S&P Global
Ratings

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Louisiana; Appropriations; General Obligation

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Credit Profile		
US$179.515 mil GO bnds ser 2017-A due 04/01/2037		
Long Term Rating	AA-/Negative	New
Louisiana GO		
Long Term Rating	AA-/Negative	Downgraded

Rationale

S&P Global Ratings lowered its long-term rating to 'AA-' from 'AA' on the state of Louisiana's general obligation (GO) bonds outstanding, its long-term rating to 'A+' from 'AA-' on the state's appropriation bonds, and its long-term rating to 'A-' from 'A' on the state's moral obligation bonds. The outlook is negative.

At the same time, S&P Global Ratings assigned its 'AA-' long-term rating, with a negative outlook, to the series 2017-A GO bonds.

The rating action reflects our view of the state's persistently weak revenue collections stemming from prolonged contraction in the oil and gas industry coupled with weak income tax collections (both individual and corporate). On Jan. 13, 2017, the Revenue Estimating Conference (REC) revised its revenue forecast from June 30, 2016 and lowered personal income tax receipts by $207 million (6.7%) in 2017 and nearly $250 million (7.8%) in 2018 while lowering corporate income and franchise taxes by $100 million (19.3%) in 2017 and $153 million (25.3%) in 2018. In addition, the ongoing revenue weakness has widened budget gaps, including the $313 million at fiscal year-end 2016, $304 million in mid-fiscal 2017, and $440 million closed in Governor John Bel Edwards' fiscal 2018 executive budget. We view the bulk of the budget measure solutions used to close these gaps as one-time in nature. Favorably, the governor's fiscal 2018 executive budget does not rely on reserves from the budget stabilization fund to achieve structural balance. Nevertheless, we believe the state's financial position has weakened to a point that limits meaningful replenishment of such reserves in subsequent fiscal years.

The negative outlook is indicative of the expiration of revenue enhancements at June 30, 2018, when approximately $1.15 billion of temporary revenue enhancing measures (the fifth-penny sales tax projected to generate $881 million and removal of sales tax exemptions expected to generate $272 million) will sunset. While the legislature will have the opportunity to either renew the temporary measures or enact new revenue measures during the upcoming session, beginning April 10, 2017, precedent leads us to believe legislative action will be difficult to implement given uncertainty about replacing the revenue measures with long-term structural tax changes.

We base the rating on our view of the following factors:

- A constitutional requirement that requires balanced budgets and recently implemented budget adjustments to align revenue and expenditures in the near term; and
- Moderate debt ratios with a strong legal framework for debt repayment, including significant resources available in the bond security and redemption fund that first pay GO debt service.

Partly offsetting the above strengths, in our view, are:

- Sluggish economic trends, which continue to weigh on employment growth, gross state product (GSP), and revenue collections despite recent stabilization of mineral prices;
- Continued budgetary challenges and uncertain revenue collections as well as weakened general fund reserves and liquidity; and
- Louisiana's below-average pension funded ratio and unfunded other postemployment benefit (OPEB) liabilities.

The series 2017-A bond proceeds will provide funding for capital projects already underway. The state's full faith and credit obligation secures the bonds. Pursuant to the Louisiana Constitution, the full faith and credit bonds are payable from all state money deposited in the state treasury and allocated in the fiscal year from deposits in the bond security and redemption fund, subject to previous contractual obligations existing when the constitutional provision was passed in 1974. Under the current administrative procedures of the state treasurer's office, amounts are set aside monthly sufficient to pay the debt service payments in the current and next month as they come due.

