State of LOUISIANA

Popular Annual Financial Report

For the fiscal year ended
June 30, 2021
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 Annual Comprehensive Financial Report (ACFR) for the State of Louisiana.

Discrete component units that are legally separate state entities (e.g. Louisiana Lottery Corporation) are excluded from selected PAFR analysis because the PAFR focuses on the State’s primary government section of the government-wide entities. Custodial funds (such as pension funds) are also excluded from the PAFR and the government-wide financial statements in the ACFR because the State cannot use these assets to finance its operations.

The ACFR 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 ACFR can be obtained on the Office of Statewide Reporting and Accounting Policy’s (OSRAP) website at www.doa.la.gov. The source of all illustrations is the 2021 and/or prior years ACFRs 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 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 all of 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’s primary government.
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, 2021 was approximately $5.6 billion. The largest portion of net position, $13.3 billion, 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 $6.8 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 $14.5 billion at fiscal year end. The negative unrestricted net position is mainly due to the following and is partially offset by the State’s cash, investments, and other current assets:

* A liability for post-employment benefits other than pensions of $6.2 billion attributable to continuous underfunding of annual required contributions.
* A net pension liability and pension-related deferred inflows and outflows for the State’s participation in various defined benefit plans of approximately $5.7 billion.
* The effect of continued issuance of long-term debt to fund annual expenses for capital grants to other entities of approximately $3.3 billion.
* Unfunded reserves for incurred claims payable to outside parties for worker’s compensation, disallowed costs, and various lawsuits of approximately $2.2 billion.
* An estimated liability recorded for $1.3 billion to recognize the State’s share of the costs in three partnerships with the Federal Government to construct and improve levee systems in the greater New Orleans area.

The Statement of Activities reports the change in net position from the prior year. Louisiana’s overall net position increased by $1.0 billion in the current fiscal year. The following factors contributed to the changes in the state’s net position:

* The State saw a $5.5 billion increase in revenues and a $4.8 billion increase in expenditures in governmental activities due mainly to additional funding and corresponding expenses related to COVID-19.
* A portion of the revenue increase is due to a surge in Medicaid expenses and reimbursement from the federal government. The Medicaid program is an entitlement program, and utilization of the program continues to increase.
* Net position in business-type activities decreased by approximately $673 million due to the significant increase in the Unemployment Trust Fund (UI) expenditures caused by the continued large amount of unemployment claims received.
Government-wide Financial Analysis

Government-wide activities present the state’s financial position and operating results. The government-wide statements reflect assets and deferred outflows of resources totaling $43.8 billion and liabilities and deferred inflows of resources of approximately $38.2 billion. As a result, total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) equaled approximately $5.6 billion at June 30, 2021. On the Statement of Activities (Operating Statement), total revenues exceeded total expenses by $1.0 billion.

Government-Wide Revenues

State revenue totaled approximately $43.2 billion in fiscal year 2021. 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 50% of the State’s revenue.

![Government-wide Revenues Chart]

Government-Wide Expenses

On a government-wide basis, the State expended approximately $42.1 billion. As depicted in the accompanying chart, health and welfare and education represent the State’s largest spending categories accounting for 45% and 17% respectively. Business-Type Activities follow at 15% due to the significant increase in Unemployment Trust Fund (UI) expenditures.

![Government-wide Expenses Chart]
Governmental Funds

During fiscal year 2021, 57% of the State’s receipts were from the federal government and 43% 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 government benefit programs including large federal programs such as Medicaid, Supplemental Nutrition Assistance Program (SNAP), and various COVID related programs. 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.
The balance sheet of the General Fund, the chief operating fund of the State, is of 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 ACFR reporting purposes. Regardless of the ACFR presentation as required by generally accepted accounting principles, these funds are maintained as individual self-balancing accounts in the State Treasury as required by state statute.

At June 30, 2021, the General Fund had assets of $14.2 billion and liabilities of $9.8 billion, leaving a total fund balance of $4.4 billion. Of this balance, $3.5 billion is comprised of statutorily dedicated funds and $887 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 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 is usually created by the Joint Legislative Committee on the Budget’s 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.
Federal Grant Revenue

The federal government awards financial assistance to the State in the form of federal grants. For the fiscal year ended June 30, 2021, total grant revenue was approximately $26.8 billion with health and welfare programs receiving $15.3 billion followed by education and public safety each receiving $1.6 billion. Various other state departments received the remaining $8.3 billion.

