Executive Summary

Louisiana Public Facilities Authority

25 Years of Service to Louisiana

1974 - 1999

The Louisiana Public Facilities Authority: Its Impact on the Louisiana Economy

Prepared for the LPFA by
Dr. James A. Richardson

In 1999 the LPFA completes 25 years
of dedicated service to Louisiana, its people,
institutions and governmental entities.

To determine the economic impact of
the Authority on the state during this
quarter-century of financial service,
the LPFA commissioned an
impact study by Dr. James A Richardson,
the distinguished economist with the
E.J. Ourso College of Business Administration
at Louisiana State University

We present to you the Executive Summary
of Dr. Richardson's exhaustive study.

For copies of the complete report,
The Louisiana Public Facilities Authority:
Its Impact on the Louisiana Economy,
please contact the LPFA.

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The Louisiana Public Facilities Authority: Its Impact on the Louisiana Economy

Executive Summary

Prepared for the LPFA by Dr. James A. Richardson

The Louisiana Public Facility Authority (LPFA) was created as a public trust and public corporation in 1974 with the authority to issue taxable and tax-exempt bonds to finance projects and programs in the best interest of the citizens of Louisiana. LPFA serves as a financial intermediary between public and private entities in Louisiana and the national and international financial markets for the financing of educational and medical facilities, industrial and economic development projects, state and local programs, and other projects and programs in the best interest of the state.

While not a State agency, the LPFA complies with state laws regarding public records, public contracts, open meetings, public bids, the Bond Validation Procedures Law and the State Code of Ethics.

LPFA financial transactions influence the performance and direction of the Louisiana economy. Construction projects create business activity, new jobs, and additional personal earnings for the duration of the construction project. In the case of LPFA these benefits appear to be recurring since LPFA is financing a new construction project or projects each and every year. The long-term benefits of the construction project occurs after the project is completed and the facility operational.

Estimates of the state wide benefits of all construction projects financed by LPFA are provided. Benefits accruing to the state because of the use of the new or renovated facility are illustrated by examining specific projects, including construction associated with Tulane University, the University of New Orleans Research and Technology Park, the Con Agra Poultry Processing Facility in Union Parish, and medical facilities around the state.

LPFA also provides financial services to specific programs ranging from cash flow management for local governments to restoring an insolvent state program to reducing the interest burden associated with governmental borrowing. LPFA has also

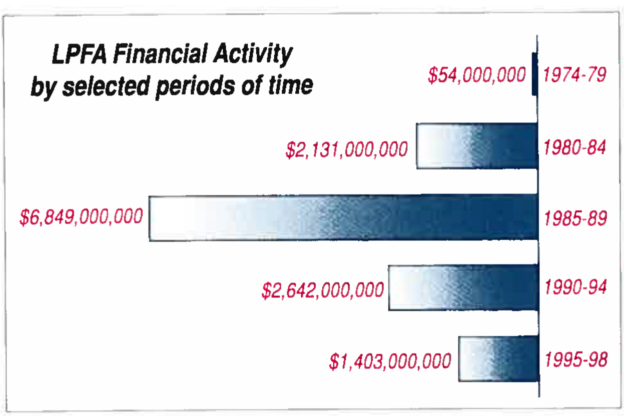
Annual LPFA financial audits are reviewed by the State Legislative Auditor. LPFA bond issues must undergo review and approval by the State Bond Commission. All bond-issuance fees paid by the LPFA are subject to the review of the State Bond Commission or the Louisiana Attorney General.

provided funding to certain projects as a means of jump starting the initiative such as funding for Pennington Biomedical Research Center and Tad Gormley Stadium. Benefits from these financial transactions are best computed by examining the specific LPFA project.