Although Louisiana's unemployment level has historically tracked at or below that of the nation, 2015 state unemployment was 1.0% higher than that of the nation; December 2016 state unemployment of 6.1% also compared unfavorably to the national rate of 4.7%. Furthermore, IHS Markit reports that payrolls declined 0.9% year over year during the third quarter of 2016, marking the fifth consecutive quarterly decline. The construction sector is one of the hardest-hit with jobs having contracted 1.4% year over year as a result of energy companies' slashing capital expenditures on account of ongoing low mineral prices. In addition, mining has shed a substantial number of jobs over the past two years with a 17% year-over-year decline in the third quarter, leading to the lowest number in this sector in more than two decades. Projected state employment growth improves to 0.6% in 2017 and 1.1% in 2018 (from a negative 0.7% in 2016). Despite the improvement, projections remain well below those for the U.S. during the same timeframe. According to IHS Markit, the state's economy and employment growth will continue to lag as a result of its lack of industrial diversity and skilled labor force. Somewhat favorably, ExxonMobil recently announced it will invest $20 billion to expand its manufacturing operations in the U.S. Gulf Coast over 10 years, which will likely benefit Louisiana over the long term.

We note that according to revised Bureau of Economic Analysis estimates as of June 2016, Louisiana's nominal GSP per capita represented only 94% of the national level in 2015, down from previous years and estimates, which were close to national levels. About 25% of total GSP comes from merchandise exports, including energy products, manufacturing goods, and agricultural products related to the prominence of shipping along the Mississippi River and Gulf of Mexico. Petroleum and coal product export value, which accounted for more than 30% of the state's total export revenue, fell by 39% in 2015 with lower commodity prices but also weakening demand from Louisiana's largest export destinations, including China and Mexico, as a result of a strengthening dollar. Likewise, IHS Markit now forecasts negative 0.9% GSP growth for Louisiana in 2016, lagging that of neighboring states and projected national real GDP growth of 1.6%. Further evidencing the state's economic weakness is IHS Markit's revised forecast that annual GSP growth will recover to an estimated 1.1% in 2017 and 2.1% in 2018 but remain at nearly half the nation's projected growth rates of 2.3% and 2.7% for each of those years.

The State Recently Solves Budget Gaps With One-Time Solutions

Fiscal 2018

On Feb. 23, 2017 Governor Edwards introduced his $9.47 billion general fund executive budget, which originally showed general fund spending requirements in excess of available general fund revenue of $440 million (a 4.5% gap). The disparity between resources and expenses primarily resulted from a $400 million reduction in available general fund revenue for fiscal 2018 as adopted by the January 2017 meeting of the REC. The governor's budget recommends mostly expenditure cuts to bring revenue and expenditures into alignment and, favorably, does not rely on reserves from the budget stabilization fund to achieve structural balance. The governor's recommendations include 2% ($48 million) across-the-board expenditure cuts to agencies, reliance on annualized agency cuts implemented to close the mid-fiscal 2017 gap ($120 million), and a $184 million reduction to the department of health. The modifications to the department of health in fiscal 2018 reflect a higher Federal Medicaid Assistance Percentage reimbursement rate (an expected 63.34% compared with the current 62.26%) for the state's traditional Medicaid population, for a savings of $90.5 million in the general fund. In addition, the state plans to reduce by $25 million its payments to its hospital public-private partners and assumes $130 million in savings generated by moving certain segments of its traditional Medicaid population to its expansion population. Included in the governor's budget is the latest economic forecast, which shows slight negative employment growth in 2017 (negative 0.2%) with modest growth of 1% in 2018. In addition, despite the state's forecast for increasing mineral prices with oil improving to $48.13 per barrel in 2017 from $44.42 in 2016, production is projected to remain constrained, decreasing 6.6% in 2017 to 56 million barrels and 4.2% in 2018 to 53.6 million barrels. We view this forecast as reasonable, especially given the recent agreement by OPEC member nations to cut production through the first half of 2017, which at least temporarily suggests a price floor for oil of around $50 per barrel.

