91%.

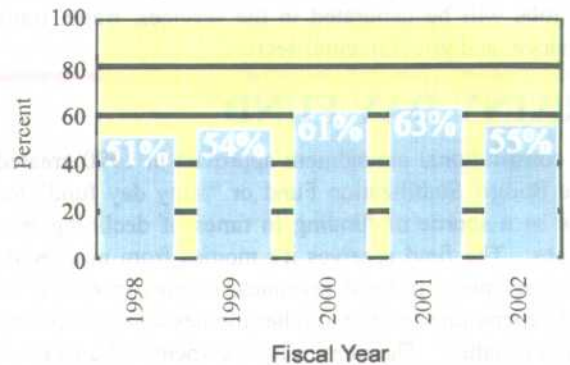
**State Employees' Retirement System**



**Teachers' Retirement System**



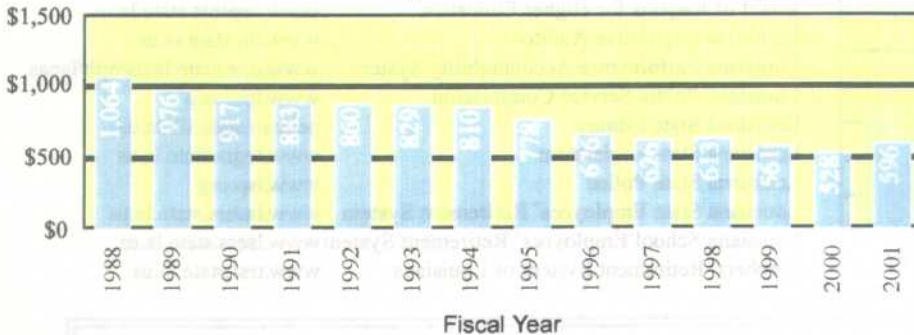
**State Police Retirement System**



## STATE DEBT

Louisiana Revised Statutes (LRS) 39:1365(25) and 39:1402(D) limit the authorization and issuance, respectively, of general obligation bonds. Good debt management has produced positive results. Based on U.S. Census Bureau population statistics, the debt service per capita for fiscal year 2001 was \$596. Fiscal year 2002 is not available due to the unavailability of the 2002 population estimate at the date of this printing. Despite an increase over fiscal year 2000, debt service per person in Louisiana has decreased by \$468 per person since 1988.

**Net General Obligation Debt Service Per Capita\***



Source: 2002 CAFR

\*Debt Service Per Capita represents the amount the State will pay per Louisianian for the general obligation debt of the State less amounts to be received from local governments for their portion of the debt.

## NURSING HOME IMPROVEMENTS

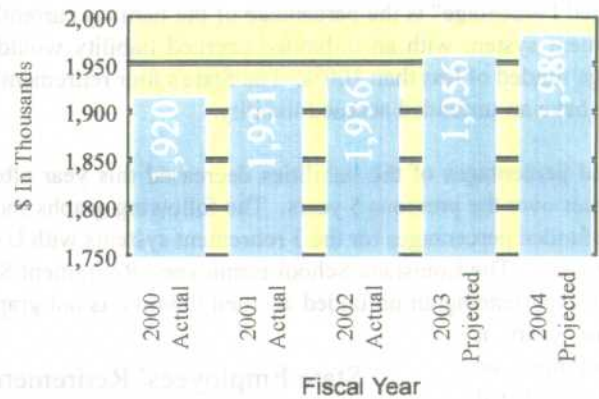
The Medicaid Trust Fund for the Elderly is a permanent trust fund established from federal funds as a funding source for improvements in the care provided by nursing homes across the State.

Established in April 2000, the first payment of over \$306 million was received in FY 2001, and over \$700 million was received during this fiscal year. Over the last two years, over \$1 billion has been transferred into the fund. Principal and interest will be used for enhancements in Medicaid certified nursing homes and for services of the State Medicaid program that receive federal matching funds.

## ECONOMIC OUTLOOK

Fiscal year 2002 has not been a particularly good year for the Louisiana economy due to several events combined. Oil prices fell causing the extraction industry to lay off about 1,000 workers, and high natural gas prices, weak demand, and weak chemical prices caused a 5% reduction in the chemical sector employment. Over 2,600 workers were lost as a result of 4 large employers plant closings, and the absence of expansion activity in the huge chemical sector has hurt industrial construction jobs. Because of this, the economy's employment growth rate was lower than in past years at less than 1%. However, a 1% growth rate is expected for 2003, followed by a 1.3% rate in 2004. 44,700 new jobs are expected in Louisiana in 2003-2004. Despite the weak economy, these figures represent 17 straight years of employment growth and 12 straight years of record-setting growth for the state of Louisiana. With both extraction and manufacturing employment resuming a growth pattern, additional jobs will be generated in the services, trade, transportation, finance, and governmental sectors.

