

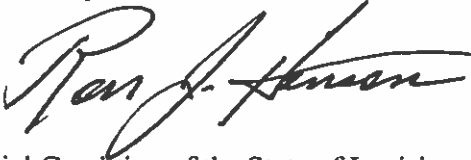


TREASURER OF THE STATE OF LOUISIANA

Ron J. Henson
State Treasurer

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TO: The Honorable John Bel Edwards, Governor of Louisiana
The Honorable Louisiana Senate
The Honorable Louisiana House of Representatives

FROM: Ron J. Henson, State Treasurer 

RE: Annual Summary on the Financial Condition of the State of Louisiana
Fiscal Year 2015-2016

DATE: February 22, 2017

Please see the attached document containing the Louisiana Department of the Treasury's annual summary on the financial condition of the state. This information is being reported to you pursuant to Article IV, Section 9 of the Louisiana Constitution of 1974.

In this year's summary, we provide data about state investments, cash flow, debt issuances, state trust funds, Unclaimed Property, the Student Tuition Assistance and Revenue Trust (START) savings program, the Louisiana Asset Management Pool (LAMP), and Social Security. We also compare investment figures and program performance for Fiscal Year 2015-2016 (FY 2016) and Fiscal Year 2014-2015 (FY 2015).

Treasury will continue its efforts to earn the best rate of return possible on taxpayer dollars, consistent with preservation of capital. We look forward to working with you and our other state officials to fulfill our mission of promoting prudent cash management and investment strategies.

For more information about the Treasury that may not be included in the attached summary, please visit www.treasury.state.la.us or call (225) 342-0010.

Annual Summary of the Financial Condition of the State

INVESTMENTS DIVISION

The Investments Division is responsible for investing the monies deposited in the Treasury to earn a reasonable rate of return while maintaining safety of principal and liquidity to meet the state's cash flow needs.

As part of the cash management program of the State of Louisiana, the Investments Division maintains several investment portfolios, collectively known as the General Fund, each with differing characteristics.

During FY 2016,

- The Treasury managed \$5.9 billion in statutory and constitutionally created funds in FY 2016 compared to \$7.2 billion in FY 2015. Earnings on these funds totaled \$155 million in FY 2016 and \$175 million in FY 2015.
- The cumulative income of the General Fund investment portfolios (1968-present) was \$6.116 billion at the end of FY 2016. The cumulative income exceeded the \$5 billion mark at the end of FY 2011.
- The General Fund investment portfolios finished FY 2016 with \$3.2 billion in invested balances, \$27.6 million in earnings from investment activities and a cash basis simple yield of 0.96 percent. This compares to \$3.8 billion in invested balances, \$37.2 million in earnings from investment activities and a cash basis simple yield of 0.94 percent at the end of FY 2015.
- The Treasury awarded \$236 million in Certificates of Deposits (CDs) to 66 banks statewide through the Treasury's electronic auction website, BidLouisiana. This compares to \$229.8 million in CDs for 64 banks statewide in FY 2015. Since inception, Treasury has awarded 953 CDs and \$2.984 billion in CDs placed with Louisiana financial institutions through the BidLouisiana auction process, making BidLouisiana a stable source of funding for Louisiana financial institutions' economic development through their lending capabilities.

State Trust Funds

The Investments Division also manages \$3.2 billion in cost value, \$3.05 billion in market value, of securities contained in state trust funds. These trust funds include the Kevin P. Reilly, Sr. Louisiana Education Quality Trust Fund (LEQTF), Millennium Trust Fund, Medicaid Trust Fund for the Elderly, and the Transportation Trust Fund.

The LEQTF was created in 1986 by an act of the Louisiana Legislature and an amendment to the Louisiana Constitution passed by Louisiana citizens. Investment income generated by the fund is dedicated to the sole purpose of providing educational enrichment programs. The acts established the Board of Elementary and Secondary Education (BESE) and the Board of Regents as beneficiaries. In addition, the acts also provided for the investment of these funds by the State Treasurer.

- The market value of the LEQTF at the end of FY 2016 was \$1.36 billion, the cost value was \$1,247 billion, with earnings of \$74.15 million and a total return rate of 5.47 percent. This compares to a market value in FY 2015 of \$1.3 billion, a cost value of 1.2 billion, earnings of \$40.6 million and a total rate of return of 3.9 percent.

The Millennium Trust Fund was created by Act 1295 of the Legislative Regular Session of 1999 and established as a special permanent trust fund in the Treasury. Act 1295 further created three special funds within the Millennium Trust: the Health Excellence Fund, Education Excellence Fund, and TOPS (Taylor Opportunity Program for Students) Fund. The funding for the Millennium Trust comes from the tobacco settlement proceeds as prescribed by the Master Settlement Agreement executed on November 23, 1998.