Fiscal 2017

After solving an initial fiscal 2017 budget gap of approximately $2 billion over the course of two extraordinary sessions and its regular legislative session, the state finalized the $9.6 billion general fund budget in June 2016, after the legislature adjourned from its second extraordinary session. Favorably, the state closed the gap primarily through revenue measures totaling nearly $1.26 billion and reductions to expenditures. We noted previously that the fiscal 2017 budget alignment between revenue and expenditures improved compared with recent years, assuming revenue collections track to estimates. However, a subsequent midyear budget gap of approximately $304 million (3.2% of general fund expenditures) opened in fiscal 2017 primarily as a result of two events. First, the state experienced significant flooding in August 2016 requiring unexpected departmental expenditures that officials believe the federal government will reimburse in a later fiscal year. Second, in January 2017 the REC lowered its revenue estimates for fiscal 2017 by $340.5 million (3.5%). The governor called a special session in February to eliminate the midyear deficit, which the legislature closed mostly with one-time solutions. Such methods included a $99 million draw from the budget stabilization fund, recognition of nearly $12 million in savings from funded but open positions in the budget, cutting of about $150 million in expenditures from individual agencies (including $132 million from the department of health), realization of about $18.4 million in Go Zone revenue related to Hurricane Katrina and due to the state from local governments, and "financing adjustments" whereby general fund expenditures are reallocated to other funds that generate revenue for applicable services. This combination of solutions has solved the gap for now and favorably the state has already accounted for the bulk of the expenditure reductions. However, savings associated with attrition and open positions have not been finalized and may not be fully realized at year-end.

Fiscal 2016

The state previously adjusted for estimated mid-fiscal 2016 budget gaps primarily with the use of nonrecurring sources. One-time solutions for fiscal 2016 included $200 million from the BP Deepwater Horizon economic damage settlement funds that Louisiana received in July 2016 and a $128 million transfer from the budget stabilization fund. In April 2016 the state also issued refunding bonds, the proceeds of which were designed to provide one-time, upfront savings for the fiscal 2016 budget at the expense of higher annual debt service costs in out years. As state officials anticipated, fiscal year-end 2016 results showed a $313 million shortfall (about 3.6% of fiscal 2016 general fund expenditures), which was somewhat less than expected and which the revenue estimating committee recognized in October 2016. The state closed the year-end deficit primarily by delaying a 13th payment to hospital providers accounting for over half of the solutions (about $184 million).

Legislators during the upcoming session will be forced to wrestle with tax reform to shore up and stabilize the state's revenue collections beyond June 30, 2018. Considerations for reform will likely be based on recommendations from the state's task force to study structural changes in budget and tax policy for budget stability, which released its report and findings on Nov. 1, 2016. We believe the legislature will consider two significant changes that the task force has recommended: broadening the sales tax base to include services and eliminating the deduction of federal income taxes on state income tax filings. State officials have not identified how much additional revenue these two reforms will generate, but report that together they will provide revenue well in excess of measures that expire at the end of fiscal 2018.

In our view, Louisiana's ability to gain access to cash across various other funds has supported the state's liquidity position to date. The budgetary general fund has regularly borrowed and repaid borrowable cash balances across more than 250 various funds that have been committed or dedicated for certain purposes. Louisiana reports that total borrowable cash and investments remain relatively stable at about $1.9 billion at the end of February 2017. That amount includes an additional $135 million that the state's attorney general recently deemed available for interfund borrowing. However, recent trends have pointed to higher general fund cash borrowing than in previous years. State officials estimate the general fund cash borrowing position peaked at the end of November 2015 at more than $1.7 billion and ended fiscal 2016 at $1.2 billion. The bulk of the state's interfund borrowable cash is concentrated within 10 funds, which represent more than 85% of total internal borrowable sources. In our view, the increased general fund cash borrowing highlights the budgetary pressure in the general fund, and while interfund cash balance levels remain mostly stable to support the state's overall liquidity position, continued general fund borrowing trends will require Louisiana to closely monitor and manage receipts and disbursements in borrowable funds. As a result of the aforementioned pressure and narrowed cash position, the state entered into a $400 million short-term revenue anticipation note borrowing in October 2016 and has drawn $370 million to date. The state had previously discontinued this practice but re-evaluated the use of such notes to help manage the mismatch of cash receipts and disbursements throughout the year.

