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CELEBRATING 30 YEARS

The Louisiana Public Facilities Authority: Impact on the Louisiana Economy, 1999–2003

Prepared for the LPFA by Dr. James A. Richardson

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In 2004 the LPFA completes 30 years of dedicated service to Louisiana, its people, institutions and governmental entities.

To determine the economic impact of the Authority on the state during its first 25 years of 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. The following study, *The Louisiana Public Facilities Authority: Impact on the Louisiana Economy, 1999–2003*, supplements Dr. Richardson's 1974–1999 study in connection with LPFA's 30th anniversary.

For copies of the 1974–1999 study, please contact the LPFA or visit www.lpfa.com.

"Jobs and personal earnings are the bottom-line in terms of defining economic progress. LPFA during its first 25 years (1974 through 1998) facilitated economic activities that 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. From 1999 through 2003 LPFA facilitated economic activities that led to an average of 7,745 jobs per year and additional personal earnings of $202.3 million per year."

THE LOUISIANA

PUBLIC FACILITIES AUTHORITY

Impact on the Louisiana Economy, 1999-2003

Prepared for The LPFA by Dr. James A. Richardson

The Louisiana Public Facilities Authority (LPFA) was created as a public trust and public corporation in 1974 with the authority and responsibility 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. As a financial intermediary, LPFA directly affects state and local governments, agencies, companies, and individuals who borrow money through the LPFA. In a broader sense, LPFA, along with the entities borrowing the funds, influences the entire Louisiana economy in terms of supporting jobs associated with construction activity related to the issuing of bonds, providing an infrastructure to support on-going and permanent economic activity, and reducing interest payments associated with financing debt of governments and private entities.

This study identifies and analyzes the various financial transactions undertaken by LPFA from 1999 through 2003 and the subsequent impact of these financial transactions on the state's economy including additional business activity, new jobs created, and additional earnings, reduced interest expenses for governmental subdivisions and private entities, and other economic benefits accruing to the citizens of the Louisiana.

II. Economic Benefits Related to LPFA Financial Transactions

LPFA financial transactions influence the performance and direction of the Louisiana economy. Construction projects create business activity, new jobs, and additional personal earnings for citizens of the state. These benefits last just as long as the construction project. In the case of LPFA these benefits appear to be recurring since LPFA is typically financing a new construction project or projects each and every year. The true long-term benefits of any of the construction projects to the state of Louisiana occur after the construction project is completed. At that point, for example, the medical facility provides services to its patients and jobs to its employees and outside suppliers of goods and services; the university facilities provide educational services to its students and employment to its faculty, staff, and outside vendors; housing construction provides living services to persons buying a new home or renting an apartment plus employment to those providing services to the owners of the new homes or new apartment buildings.

Benefits related to the construction of the various facilities are easily computed and aggregated on a yearly basis. The report provides estimates of the economy-wide benefits due to the various construction projects financed by LPFA. Benefits accruing to the state because of the use of the new or renovated facility are just as real as benefits related to the construction activity, but more difficult to measure and aggregate.

LPFA provides financial services to specific programs that, perhaps, did not involve construction activity, but rather a chance to reduce interest expenses for state and local governments, an opportunity to restructure a state program that was in jeopardy, or a chance to provide cash flow flexibility to local governments at reduced interest costs.

Finally, LPFA has provided or facilitated funding to certain projects as a means of jump-starting an initiative such as funding for a rural healthcare initiative in southwestern Louisiana. These activities do not provide the traditional service of a financial intermediary, but LPFA provides the spark that gets a project off the ground. Benefits from these financial transactions are best computed by examining the specific LPFA project.

LPFA does not, by itself, create wealth, but it helps other entities create wealth in Louisiana; LPFA does not, by itself, create additional business activity, new jobs, and additional personal earnings for citizens of the state, but it helps others create this economic impact; and, LPFA does not, by itself, create the reasons for which the various entities need to borrow funds, but LPFA facilitates these financial transactions so as to reduce the burden of servicing the debt. The facilitation of these financial transactions is, without a doubt, a key and necessary ingredient in promoting and stimulating economic growth in Louisiana.