- The market value of the Millennium Trust Fund at the end of FY 2016 was \$1.530 billion. The cost value of the trust fund was \$1.405 billion, with earnings of \$50.4 million and a total return rate of 6.13 percent. This compares to a market value in FY 2015 of \$1.5 billion, a cost value of \$1.4 billion, earnings of \$52.5 million, and a total return rate of 3.12 percent.

The Medicaid Trust Fund for the Elderly was created as a trust fund in the Treasury by Act 143 of the 2000 First Extraordinary Legislative Session and authorizes the investment in equities of up to 35 percent of the Medicaid Trust Fund for the Elderly. The corpus of the fund is subject to appropriation as specified in R.S. 46:2691.

- The market value of the Medicaid Trust Fund at the end of FY 2016 was \$41.8 million. The cost value of the trust fund was \$37.4 million, with earnings of \$1.59 million and a total return rate of 7.42 percent. This compares to a market value in FY 2015 of \$39.2 million, a cost value of \$36 million, earnings of \$44.1 million, and a total return rate of 2.3 percent.

The Transportation Trust Fund was established in 1990, as a special permanent trust fund in the Treasury by a Legislative Act and the passage of an amendment to the Louisiana Constitution by Louisiana citizens. The Act allows the Louisiana State Bond Commission to issue and sell bonds, notes, or other obligations secured by gasoline and fuels tax revenues. The monies in the trust fund are used for construction and maintenance of state and federal roads and bridges, the Statewide Flood Control Program, ports, airports, transit, state police traffic control projects, and the Parish Transportation Fund. The Transportation Trust Fund had an average invested fund balance in FY 2016 of \$292.175 million.

OFFICE OF STATE DEPOSITORY CONTROL-FISCAL CONTROL DIVISION

The Fiscal Control Division administers the state's constitutional and statutory funds created within the Treasury. It provides an accounting of all receipts, controls all fund disbursements out of the Treasury, and administers the backbone of the state's cash management program.

State cash resources are pooled in the central depository bank account by the Fiscal Control Division which accounts for and invests the deposits. These investment earnings are an important source of non-tax income.

During FY 2016,

- Through the centralized pooling of deposits, the Treasury processed 13.0 million deposit items and 67,090 credit items in FY 2016 resulting in a cash flow of over \$30.9 billion compared to 13.3 million deposit items, 67,009 credits and a cash flow of over \$31.2 billion in FY 2015.
- There were 390 special funds in the Treasury in FY 2016 which is comparable to 382 in FY 2015.
- The month-end balance overall cash position for the General Fund was a \$1,203 billion deficit at the end of FY 2016 compared to the \$446.5 million deficit at the end of FY 2015.
- The interfund borrowing base was \$2.4 billion at the end of FY 2016 compared to \$2.5 billion at the end of FY 2015.
- The cash balance of the Rainy Day Fund was \$359.0 million at the end of FY 2016 compared to \$469.9 million at the end of FY 2015.

DEBT MANAGEMENT DIVISION –LOUISIANA STATE BOND COMMISSION

The Louisiana State Bond Commission was created in 1968 to centralize and administer the incurring of state debt. Subsequent to the creation of the State Bond Commission, the State Bond and Tax Board, which had been charged with approving the issuance of bonds by various political subdivisions of the state, was abolished and its functions were transferred to the State Bond Commission.

The Louisiana Constitution of 1974, Article VII, Section 8, grants constitutional status to the Commission and provides that “No bonds or other obligations shall be issued or sold by the State directly or through any State board, agency or commission, or by any political subdivision of the State, unless prior written approval of the Commission is obtained.”

During FY 2016,

- The Treasury serviced and managed 24 outstanding General Obligation (GO) Bond issues with debt service payments totaling \$178.6 million. This compares to 21 GO Bond issues with \$151.3 million in debt service payments in FY 2015.
- In addition, the Treasury serviced and managed 12 outstanding Gas & Fuel Tax Bond issues with debt service payments totaling \$126.9 million and six floating to fixed interest rate swaps with swap related payments totaling \$15.1 million in FY 2016. This compares to 13 Gas & Fuel Tax Bond issues with \$114.5 million in debt service payments and six floating to fixed interest rate swaps with \$15.5 million in swap related payments in FY 2015.
- Further, the Treasury serviced and managed two outstanding State Highway Improvement Bond issues with debt service payments totaling \$23 million in FY 2016 and three outstanding Unclaimed Property Special Revenue Bond issues with debt service payments totaling \$8.2 million in FY 2016. This compares to two outstanding State Highway Improvement Bond issues with debt service payments totaling \$23 million in FY 2015 and two outstanding Unclaimed Property Special Revenue Bond issues with debt service payments totaling \$5.4 million in FY 2015.
- Debt issuances for FY 2016 include:
 - GO Bond Anticipation Notes Series 2016A \$254.625 million (new money);
 - GO Series 2016B \$275.135 million (refunding);
 - GO Series 2016C \$86.805 million (refunding);
 - Unclaimed Property (South) Series 2015 \$73.8 million (new money)
 - West Calcasieu Parish Community Center Authority Series 2016 \$6.84 million (refunding)
- The total par amount of Net State Tax Supported Debt (NSTSD) at the end of CY 2016 was \$7.2 billion compared to \$7.1 billion at the end of CY 2015. The amount of per capita NSTSD was \$1,539 in CY 2016 compared to \$1,523 in CY 2015.
- Standard & Poor's rating agency maintained the State's bond rating in FY 2016 of AA, with a negative outlook, and Moody's Investor Services and Fitch downgraded the State's credit rating to Aa3 and AA-, respectively, with a negative outlook from Moody's Investors Service and Fitch maintaining a stable outlook.