S&P Global Ratings deems Louisiana's financial management practices good under its Financial Management Assessment (FMA) methodology, indicating our view that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

The state constitution provides for a budget stabilization fund, which is capped at 4% of total state revenue receipts for the previous fiscal year. The law limits annual withdrawals to up to one-third of the budget stabilization fund balances in the event of a projected deficit in a given fiscal year as a result of a decline in the official revenue forecast or in the event of a projected revenue shortfall in the subsequent year. The budget stabilization fund totaled $470 million at the end of fiscal 2015, or what we consider a good 5.5% of general fund expenditures. However, following a withdrawal to eliminate the original fiscal 2016 budget gap, the balance ended at $359 million, which is still good at 4.1% of general fund expenditures. In mid-fiscal 2017 the state drew a subsequent $99 million from the fund for budget relief. This, combined with a statutorily required $25 million deposit at June 30, 2017, leads officials to anticipate an ending budget stabilization fund balance of $286 million, or a narrow 3% of revised fiscal 2017 general fund expenditures. Officials report that the state expects to deposit $20 million into the reserve at fiscal year-end 2018 and that, absent additional draws to satisfy future budget deficits in either 2017 or 2018, the fund would increase to $311 million, or about 3.3% of general fund expenditures, as proposed by the governor's fiscal 2018 executive budget. In our view, the budget stabilization fund has fallen to a level we consider thin, providing limited cushion to offset future revenue weakness or emergencies. In addition, given the state's ongoing budget challenges, we believe the state could experience difficulty in making meaningful deposits into the fund in the near term to restore the balance to a level we consider good.

We believe the state has had a strong budgetary framework to date, embedded in balanced budget requirements, frequent revenue and expenditure forecast updates, broad executive powers, and a track record for prompt expenditure adjustments to eliminate deficits. However, we believe timely and structural expenditure adjustments have become increasingly difficult in the context of several years of cuts, reliance on one-time measures, and an environment of revenue declines. Midyear budget adjustments in previous years relied heavily on nonrecurring sources, and this has lent itself to growing structural budget imbalances.

Louisiana's tax-supported debt ratios, including appropriation-dependency debt that the state classifies as net state tax-supported debt, remain moderate by most measures and largely unchanged since fiscal year-end 2015. Combined, tax-supported debt at the end of fiscal 2016 is moderate, in our view, at about $1,600 per capita, an estimated 3.7% of state personal income, and 3.1% of real GSP. Debt amortization is average, in our opinion, with about 52% of tax-supported debt principal, including gas tax debt, due to be repaid in 10 years. Louisiana's debt service burden as a percentage of expenditures is also moderate, in our view, with fiscal 2016 tax-supported debt service (including all GO, appropriation-dependent, and gas tax debt) accounting for 4.7% of total governmental spending (net of federal government revenue received). As of Dec. 31, 2016, the state calculated a 5.4% debt service carrying charge, which was just below the 6.0% limit mandated by constitutional and statutory debt management policies. However, given recently passed additional revenue measures, the state's bond issuance capacity has also increased under the net state tax-supported debt limit. Despite increased bond issuance capacity, the state does not anticipate issuing additional new-money GO debt during fiscal 2017 and is pursuing a refunding for debt service savings for its gas tax bonds.

According to the fiscal 2016 state and plan comprehensive annual financial reports, we estimate Louisiana's share of the net pension liability across state pension plans totaled about $7 billion, or $1,500 per capita, which we view as above average. Relative to total personal income, the state's share of the net pension liability was 3.5%, which is also what we consider above average. Consistent with the investment experience of most plans in fiscal 2016, Louisiana State Employees' Retirement System (LASERS) funded ratio fell to 60% at June 30, 2016, as returns did not meet or exceed the plan's assumed rate of return of 7.75%. With the lower ratio at fiscal year-end 2016, the average three-year funded ratio fell to 63%. Furthermore, while we understand pension contributions are set by statute on an actuarial basis, the timing between budgeting for the contribution per employee and actual funding has historically resulted in annual funding shortfalls below the actuarially determined contribution. Louisiana continues to fund its unfunded OPEB liability on a pay-as-you-go basis despite establishing a trust fund.