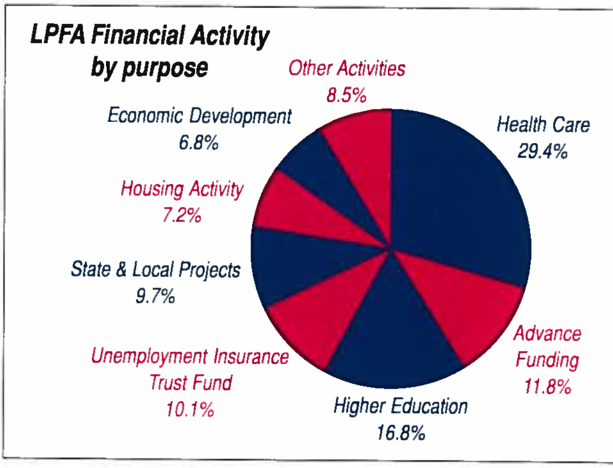
LPFA is a financial facilitator. LPFA does not, by itself, create wealth; it helps others create wealth. LPFA does not, by itself, create additional business activity, new jobs, and additional personal earnings for citizens of the state; it helps others create this economic impact. LPFA does not, by itself, create the reasons for which the various entities need to borrow funds; LPFA facilitates these financial transactions so as to reduce the burden of servicing the debt. The facilitation of these financial transactions is a key and necessary ingredient in promoting and stimulating economic growth in Louisiana.

LPFA Bond Issuances, 1974-1998

The LPFA, in its twenty-five years of activity, has issued over $13 billion of bonds or an average of approximately $525 million per year. LPFA was most active during the years of 1985 through 1989, years in which the Louisiana economy was reeling due to the oil patch collapse, and other financial institutions within the state were limited by the state-wide financial conditions. About $7 billion in bonds were issued by LPFA during this five year period. LPFA was not specifically assigned the duty of being a contra-cyclical financial force within the state, but market conditions led LPFA to assume such a role.



LPFA has provided more financing for health care providers than any other type of activity. Almost 30 percent of all bond issuances of the LPFA has provided financing for health care providers. LPFA provided major funding for higher education in the form of bond issuances for construction and equipment and for student loans with these financial transactions amounting to 16.5 percent of all LPFA transactions during its first 25 years. Advance funding for local governments, including school districts, law enforcement agencies, and other local political subdivisions, accounted for almost 12 percent of all bonds issued. Advance funding allows a local school district to even out its revenue stream with its expenditure stream without having to borrow at the market rate of interest. Just over 10 percent of the total bond issuances of the LPFA permitted the restructuring of the State's Unemployment Insurance Trust Fund in 1987, a restructuring that was necessitated by the collapse of the state's economy in the mid 1980s. Major construction projects for single and multi-unit housing structures, local governments, and private economic development accounted for about 24 percent of all LPFA bond issuances during its first 25 years.

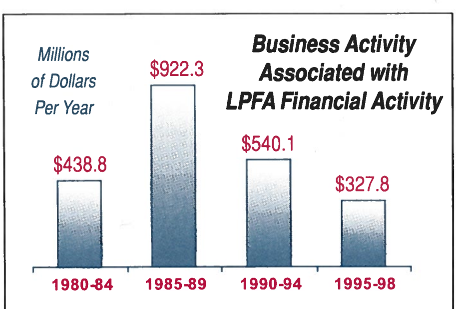


LPFA has served a state-wide market. New Orleans and Baton Rouge metropolitan areas have received the largest amount of LPFA bond issuances specific to a region of the state. Baton Rouge metropolitan area has received about $2,000 per person in LPFA bond issuances; New Orleans, Monroe, and Shreveport over $1,000 per person; Lafayette over $500 per person; and Alexandria and Lake Charles between $200 to $300 per person. LPFA's financial activity affected every region of the state with its projects and programs. Parishes from Bienville in the northwest region of the state to Franklin in the northeastern region of the state to Beauregard in the southwest region of the state to Washington in the southeastern region of the state have benefited from LPFA bond issuances.