ADMINISTRATION DIVISION

Unclaimed Property

Unclaimed Property is lost money that is turned over to the state from a variety of sources; these funds include such items as payroll checks, old bank accounts, royalties, utility deposits, interest payments, stock certificates and life insurance proceeds. One in six individuals in Louisiana has Unclaimed Property, and the average refund is \$900.00.

- The Treasury collected \$87.7 million in unclaimed property from businesses and refunded \$35.2 million to Louisiana residents in FY 2016 compared to \$94.8 million in collections and \$34.1 million in refunds in FY 2015.

START

The Student Tuition Assistance and Revenue Trust Program, commonly referred to as the "START Saving Program," is a 529 college savings plan designed to help families contend with the growing costs of educating their children after high school. The program is managed by the Treasury and administered by the Louisiana Office of Student Financial Assistance, under the direction of the Louisiana Tuition Trust Authority (LATTA). LATTA is a public body comprised of representatives from all of the state's education governing boards and includes the State Treasurer and one member from each house of the Louisiana Legislature. Because 529 Plans are authorized under IRS rules, START reports are based on a calendar year (CY) for tax purposes.

- At the close of CY 2016, there were a total of 56,207 START accounts, with more than \$712.57 million in total assets. At the close of CY 2015, there were 53,793 START accounts, with more than \$633.71 million in total assets.
- At the close of CY 2016, START fixed income investments managed by Treasury totaled \$238.19 million, a total of 33.33 percent of all START monies, and earned a rate of return of 1.60 percent. At the close of 2015, START fixed income investments managed by Treasury totaled \$204.9 million, a total of 32.3 percent of all START monies, and earned a rate of return of 1.69 percent.
- At the close of CY 2016, equity investments in START (managed by The Vanguard Group) totaled 66.57 percent of all START monies (or \$474.4 million) and earned a rate of return of 4.58 percent to 18.30 percent depending on the investments chosen.
- At the close of CY 2015, equity investments in START (managed by The Vanguard Group) totaled 65.34 percent of all START monies (or \$414 million) and earned a rate of return of 7.72 percent to 8.23 percent depending on the investments chosen.

LAMP

The Louisiana Asset Management Pool (LAMP) for local governments combines the efficiency of private enterprise with the protection of public policy. It enables local officials to pool and collectively invest funds to benefit from competitive yields, lower fees and the same level of investment management otherwise available only to large institutional investors.

The fund is operated by a non-profit corporation, LAMP, Inc., whose officers include the President (State Treasurer), a Chief Executive Officer, a Chief Administrative Officer and a Participant Liaison, charged with day-to-day operations of the program.

LAMP has three primary objectives: 1) maintain a stable net asset value; (LAMP has consistently earned a rating of AAAM from Standard & Poor's, the highest rating available.); 2) offer same day access to funds under management by online transactions, phone or fax with no transaction fees; and 3) by pooling funds, LAMP participants enjoy the level of professional money management otherwise available only to large institutional investors. This generally results in higher yields and lower management fees.

- Since its inception, LAMP has generated over \$500 million in interest for Louisiana public agencies. LAMP assets peaked at \$1.3 billion in March 2016, and ended FY 2016 at \$1.1 billion, 655 participants and 3,963 accounts. This compares to \$1.1 billion in assets, 646 participants and 3,800 accounts in FY 2015.

SOCIAL SECURITY SECTION

The Social Security Division is responsible for administering the Social Security and Medicare coverage program for all public state and local governmental employers throughout the State of Louisiana.

- As of January 2017, a total of 172 Social Security or Medicare-Only referenda have been conducted at 98 local government agencies in Louisiana allowing approximately 35,962 government workers the option of contributing to Social Security or Medicare only. These figures include approximately 10,000 state employees, all universities, 44 parish school boards and other local agencies.