III. LPFA's Bond Issuances, 1999-2003

LPFA, during its last five years of operations, issued over $2.3 billion of bonds or an average of just over $460 million per year. These bonds were issued (1) on behalf of specific public and private universities for buildings and equipment, (2) on behalf of local governmental bodies in handling cash flow problems, (3) on behalf of individual projects such as the construction of housing developments, (4) in support of student loans for college students, (5) on behalf of major health care providers within the state for construction and the purchase of equipment, and, (6) for a variety of other purposes. From 1974 through 1998, LPFA's first 25 years of operations, LPFA issued approximately $525 million of bonds per year.

LPFA Financial Activity: Magnitude and Purpose

LPFA's role as a financial intermediary is illustrated in Figures 1a, 1b, 2a, and 2b. LPFA issued close to $700 million in bonds in 1999, over $800 million in bonds in 2002, and over $334 million in bonds in 2003. In 2000 and 2001 LPFA issued approximately $200 million in bonds. Bonds issued by year are illustrated in Figure 1a. The accumulation of the bond issuances is illustrated in Figure 1b. From 1999 to 2003 LPFA issued over $2.3 billion of bonds.

At its creation, LPFA was not given specific goals, but rather the general assignment of providing financial services in the best interest of the citizens of Louisiana. LPFA was not specifically instructed to be a contra-cyclical financial force within the state. Similarly, LPFA was not assigned the specific duty of alleviating the state's cash flow problems and the implications of these cash flow problems for local governments. The LPFA was not assigned to assist local governments in reducing interest rate expenses if movement in the interest rates permitted such an opportunity. Market conditions, changes in federal tax provisions, other economic factors, and financial foresight led the LPFA to assume such roles in the Louisiana economy.

In Figures 2a and 2b the types of bonds that have been issued over the past five years are illustrated. LPFA has provided more financing for health care providers than any other type of activity. Almost 35 percent of all bond issuances of the LPFA has provided financing for health care providers. The growth in the health care industry and the needs of this industry to undertake major building campaigns and equipment enhancements has led to a very productive working relationship between health care providers and the LPFA. As illustrated in Figure 2a health care bond issuances are not the same size each and every year.

FIGURE 1A: LPFA BOND ISSUANCES: 1999–2003 (MILLIONS OF DOLLARS)

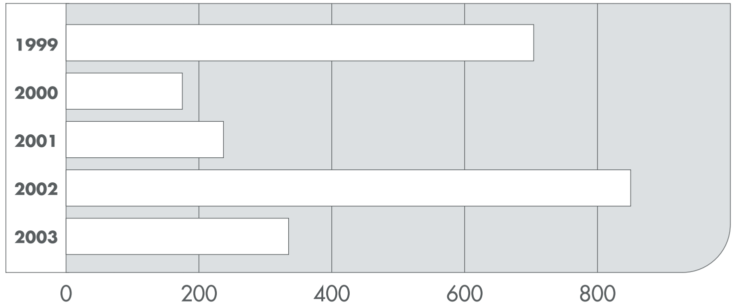


FIGURE 1B: ACCUMULATION OF LPFA BOND ISSUANCES: 1999–2003 (MILLIONS OF DOLLARS)