We have assigned a total score of '2.2' to Louisiana under our State Ratings Methodology, on a scale where '1.0' is the strongest score and '4.0' is the weakest.

Outlook

The negative outlook reflects our view that, within our outlook horizon, the state's reliance on nonrecurring measures to close the fiscal year-end 2016 budget gap as well as the mid-fiscal 2016 gap, coupled with shrinking reserves, leads us to believe the state is vulnerable to further fiscal instability, especially given the expiration of over $1 billion in revenue at June 30, 2018. Without meaningful, long-term structural tax changes that could carry significant implementation risk, there is a one-in-three chance we could lower the ratings. In addition, in the absence of an improved economic and revenue environment, the state's ongoing efforts to restore the budget stabilization fund, fund long-term pension and OPEB obligations, and adhere to strong debt management practices could remain challenged and reflect a weakened credit profile. We could revise the outlook to stable if the legislature takes meaningful measures to align revenue expectations with recurring expenditures to support future budgetary performance and fiscal stability while rebuilding reserves to a level we consider good. A recovery in economic indicators, improvements in state revenue performance that we view as sustainable, and growth in reserves could lead us to raise the ratings.

Government Framework

The state's balanced budget requirements, legal framework for debt, and its lack of voter initiatives, provide a good fiscal policy framework, in our view, despite a constrained revenue structure and limited disbursement autonomy. The constitution requires Louisiana to adopt a balanced budget. If revenues fall short of projections, the governor is empowered to directly cut expenditures, within certain limitations, to maintain budget balance during the year. Should the governor fail to make necessary adjustments to maintain budget balance within 30 days, the constitution and statutes mandate the governor to call a special session of the legislature to address the budget deficit. Louisiana has the authority to raise revenues, including the authority to levy and raise a broad range of taxes; however, the state constitution requires a two-thirds supermajority when any revenue or property taxation bill is passed, and Article VII of the Louisiana Constitution provides constitutional limits as to how the state may adjust revenues. In addition, the state legislature is limited to adopting revenue enhancements in odd-numbered years. Before 2015 and through the recession, Louisiana's preferred policy approach focused more on expenditure reductions than on tax increases even though approximately two-thirds of the state's general fund budget is nondiscretionary due to constitutional, statutory, or other mandates. In 2016, the state legislature also passed certain temporary tax increases to help address significant budget gaps. Louisiana is not a voter-initiative state.

Elementary and secondary education departmental spending accounts for about 38% of the governor's proposed fiscal 2018 general fund budgeted expenditures, followed by health care and hospitals and other human services at more than 27% of the general fund budget. Louisiana's counties and municipalities share the major sources of revenue from certain taxes, subject to certain exemptions. Louisiana has the ability to issue debt for a wide range of purposes, but all state debt requires authorization from two-thirds of each house of the legislature before issuance. The state constitution requires that the debt service payments on net state tax-supported debt not exceed 6% of the general fund and dedicated fund revenues as estimated by the REC. Although the limit has not been changed, a recent act of the 2013 legislature that expanded the definition of funds to be included in the REC increased the allowable debt service limit on an absolute basis; however, a recent executive order and a bond commission policy both limit debt issuance to maintain debt service ratios based on historical calculations.

In practice, Louisiana's priority for repaying debt has been high, in our view. The state constitution requires all money deposited in the state treasury, except for grants or donations, to be credited to the bond security and redemption fund from which Louisiana first allocates money to pay full faith and credit obligations. Under the current administrative procedures of the State Treasurer's Office, amounts are set aside monthly that are sufficient to pay the debt service payments in the current and next month as they come due before the remainder flows into the general fund.

We have assigned the state's government framework a score of '1.7' on a scale whereby '1.0' is the strongest and '4.0' is the weakest.