## Non-Agricultural Wage & Salary Employment

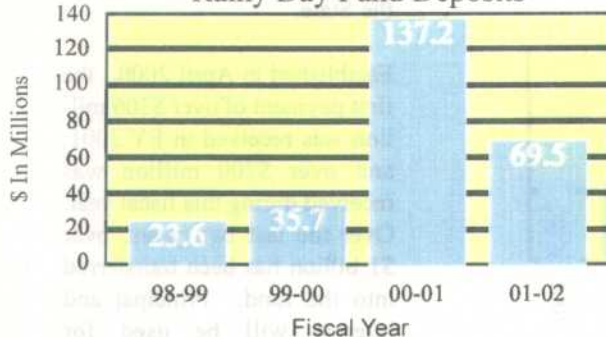


Source: *The Louisiana Economic Outlook: 2003 and 2002* by Loren Scott, James A. Richardson and A.M.M. Jamall

## RAINY DAY FUND

A constitutional amendment approved in 1990 created the Budget Stabilization Fund or "rainy day fund" for use as a source of funding in times of declining revenues. The fund receives its monies from non-recurring revenues, mineral revenues, monies in excess of the expenditure limit, and other monies appropriated by the legislature. The monies can be spent if the forecast for recurring revenues for the next fiscal year is less than the current fiscal year, or if a deficit for the current fiscal year is projected due to a decrease in recurring revenues. Deposits into the fund were \$69.5 million in fiscal year 2002 and \$266 million, plus accumulated interest, since its inception. There have been no expenditures from the fund since its inception. However, due to declining revenue projections for fiscal year 2003, the "rainy day fund" will be used for the first time to provide \$86.4 million to avoid further reductions in important programs.

### Rainy Day Fund Deposits



## AGENCY WEBSITE ADDRESSES

State of Louisiana	<a href="http://www.doa.state.la.us">www.doa.state.la.us</a>
Governor's Office	<a href="http://www.gov.state.la.us">www.gov.state.la.us</a>
Division of Administration	<a href="http://www.doa.state.la.us">www.doa.state.la.us</a>
Department of Agriculture & Forestry	<a href="http://www.ldaf.state.la.us">www.ldaf.state.la.us</a>
Office of Attorney General	<a href="http://www.ag.state.la.us">www.ag.state.la.us</a>
Department of State Civil Service	<a href="http://www.dscs.state.la.us">www.dscs.state.la.us</a>
Department of Culture, Recreation & Tourism	<a href="http://www.crt.state.la.us">www.crt.state.la.us</a>
Department of Economic Development	<a href="http://www.lded.state.la.us">www.lded.state.la.us</a>
Department of Education	<a href="http://www.doe.state.la.us">www.doe.state.la.us</a>
Department of Elections & Registration	<a href="http://www.laelections.org">www.laelections.org</a>
Department of Environmental Quality	<a href="http://www.deq.state.la.us">www.deq.state.la.us</a>
Department of Health & Hospitals	<a href="http://www.dhh.state.la.us">www.dhh.state.la.us</a>
Department of Insurance	<a href="http://www.lidi.lidi.state.la.us">www.lidi.lidi.state.la.us</a>
Department of Labor	<a href="http://www.ldol.state.la.us">www.ldol.state.la.us</a>
Department of Natural Resources	<a href="http://www.dnr.state.la.us">www.dnr.state.la.us</a>
Department of Public Safety & Corrections	<a href="http://www.dps.state.la.us">www.dps.state.la.us</a>
Department of Revenue	<a href="http://www.rev.state.la.us">www.rev.state.la.us</a>
Department of State (Secretary of State)	<a href="http://www.sec.state.la.us">www.sec.state.la.us</a>
Department of Social Services	<a href="http://www.dss.state.la.us">www.dss.state.la.us</a>
Department of Transportation & Development	<a href="http://www.dotd.state.la.us">www.dotd.state.la.us</a>
Department of the Treasury	<a href="http://www.treasury.state.la.us">www.treasury.state.la.us</a>
Department of Wildlife & Fisheries	<a href="http://www.wlf.state.la.us">www.wlf.state.la.us</a>
Board of Regents for Higher Education	<a href="http://www.regents.state.la.us">www.regents.state.la.us</a>
Louisiana Legislative Auditor	<a href="http://www.lla.state.la.us">www.lla.state.la.us</a>
Louisiana Performance Accountability System	<a href="http://www.doa.state.la.us/opb/lapas">www.doa.state.la.us/opb/lapas</a>
Louisiana Public Service Commission	<a href="http://www.lpsc.org">www.lpsc.org</a>
Louisiana State Library	<a href="http://pelican.state.lib.la.us">pelican.state.lib.la.us</a>
Louisiana State Legislature	<a href="http://www.legis.state.la.us">www.legis.state.la.us</a>
Louisiana State Police	<a href="http://www.lsp.org">www.lsp.org</a>
Louisiana State Employees' Retirement System	<a href="http://www.lasers.state.la.us">www.lasers.state.la.us</a>
Louisiana School Employees' Retirement System	<a href="http://www.lasers.state.la.us">www.lasers.state.la.us</a>
Teachers' Retirement System of Louisiana	<a href="http://www.trsl.state.la.us">www.trsl.state.la.us</a>

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