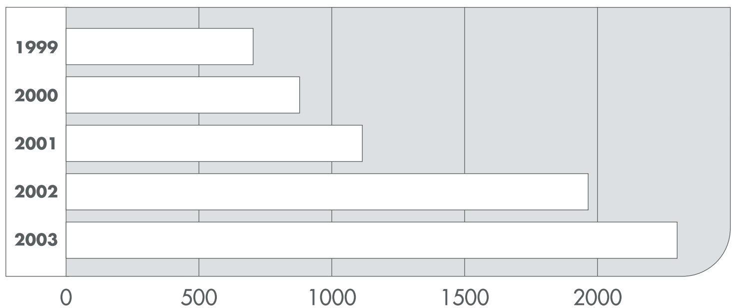


FIGURE 2A: LPFA BOND ISSUANCES BY TYPE 1999–2003

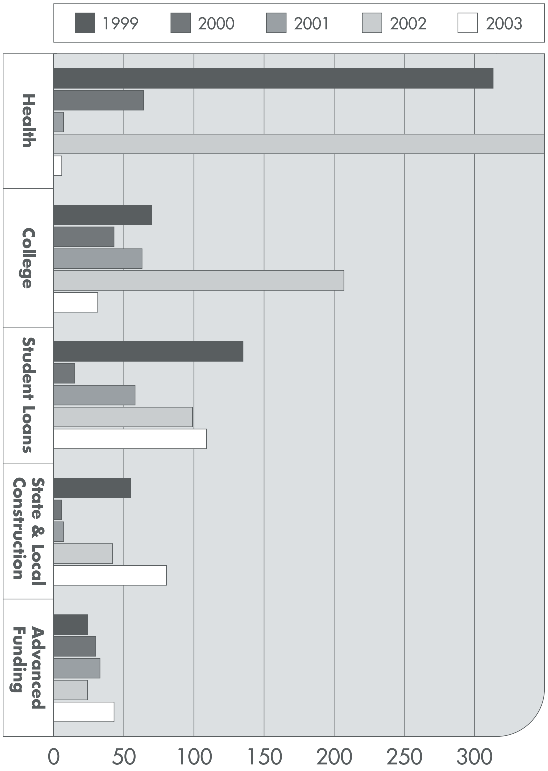
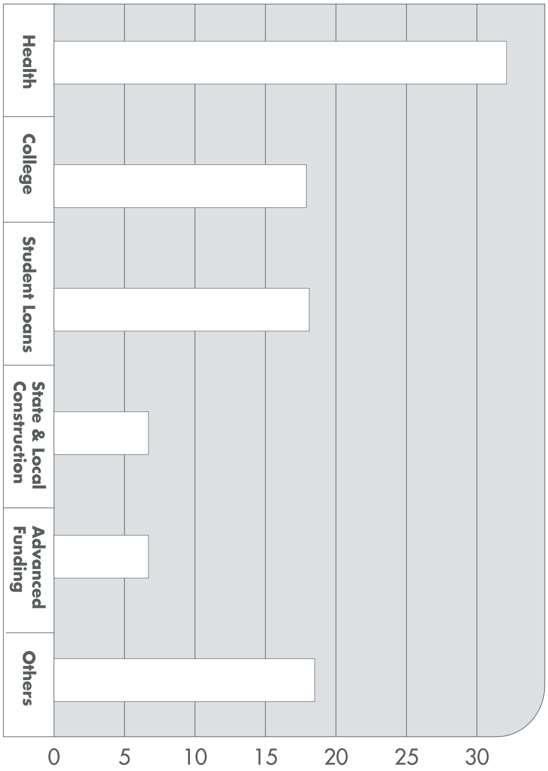


FIGURE 2B: PERCENT OF LPFA BOND ISSUANCES BY TYPE 1999–2003



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 over 30 percent of all LPFA transactions during its last 5 years. Bonds for state and local projects accounted for about 8 percent of all LPFA bond issuances during the past 5 years. Advance funding for local governments, including school districts, law enforcement agencies, and other local political subdivisions, accounted for about 7 percent of all bonds issued from 1999 to 2003. Advance funding allows a local school district to even out its revenue stream with its expenditure stream without having to borrow from commercial banks and typically higher rates and fees.

LPFA Financial Activity: By Region

LPFA provides financial services throughout the state. LPFA has provided college and university bond assistance for Centenary College of Louisiana and the Biomedical Foundation of Northwest Louisiana in Shreveport; the Tiger Athletic Foundation, the LSU Alumni Association, and Pennington Biomedical Research Center in Baton Rouge; Tulane University, Loyola University, Dillard University, and the University of New Orleans in New Orleans. Advanced funding has assisted school systems from the city of Monroe to Tensas Parish to Jefferson Parish to Lafayette Parish to East Baton Rogue Parish to St. James Parish. Advanced funding allows the school systems to borrow for cash flow purposes within a fiscal year. School expenses are monthly, but school revenues are more spiked.