Financial Management: 'Good'

S&P Global Ratings deems Louisiana's financial management practices "good" under its FMA methodology, indicating that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. The FMA is designed to measure the policies and procedures used by state management as it oversees day-to-day operations. An FMA of strong equals a score of '1.0' on a scale whereby '1.0' is the strongest and '4.0' is the weakest.

The state's formal RECs typically take place at least four times a year, and are key to setting the current and upcoming fiscal years' budget. The REC is composed of the governor, senate president, house speaker, and one long-standing faculty member of Louisiana University with expertise in revenue forecasting. Monthly monitoring through budget status reports and the executive ability to reduce funding or to convene extra legislative sessions to amend budgets allow Louisiana to make timely midyear financial adjustments, if necessary, to maintain fiscal balance. As required by statute, the state treasurer adopts an investment policy and submits investment reports to the governor and legislature at least quarterly. In addition, the state treasurer and Joint Legislative Committee on the Budget monitor Louisiana's general fund revenues and cash balances on at least a monthly basis against estimates in anticipation of adjustments that might have to be made. The state also presents a five-year continuation budget that incorporates expenditure forecasts as well as the REC's revenue forecasts for planning purposes. Louisiana maintains a constitutional budget stabilization fund, or rainy-day fund, that has a legal maximum of 4% of the revenue receipts of the previous year.

The state constitution and statutes require the governor to submit a proposed five-year capital outlay budget to the legislature, from which the legislature approves a bill identifying prioritized projects to be funded only in the first year of the program. A recent legislative auditor report found approved spending on capital outlay projects are not tied to the state's bonding capacity. Gov. Edwards announced plans to make changes to the capital outlay process in order to limit growth in the capital outlay bill and to prioritize projects that are already underway, with a focus on maintaining existing facilities and highway construction. Louisiana adheres to statutory debt-management policies that limit net state tax-supported debt service to a percent of state revenues; this provides the basis for a moderate state debt burden, in our view.

Louisiana has what we consider a generally good budget management framework. We consider the executive branch and budget office to have broad powers to adjust appropriations. If the state projects a shortfall, the governor and the Division of Administration can make budget amendments to improve structural budget gaps and officials are required to respond quickly and empowered to cut expenditures directly. The state's official revenue forecast must be based on existing, recurring revenues as established by the Louisiana Constitution. In addition, state statutes prohibit the governor from submitting a budget that exceeds the official revenue forecast. That said, Louisiana's track record in making difficult revenue and spending decisions to restore long-term balance has lapsed somewhat in recent years. While legislative changes to tax exemptions in 2015 and sales tax increases demonstrated progress in restoring balance in the short term, most of these changes included sunset provisions that could likely impair future budget imbalance. The current rating action assumes the state will replace the temporary revenue measures that expire at June 30, 2018 as we believe the budget stabilization fund has declined to a point where additional draws could pressure the rating. Furthermore, in our opinion, reliance on additional nonrecurring gap-closing solutions will prove difficult given the state's level of expenditure cuts made to eliminate deficits at fiscal year-end 2016, at mid-fiscal 2017, and in the governor's executive budget for fiscal 2018.

We have assigned the state's financial management framework a score of '2.0' on a four-point scale whereby '1.0' is the strongest and '4.0' is the weakest.

Economy

Although Louisiana's unemployment level has historically tracked at or below that of the nation, 2015 state unemployment was 1.0% higher than that of the nation; at December 2016, state unemployment of 6.1% also compared unfavorably to the national rate of 4.7% in the same period. Furthermore, IHS Markit reports that payrolls declined 0.9% year-over-year during the third quarter of 2016, marking the fifth consecutive quarterly decline. The construction sector is one of the hardest hit where jobs have contracted 1.4% year-over-year resulting from energy companies slashing capital expenditures due to ongoing low mineral prices. In addition, mining has shed a substantial number of jobs over the last two years with a 17% year-over-year decline in the third quarter, leading to the lowest number in more than two decades. Steady, but modest, growth in education and leisure hospitality employment helped to somewhat offset the sharper declines in the energy industry. The mining and logging sectors (2.4%), as well as trade, transportation, and utilities (19.7%) account for a higher portion of total employment in Louisiana when compared with employment nationally, reflecting the dominance of the energy and petrochemical industries. The construction (7.1%), leisure and hospitality (11.5%), and government (16.4%) sectors also comprise a higher percentage of jobs in

Louisiana than reflected nationally. However, professional and businesses services jobs are underrepresented at 10.7% of employment compared with 13.8% nationally. IHS Markit forecasts annual state employment growth will continue to lag that of the nation through 2020 as Louisiana's lack of industrial diversity clouds the economic outlook.