Economic Significance of LPFA Financed Construction Projects

LPFA's financial activity affects the overall economy in terms of supporting additional business activity, additional jobs, and additional personal earnings which would not have occurred if the financial transactions had not occurred. The economic impact on the economy can be divided into two parts: (1) construction activities create new business activity, new jobs, and additional personal earnings for as long as the construction project is being completed and (2) once, the construction project is completed, then the new facility supports a permanent activity which provides economic benefits to the economy as long as the facility is able to support the production of a good and\or service.

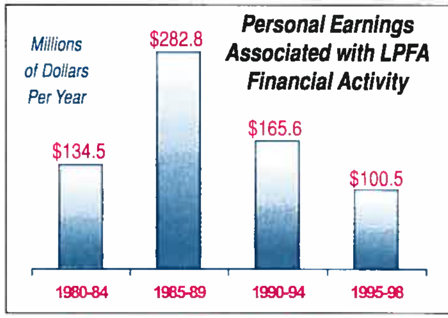
Economic Impact of Construction Activity



Based on LPFA's financial activity and the Louisiana Input-Output Model, business activity increased by $438.8 million per year for the 1980-84 time period; $922.3 million per year for the 1985-89 time period; $540.1 million per year for the 1990-94 time period; and, $327.8 million per year for the 1995-98 time period.

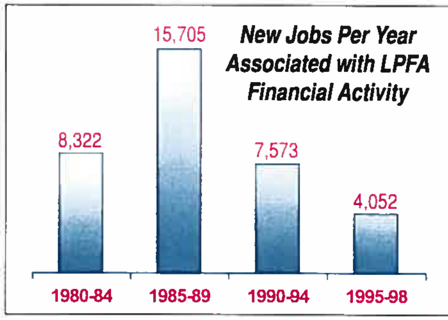
• **Personal Earnings**

Personal earnings increased by $134.5 million per year for the 1980-84 time period; $282.8 million per year for the 1985-89 time period; $165.9 million per year for the 1990-94 time period; and, $100.5 million per year for the 1995-98 time period.



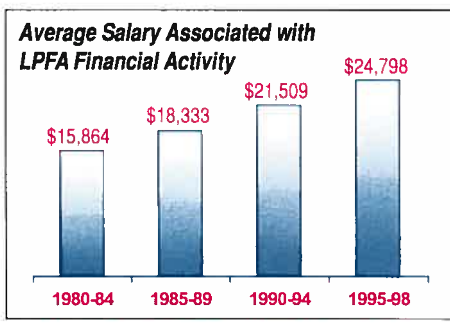
• **New Jobs**

New jobs associated with LPFA financial activity amounted to 8,322 jobs per year in the 1980-84 time period; 15,705 jobs in the 1985-89 time period; 7,573 jobs in the 1990-94 time period; and, 4,052 jobs in the 1995-98 time period.



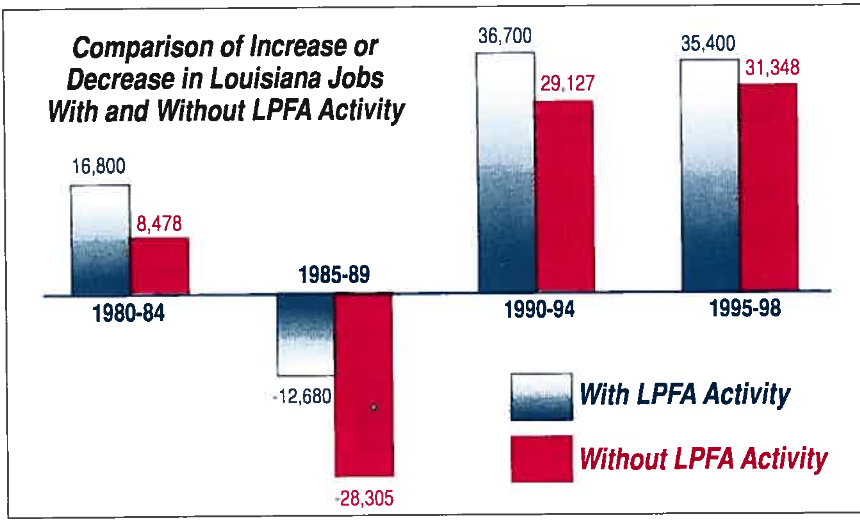
• **Average Salary**

The average wage for these new jobs jumped from almost $16,000 per job in the early 1980s to approximately $25,000 per job in 1998.