The Baton Rouge Metropolitan Area and the New Orleans Metropolitan Area take advantage of LPFA's financial services more than other metropolitan areas. But, this is not surprising since New Orleans has just over 30 percent of the state's population, a number of private universities that utilize LPFA's financial services, and a number of large medical centers that require financial services. Baton Rouge is the second largest metropolitan area in the state and houses state government.

IV. The Economic Significance of LPFA Associated Construction Projects

Financial activity, obviously, affects the private or public agencies directly involved with the borrowing of funds for the construction of a new facility, the purchase of equipment, or refinancing of a major debt. LPFA's financial activity also affects the overall economy in terms of supporting additional business activity, additional jobs, and additional personal earnings that 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 household earnings for as long as the construction project is being completed and (2) once, the construction project is completed, 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 Projects Related to the LPFA

LPFA provides the financial wherewithal with which to construct a facility and purchase the necessary equipment to make the facility operational. These financial transactions by LPFA that led to the construction of facilities are associated with increased business activity, new jobs, and additional personal earnings. Each financial transaction affects the overall economy for just a short duration, but the LPFA is continuously financing construction projects so LPFA's overall impact on the economy is more permanent than just one construction project. From 1999 to 2003 LPFA financed approximately $290 million of construction projects each year. Estimates of increased business activity, additional personal earnings, and the creation of new jobs due to LPFA's financial transactions are summarized in Table 1 by sector of the state's economy affected.

Overall LPFA's financial activities created over $651 million of business activity; personal earnings of close to $202.3 million; and 7,745 jobs throughout the economy. Over 4,400 of these jobs are in the construction sector since the purpose of the financial transaction is to finance a construction project. This represents about 3 percent of all construction jobs in the state during this time period. However, over 3,300 jobs will be created in the manufacturing sector, wholesale and retail trade, personal and business services, and other sectors of the economy.

TABLE 1

ECONOMIC IMPACT OF LPFA FINANCIAL ACTIVITY ON LOUISIANA ECONOMY

($290 MILLION OF CONSTRUCTION ACTIVITY PER YEAR)

ECONOMIC IMPACT ON STATE OF LOUISIANA			
SUPPORT BY INDUSTRIAL CLASSIFICATION	BUSSINESS TRANSACTIONS (IN MILLIONS OF $)	HOUSEHOLD EARNINGS (IN MILLIONS OF $)	JOBS CREATED (NUMBER OF JOBS)
Agriculture and Mining	10.5	2.4	119
Construction	295.8	109.9	4,415
Manufacturing	76.2	14.8	394
Transportation and Public Utilities	37.4	8.9	226
Wholesale and Retail Trade	66.0	23.6	1,027
Finance, Insurance, and Real Estate	50.1	6.4	208
Business and Personal Services	115.5	36.3	1,356
TOTAL	$ 651.5	$ 202.3	7,745

Source: author and input/output model from Bureau of Economic Analysis, US Department of Commerce.

These estimates of increased business activity, additional personal earnings, and new jobs include the direct effects of the construction project requiring workers to build the facility, the indirect effects of the spending on other materials necessary to build the facility and the positive repercussion on businesses that are producing these construction materials, and the induced effects of spending by the construction workers and workers associated with the companies providing materials to the construction site on everyday purchases at the grocery store to the gas station to the movie theater to the dentist and on and on and on. These impacts have a way of spreading throughout the economy and affecting, for example, a person working at the convenience store though that person will never be able to identify exactly why the convenience store for which he works is successful.

Economists use an Input-Output Model[1], an interindustry computer model of transactions among various industries within the economy, to estimate the impact of an increase in various construction projects on overall business activity in the state, additional personal earnings, and the number of new jobs created. This model indicates the change in overall business transactions, the change in personal earnings, and the change in employment due a change in purchases from a specific industry. These estimates take into account the direct, indirect, and induced effects on economic activity described above.