Real GSP trends have also demonstrated cyclicality when compared with the national trends; average growth in real state product in the previous one, five, and 10 years remains below average national rates. About 25% of total GSP comes from merchandise exports, including energy products, manufacturing goods, and agricultural product related to the prominence of shipping along the Mississippi River and Gulf of Mexico. Petroleum and coal product export value, which accounted for more than 30% of the state's total export revenues, fell by 39% in 2015 with lower commodity prices but also weakening demand from Louisiana's largest export destinations including China and Mexico. The state's level of energy consumption, particularly natural gas, also ranks among the highest in the nation due to the energy-intensive chemical manufacturing and petroleum refining industries. Downstream companies have announced expansions due to the low cost of natural gas; however, lower oil prices relative to natural gas prices could potentially play into future decisions.

Recently, Louisiana has fallen behind the nation relative to GSP growth and GSP per capita. Prior to 2013, the state's GSP per capita remained at or above the national levels. However, levels began to decline that year and reached 92% of the national level in 2015--a 10-year low. In addition, the state's economic trends and lack of employment opportunities have negatively affected population growth, which lags U.S. population growth on a one-, five-, and 10-year basis. State population growth was stunted in the previous decade due in large part to the effects of Hurricanes Katrina and Rita, when Louisiana lost nearly 6% of its population in one year. In 2015, the state's population increased 0.45% to 4.67 million compared with the 0.8% national population growth rate. IHS Markit forecasts population will grow modestly at about 0.3% per year from 2016 to 2020, which remains below projected population growth for the country. Louisiana's age-dependency ratio is in line with the national level.

Per capita personal income in 2015 declined to 89% of the U.S. level; however, IHS Markit forecasts that between 2017 and 2018, personal income will grow by 3.9% to 4.7% per year, on average, which we consider good. In our opinion, among the state's advantages for attracting new economic development compared with other states, Louisiana offers many incentives and tax advantages to attract new businesses and to encourage existing businesses to expand within the state. Residents' low level of education could be a challenge for the state, as higher-paying professional services and high-tech industries employment opportunities generally require more education. In addition, we view the state's substantial transportation needs and $13 billion backlog of projects as potential hurdles for development. If funded, these projects could improve mobility and access throughout the region and incentivize private economic investment.

We have assigned Louisiana's economy a score of '2.6' on a four-point scale whereby '1.0' is the strongest and '4.0' is the weakest.

Budgetary Performance

The state constitution requires Louisiana to maintain a budget stabilization fund into which it deposits money in excess of the expenditure limit, mineral revenues in excess of $950 million per year, 25% of nonrecurring revenue as designated in the official REC forecast, and any amount specifically appropriated to the budget stabilization fund up to its cap of 4% of total state revenue receipts for the previous fiscal year, or currently about $825 million. Appropriations from the fund are limited in any fiscal year to one-third of the balance and require a two-thirds supermajority in both houses of the legislature. As discussed above, the state drew on one-third of the balance in fiscal 2016 to help address the budget gap. A further $99 million was drawn to help solve the mid-fiscal 2017 budget gap. As required by law, the state does not consider the account as a surplus or available funds when adopting a balanced budget. The 2014 legislature passed a bill that required a minimum of $25 million be deposited annually into the budget stabilization fund and directs certain percentages of economic damage settlement receipts related to the litigation connected with the Deep Water Horizon oil spill. Despite the budgetary challenges that the state faces, officials report that the statutorily required $25 million deposits will be made at June 30, 2017 and June 30, 2018.