Jobs and personal earnings are the bottom line in terms of defining economic progress. LPFA during the past 25 years has facilitated economic activities that has led, on average, to an additional 8,333 jobs per year and additional personal earnings of $158.6 million per year for the Louisiana economy. In order to match the impact of the LPFA and the entities that have requested the financial assistance of the LPFA on the Louisiana economy, the state would have to have new construction activity, financed by other methods, of $265 million per year or another chemical plant operating in the state with sales of $1 billion per year.

Another way of evaluating the impact of the LPFA associated construction projects on the Louisiana economy is to examine the increase or decrease in jobs in Louisiana with and without the construction projects facilitated by LPFA.



In the 1980-84 time period the Louisiana economy created 16,800 jobs per year, including the impact of LPFA financial transactions. Without the LPFA financial transactions, the Louisiana economy would have created about 8,500 jobs per year for this period of time. From 1985 to 1989 the Louisiana economy actually lost about 12,600 jobs per year, including the impact of LPFA financial transactions. However, without LPFA's financial activities during this time period, the Louisiana economy would have averaged a loss of over 28,000 jobs per year. LPFA was particularly important to the Louisiana economy during the oil patch collapse in the 1980s and the financial weakness of many of the other financial institutions within the state. From 1990 to 1994 the Louisiana economy created 36,700 jobs each year, including LPFA's impact through its financial transactions. The state would have only experienced an increase of just over 29,000 jobs per year if LPFA's financial transactions had not occurred and no other financial institution would have or could have provided the necessary financial services to the entities served by LPFA. During the time period of 1995 through 1998 the Louisiana economy created 35,400 jobs per year, including the LPFA impact on the state's economy. Without LPFA's financial transactions and no other financial institution able or willing to provide the necessary financial services to the entities served by LPFA, then Louisiana would have created just over 31,000 jobs per year.

On-going Impact of Construction Activity

The on-going impact of LPFA financial transactions are best described by focusing on individual LPFA projects.

• **Tulane University** Tulane University borrowed over $285 million through LPFA from 1984 through 1992 and $110 million from 1993 through 1998 to finance construction of new facilities and enhancement of existing facilities. Tulane provides educational services to 11,500 students in New Orleans with an annual budget of approximately $430 million and provides direct employment opportunities for 4,500 persons. Tulane's expenditures lead to the creation of about $868 million in business activity in the state; personal earnings of just over $344 million; and 12,650 jobs. LPFA facilitated the financial needs of the university thereby facilitating the contribution of Tulane University to the New Orleans and Louisiana economy.

• **UNO Research and Technology Park** The U.S. Navy located a state-of-the-art Naval Information Technology Center in the UNO Research and Technology Park. LPFA financed the construction of Phase I of the building project (2 major buildings housing the Naval Information Center) and has received approval to finance Phase II of the project (2 additional buildings and a parking garage). It is estimated that the naval project will bring 1,500 permanent jobs to New Orleans. This flow of federal dollars will create $272.5 million

of additional business transactions, $136.7 million of household earnings, and 3,548 new jobs. This technology center, along with the Phase II for the Research and Technology Park, may have an even larger impact on the New Orleans since the technology center serves as a magnet for comparable projects from government and private industry. Direct permanent jobs, after Phase II is completed, are estimated to be above 2,200.

In order to facilitate this larger impact in New Orleans, the LPFA loaned $1.2 million to the University of New Orleans Research and Technology Foundation at zero percent interest. This loan provides the working capital for the Foundation to finance other technology projects, including a facility to house emerging-technology companies.