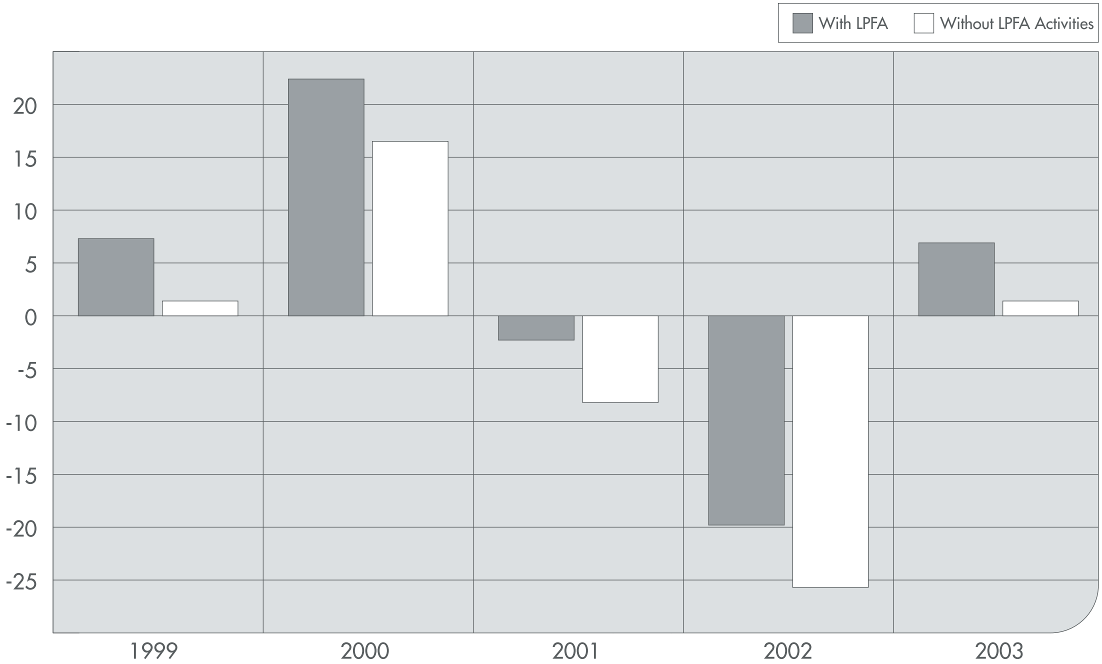
Jobs and personal earnings are the bottomline in terms of defining economic progress. LPFA during its first 25 years (1974 through 1998) facilitated economic activities that led, on average, to an additional 8,333 jobs per year and additional personal earnings of $158.6 million per year for the Louisiana economy. From 1999 through 2003 LPFA facilitated economic activities that led to an average of 7,745 jobs per year and additional personal earnings of $202.3 million per year. 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 $290 million per year or a new manufacturing facility 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 financial transactions 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 each year, including LPFA's impact through its financial transactions. The state would have only experienced an increase of just over 29,000 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.

From 1999 to 2003 the Louisiana economy created about 1,800 jobs per year, including LPFA's impact through its financial transactions. Louisiana would have experienced a loss of about 5,945 jobs per year if it had not been for LPFA's financial intermediation on behalf of businesses and governments in Louisiana, and assuming no other financial institution would have been able and willing to step in and provide the necessary financial intermediation. A year by year comparison of jobs actually gained or lost by the Louisiana economy with LPFA's financial services with what would have been jobs in the Louisiana economy if LPFA had not provided its financial services and no other financial institution would have filled the gap is illustrated in Figure 3.