As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the State received $1,802,619,343 of direct state aid in April of 2020. This money was appropriated by the legislature for fiscal years 2020, 2021, and 2022 for various purposes. In addition to funding State COVID related expenditures, the following funds were created:

- Coronavirus Local Recovery Allocation Fund - provides monies to local governments for the expenditures incurred and in response to the COVID 19-pandemic.
- Louisiana Main Street Recovery Fund - provides economic support to eligible Louisiana businesses for costs incurred in connection with the COVID-19 pandemic.
- Critical Infrastructure Worker’s Hazard Pay Rebate Fund - provides a one-time hazard pay rebate to essential critical infrastructure workers.
- State Coronavirus Relief Fund - created to hold all unobligated monies to be appropriated by the legislature.

In June of 2021, Louisiana also received $3,011,136,886.50 of direct state aid from the American Rescue Plan Act (ARPA). This money is recorded as unearned revenue in the financial statements and was appropriated by the legislature in fiscal year 2022.

The chart below depicts Louisiana’s CARES Act expenditures, by function, for fiscal years 2021 ($1,265.7 billion) and 2020 ($525.6 billion).
Budget Stabilization Fund

The Budget Stabilization Fund was created in 1990 for use as a source of funding in times of declining revenues. Deposits to the fund includes 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 2021, $67.7 million was deposited into the Budget Stabilization Fund. This included $67.6 million of nonrecurring money as designated in Article VII, Section 10(D)(2) of the Constitution and $147,000 of interest earnings. 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 maximum was $1.1 billion for fiscal year 2021. There were $90 million of expenditures from the fund in fiscal year 2021. The fund balance of the Budget Stabilization Fund was $546 million at the end of fiscal year 2021.

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 2021 report, the median debt per capita for states was $1,039. Of the 50 states, Louisiana has the 17th most debt per capita.
Funding for Postemployment Benefits

The State provides pensions and post-employment benefits other than pensions (referred to as OPEB and 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.

<table>
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<tr>
<th>Funded Percentage of Actuarial Accrued Liability</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
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</thead>
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<tr>
<td>District Attorneys' Retirement System</td>
<td>97%</td>
<td>85%</td>
<td>93%</td>
<td>93%</td>
<td>96%</td>
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<tr>
<td>Louisiana Clerks' of Courts Retirement System</td>
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<td>72%</td>
<td>78%</td>
<td>79%</td>
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<tr>
<td>Louisiana State Employees' Retirement System</td>
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<td>64%</td>
<td>65%</td>
<td>64%</td>
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<tr>
<td>Registrars of Voters Employees' Retirement System</td>
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<td>85%</td>
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<td>85%</td>
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<tr>
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<tr>
<td>Louisiana State Police Retirement System</td>
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<tr>
<td>Teachers' Retirement System of Louisiana</td>
<td>72%</td>
<td>68%</td>
<td>67%</td>
<td>66%</td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: Retirement Systems' Actuarial Valuation Reports

Medicaid

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 government assistance.

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 and state governments. In fiscal year 2021, the Medicaid program provided medical services for over one million low-income children, pregnant women, adults, seniors, and individuals with disabilities in Louisiana. In fiscal year 2021, Medicaid program expenditures were approximately $14 billion.

The chart on the right depicts the total number of individuals enrolled in Medicaid and the total Medicaid expenditures for the past five fiscal years. The overall enrollment in the Medicaid program and total expenditures increased by approximately 184,000 individuals and $1.1 billion between fiscal years 2020 and 2021.
Key Economic Factors

The state’s largest tax revenue streams are individual income taxes, general sales and use taxes, and insurance premium taxes. The chart on the right illustrates the trends in tax revenue over the last five fiscal years. Individual income taxes and general sales and use taxes increased by approximately $420 million and $453 million, respectively, between fiscal years 2020 and 2021.

In March 2020, many businesses were closed due to the COVID-19 pandemic thereby reducing the amount of sales taxes collected. Beginning July 1, 2020, the Louisiana Sales and Use Tax Commission for Remote Sellers began collecting state and local sales and use taxes from remote sellers. A remote seller is a seller who sells any taxable tangible personal property, products transferred electronically, or services within Louisiana but does not have a physical presence in Louisiana. The Sales and Use Tax Commission for Remote Sellers collected approximately $301 million in fiscal year 2021 and remitted $143 million to the State of Louisiana.

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 $2,029 since 2019. Income per capita is calculated by dividing the total income by the population. Louisiana’s population decreased by 4,000 in 2020. The chart on the right 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 increased by 3.5% in 2020 largely due to the impact of the COVID-19 pandemic. COVID-19 caused many businesses to suspend operations or close and also prevented many individuals from looking for work. The line graph on the right depicts Louisiana’s unemployment rate compared to the U.S. unemployment rate over the past 10 calendar years.

Number of State Employees

Louisiana employed 70,304 state civil service employees in fiscal year 2021. The total number of employees consist of 38,541 classified employees and 31,763 unclassified employees. This represented a decrease of 214 (.30%) full-time positions in the fiscal year 2021 budget.