• **Con Agra Processing Facility** LPFA contributed to the development of the Con Agra Poultry Processing Facility in Union Parish by providing interim financing for the development of water wells, sewers, and roads. Con Agra made a $34 million investment in Union Parish with a permanent payroll of $11 to $14 million in 1990 dollars and the creation of 1,100 to 1,400 jobs. The construction of the processing facility led to additional business activity of $65.9 million, household earnings of $20.2 million, and 573 new jobs for the duration of the construction project. The operation of the facility is permanent. In 1998 the facility still employs 1,400 persons. Con Agra is the largest employer in Union Parish. Population in Union Parish declined in the 1980s but has risen in the 1990s. Per capita income in Union Parish increased more quickly from 1991 to 1994 than per capita income in Louisiana and the United States.

Photo courtesy of Lincoln Builders, Inc.

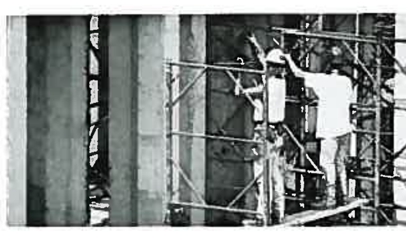
• **State-wide Health Care Financing** LPFA has issued close to $3.8 billion of bonds to finance health care construction and equipment purchases from 1974 through 1998. Twenty-six parishes in Louisiana have benefited from LPFA's financing of health care facilities. Approximately 43 percent of the increased business activity, additional household earnings, and new jobs due to construction activity is related to the construction of health care facilities. These benefits are just the beginning because on-going benefits will last as long as the facilities last. The first and most obvious benefit will be the improved health care available to persons throughout the state. Second, over 200,000 persons work in the health care industry in Louisiana. These facilities complement and contribute to the support of the jobs and earnings for these persons.

On-going Impacts Associated with Unique LPFA Programs

LPFA has undertaken a number of projects that only LPFA, or an organization with its mission, could have undertaken. These projects, including restoring the Unemployment Insurance Trust Fund, advanced funding for local governmental subdivisions, and jump-starting specific programs, have an on-going impact on the Louisiana economy.

Restoring the Unemployment Insurance Trust Fund

The collapse of the Louisiana economy in the 1980s eventually led to the insolvency of the Unemployment Insurance Trust Fund. The state owed the federal government close to $800 million with interest payments of almost $70 million. Businesses had lost federal tax credits associated with the unemployment insurance program and had been assessed a surtax. Interest payments on the outstanding debt to the federal government exceeded market rates by about 2.5 percent. The LPFA, working with state government and business and labor leaders, provided a plan to overcome the fund's debt and deficits. LPFA issued $1.3 billion in bonds to pay off the federal debt, pay the



annual interest installment to the federal government, and deposit $250 million in the trust fund. Business and labor also made sacrifices to make the overall plan work. Workers received a reduction in benefits by almost 12 percent; the taxable wage base increased from $7,000 to $8,500 for businesses; and businesses agreed to pay a special assessment of 1.4 percent of the first $15,000 of each worker's wage base to pay off the bond issue.

The plan has worked. The 15 year debt issued in 1987 was paid off by 1993. As of 1998 the trust fund has a balance of about $1.4 billion. Taxes paid by Louisiana employers have been reduced in 1995, 1997, and 1999. Benefits paid to Louisiana workers who have been laid off have increased in 1995, 1997, and 1999.

LPFA could not, by itself, have created a plan that would have rescued the Unemployment Insurance Trust Fund. But, without the ability of LPFA to issue $1.3 billion of bonds and to schedule the defeasement of the debt in such a way that early retirement of the debt was possible, the plan would not have been feasible.