FIGURE 3
(CHANGE IN NUMBER OF JOBS GAINED OR LOST)



V. The On-Going Impact of LPFA Financial Transactions

The on-going impact of LPFA Financial Transactions is best described by focusing on individual LPFA programs and projects. Construction projects, once they are completed, lead to on-going economic activity in Louisiana and this on-going economic activity can be highlighted by focusing on individual projects related to certain themes: (1) financial services provided for higher education and economic development, (2) financial support for health care providers, (3) financial assistance to local governments trying to even their expenditures with their revenue stream, and (4) student loan programs for college students.

On-going Impacts Associated with Construction Projects

Financial Services for Higher Education and Economic Development

From 1999 through 2003 higher education institutions borrowed $412 million for improvements in university facilities (excluding athletic facilities), including Tulane University, Dillard University, Centenary College, Loyola University, the University of New Orleans Research and Technology Foundation; University of New Orleans Film Studio; the LSU Alumni Association Conference Center: Biomedical Foundation of Northwest Louisiana; and, the Medical Center of Louisiana at New Orleans. These projects enhanced the educational facilities available to the various universities and augmented economic development functions of these higher education institutions. LPFA facilitated the financial requirements of these institutions of higher education enabling them to augment their educational and economic development services.

State-wide Health Care Financing

LPFA issued $765.7 million of bonds to finance health care construction and equipment purchases from 1999 through 2003. Christus Health, Touro, Pendleton Memorial Hospital, and Ochsner Clinic Foundation have utilized the financial services of the LPFA to enhance their medical facilities. Approximately 32 percent of the increased business activity, additional personal earnings, and new jobs due to the construction projects financed by LPFA are associated with the construction of health care facilities and the enhancement of existing health care facilities. LPFA financing of health care projects has contributed, on average, over 2,478 jobs per year with additional personal earnings of close to $65 million per year. But these benefits are just the beginning of the on-going benefits associated with the health care facilities.

The first and most obvious benefit accruing to the citizens of Louisiana will be the improved health care available to persons throughout the state. New facilities and equipment lead to a quality adjustment in health care in the state and a dispersion of health care availability throughout the state. Second, over 210,000 persons in Louisiana are employed in the health care industry. Since 1980 employment in the health care industries has increased from about 80,000 to over 210,000. These facilities complement and contribute to the support of the jobs and earnings for these persons.

Again, LPFA did not create the need for the expansion in health care facilities; neither did LPFA create the new technology that contributed to the improvement in the quality of health care possible for Louisiana citizens; however, LPFA played its role of being a financial intermediary that provided funds to the health care providers which enabled them to expand the health care infrastructure in Louisiana. This health care infrastructure expansion created construction jobs and multiplier effects from this construction during the period of construction. More importantly, the health care infrastructure created the possibility of major health care improvements and availability for Louisiana citizens and the support for significant jobs and earnings for health care professionals and staff.

These two programs focus on improving the state's infrastructure in higher education and health care facilities. The construction projects produce jobs and then, once completed, provide a facility that will promote and support an activity that leads to a more productive Louisiana economy. LPFA plays a prominent role in this activity by being the financial intermediary that brings the financial markets and the Louisiana institution together.

On-going Impacts Associated with Competitive Financial Programs

Advanced Funding for School Districts

School districts have expenditure streams that suggest about one-twelfth of expenditures will be incurred each month of the fiscal year. Revenue streams are not evenly spread throughout the year. Sales tax receipts are received each and every month with some seasonal variation; property tax receipts, however, are not paid on a monthly basis but rather at the beginning of the calendar year. Local governmental subdivisions that make extensive use of the property tax to support their operations will always have an intra-fiscal year imbalance between expenditures and revenues. This imbalance is not any different from, say, a retail establishment that makes 60 to 70 percent of its sales during the months of November and December. Expenses will occur more evenly over the course of the year, but receipts are concentrated in two months.

School districts borrow in the first part of the fiscal year and then repay the loans in the later part of the fiscal year. Low interest rates are important because the higher the interest rate the lower the public services that will be available to the local citizens. LPFA instituted in 1982 an advanced funding program that permits local governments, law enforcement agencies, and school districts to borrow from the LPFA for cash flow purposes. LPFA provided almost $130 million in advanced funding for local school districts from 1999 through 2003 or about $26 million per year. LPFA rates in 2003 averaged about 2.19 percent, including all fees associated with short-term borrowing. Banks would have charged about 4 to 5 percent based on prime rates and market conditions. School districts have about $0.5 to $0.75 million to spend on other public purposes because of the lower financial costs.

Student Loan Assistance

Student loan programs are very helpful in making college available to students in all income categories. Other financial institutions offer student loan support. The LPFA provides certain incentive programs that allow students advantages in the repayment of the loans. These advantages include a 3 percent interest rate reduction to borrowers who make their initial 36 monthly payments on time; an interest rate reduction of 0.25 percent for those borrowers who have their monthly repayments automatically debited from their bank accounts; the LPFA pays the 3 percent origination fee on all Title IV Stafford Loans; and, students staying in Louisiana can receive rebates up to 6 percent of the principal for staying and working in Louisiana.

The advanced funding program for school districts and the student loan assistance program, as established by LPFA, provide interest relief for school districts and student loan participants. This enhances the purchasing power of school revenues and of student incomes once the students are in the workforce.

VI. Summary and Conclusions

The Louisiana Public Facilities Authority (LPFA) was created as a public trust and public corporation in 1974 with the authority and responsibility 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 facili-

ties, industrial and economic development projects, state and local programs, and other projects and programs in the best interest of the state. As a financial intermediary, LPFA directly affects state and local governments, agencies, companies, and individuals who borrow money through the LPFA. In a broader sense, LPFA, along with the entities borrowing the funds, influences the entire Louisiana economy in terms of supporting jobs associated with construction activity related to the issuing of bonds, providing an infrastructure to support on-going and permanent economic activity, and reducing interest payments associated with financing debt of governments and private entities.

LPFA does not, by itself, create wealth, but it helps other entities create wealth in Louisiana; LPFA does not, by itself, create additional business activity, new jobs, and additional personal earnings for citizens of the state, but it helps others create this economic impact; and, LPFA does not, by itself, create the reasons for which the various entities need to borrow funds, but LPFA facilitates these financial transactions so as to reduce the burden of servicing the debt. The facilitation of these financial transactions is, without a doubt, a key and necessary ingredient in promoting and stimulating economic growth in Louisiana.

LPFA's role as a financial intermediary is illustrated by its activity. LPFA issued close to $700 million in bonds in 1999, over $800 million in bonds in 2002, and over $334 million in bonds in 2003. In 2000 and 2001 LPFA issued approximately $200 million in bonds. From 1999 to 2003 LPFA issued over $2.3 billion of bonds. Approximately $290 million of bonds per year permitted new construction projects to take place and approximately $190 million of bonds per year allowed Louisiana governments and citizens to realize lower borrowing costs.

LPFA provides the financial wherewithal with which to construct a facility and purchase the necessary equipment to make the facility operational. These financial transactions by LPFA that led to the construction of facilities are associated with increased business activity, new jobs, and additional personal earnings. Each financial transaction affects the overall economy for just a short duration, but the LPFA is continuously financing construction projects so LPFA's overall impact on the economy is more permanent than just one construction project. Overall LPFA's financial activities regarding construction projects created over $651 million of business activity; personal earnings of $202 million; and 7,745 jobs throughout the economy. Over 4,400 of these jobs are in the construction sector since the purpose of the financial transaction is to finance a construction project. This represents about 3 percent of all construction jobs in the state during the time period of 1999 through 2003.

LPFA also provided programs that reduce the financing costs to school districts thereby allowing school districts to use their resources on public purposes. LPFA also lowered the financing costs for student loans, again allowing the students more use of their income once they have graduated from college. LPFA also provided an incentive for students to work in Louisiana.

(Footnotes)

[1]The Input-Output Model used in this analysis was the Regional Input-Output Model Systems which was constructed and is updated by the Bureau of Economic Analysis, a division of the U.S. Department of Commerce.

Dr. Richardson is solely responsible for the analysis and findings contained in this report.

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