Advanced Funding for Local Government Subdivisions

In 1982 LPFA instituted advanced funding for local government subdivisions for cash flow purposes. LPFA has provided almost $1.7 billion in advanced funding from 1982 through 1998 with most of this advanced funding going to school districts and law enforcement agencies. Market interest rates averaged almost 9.0 percent during the 1983 to 1998 time period, while LPFA rates for advanced funding averaged around 4.0 percent over this same time period. Overall savings to school districts, law enforcement agencies, and other local government subdivisions is estimated to be close

to $120 million or, on average, $7.5 million per year. At current salaries for school teachers these savings translate into enough money to hire 280 teachers or about 4 teachers in each school district in the state.

Jump-Starting Pennington Biomedical Research Center

Mr. C. B. "Doc" Pennington donated $125 million for the construction of the Pennington Biomedical Research Center. The operating expenses of the center was to be generated by government appropriations and/or grants, private contracts, private donations, and other self-generated funds. The research center was completed just at the time the Louisiana economy was mired in the oil patch collapse. Operating funds were hard to come by. An LPFAbond issue generated $4.1 million for the Center's first operating monies. These dollars permitted the Center to hire a Director and pave the way for other research grants to be obtained. The Pennington Biomedical Research Center has grown from the initial funding to a projected budget of $20.8 million in the year 2000. The Center employs more than 350 scientists, technicians, physicians, and support personnel. This $20.8 million budget leads to an increase of about $39 million in additional business activity for the local and state economy, new jobs of over 650, and household earnings of about $15.2 million.

A Final Look at LPFA's Role

LPFA is a financial facilitator. Obviously, it did not create the Pennington Biomedical Research Center. It will not do the research for which the Center will become internationally known. LPFA did not create the need for the advanced funding required by the local government subdivisions. Similarly, LPFA does not create the need for the various construction projects that it is asked to finance. LPFA provides, however, the financial intermediation that permits construction projects to be completed; state and local programs to be implemented; and, economic development projects such as the Pennington Biomedical Research Center to be initiated as quickly as possible, and at the lowest possible financial costs. LPFA's activity, along with the activity of the many governments and private entities with which it interacts, provides a substantial economic boost to the state of Louisiana. This economic boost can be measured in terms of additional business activity, new jobs being created, and additional household earnings and also in terms of opportunities and possibilities for the long-term development of Louisiana's economy. LPFA's facilitation of these financial transactions is a key and necessary ingredient in promoting and stimulating economic growth in Louisiana.

Dr. Richardson is solely responsible for
the analysis and findings included within this study.

James A. Richardson, PhD.

Dr. Richardson is John Rhea Alumni Professor of Economics and Director of the Public Administration Institute in the E.J. Ourso College of Business Administration at Louisiana State University in Baton Rouge.

Since 1987, Dr. Richardson has served as the private economist on the Louisiana Revenue Estimating Conference, the panel with the constitutional authority and responsibility to provide official revenue estimates for the state. He served as a fiscal advisor to the Governor of Louisiana from 1988 through 1991, as advisor to the Governor's Tax Reform Panel in Kansas in 1995, and as an advisor to the Alabama Department of Revenue in 1996.

Since 1983, Dr. Richardson has participated in preparing the *Louisiana Economic Outlook*, a two-year forecast of the Louisiana economy published by LSU's E.J. Ourso College of Business Administration.

He has served as an Associate Editor of the *Journal of Education Finance* and the *Texas Business Review.* His work has been published in numerous journals, and a major tax study he organized and supervised for the State of Louisiana, *Louisiana Fiscal Alternatives: Finding Permanent Solutions to Recurring Budget Crises*, was published by the LSU Press in 1988. He has just co-edited a major book, *Handbook on Taxation*, which was published by Marcel Dekker in January 1999.

Dr. Richardson also serves as a member of the Board of Directors of the Public Affairs Research Council (PAR) and as a member of the Board of Trustees of the Council for A Better Louisiana (CABL).

Dr. Richardson received his B.A. in economics from St. Mary's University of San Antonio, Texas and his Master's and his PhD. in economics from the University of Michigan. He specializes in regional forecasting, state and local tax policy, and energy economics.

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