In our view, Louisiana's ability to access cash across various other funds has supported the state's liquidity position to date. The budgetary general fund has regularly borrowed and repaid borrowable cash balances across more than 250 various funds that have been committed or dedicated for certain purposes. As reported by Louisiana, total borrowable cash and investments remained relatively stable at about $1.9 billion at the end of February 2017. This amount includes an additional $135 million that the state's attorney general recently deemed available for interfund borrowing. However, recent trends have pointed to higher general fund cash borrowing than in previous years. State officials estimate the general fund cash borrowing position peaked at the end of November 2015 at more than $1.7 billion and ended fiscal 2016 at $1.2 billion. The bulk of the state's interfund borrowable cash is concentrated within 10 funds, which represent more than 85% of total internal borrowable sources. In our view, the increased general fund cash borrowing highlights the budgetary pressure in the general fund, and while interfund cash balance levels remain mostly stable to support the state's overall liquidity position, continued general fund borrowing trends will require Louisiana to closely monitor and manage receipts and disbursements in borrowable funds. Resulting from the aforementioned pressure and narrowed cash position, the state entered into a $400 million short-term revenue anticipation note borrowing in October 2016 of which $370 million has been drawn to date. The state had previously discontinued this practice but re-evaluated the use of such notes to help manage the mismatch of cash receipts and disbursements throughout the year.

We believe the state has a strong budgetary framework embedded in balanced budget requirements, frequent revenue and expenditure forecast updates, broad executive powers, and a track record for making prompt expenditure adjustments to eliminate deficits. However, we believe expenditure adjustments have become increasingly difficult in the context of several years of cuts and in an environment of steep revenue declines. As a result, the legislature will need to support long-term structural tax changes and revenue enhancements to maintain structural budget balance.

Audited fiscal 2016 (GAAP basis)

The state's fiscal 2016 comprehensive annual financial report reflects negative operating results of $1.06 billion for total governmental funds on a generally accepted accounting principles (GAAP) basis after other financing sources inclusive of other financing sources and uses. Excluding other sources and uses, the negative operating result totaled $1.66 billion. The general fund posted a $13 billion operating deficit before other financing sources and uses, and a $842 million deficit after. The total fund balance for the general fund was $1.29 billion, down from fiscal 2015's $2.13 billion. The balance reflects $1.3 billion in nonspendable and restricted funds, $966 million in committed funds, and a negative $1 billion in unassigned and assigned funds. The state had $1.4 billion in cash and cash equivalents (excluding investments) in its total governmental funds, $521 million of which was in the general fund.

State revenues for general operating purposes (deposited into the general fund and bond security and redemption fund) are usually diverse and derived principally from intergovernmental revenues (44.7%) and personal income and sales taxes (37.4%), followed by gaming taxes (4.0%), proceeds from sales of various supplies and services (4.4%), service charges and license fees (5.2%), and other taxes and interest earned on investments. Although limited somewhat by nondiscretionary budget constraints, in the years before 2015, the state had historically relied more heavily on expenditure adjustments than on raising revenue.

We have assigned Louisiana's budgetary performance a score of '1.8' on a four-point scale whereby '1.0' is the strongest and '4.0' is the weakest.

Debt And Liability Profile

Louisiana's tax-supported debt ratios, including appropriation-dependency debt that the state classifies as net state tax-supported debt, remain moderate by most measures and largely unchanged since fiscal year-end 2015. Combined, tax-supported debt at the end of fiscal 2016 is moderate, in our view, at about $1,600 per capita, an estimated 3.7% of state personal income, and 3.1% of real GSP. Debt amortization is average, in our opinion, with about 52% of tax-supported debt principal, including gas tax debt, due to be repaid in 10 years. Louisiana's debt service burden as a percentage of expenditures is also moderate, in our view, with fiscal 2016 tax-supported debt service (including all GO, appropriation-dependent, and gas tax debt) accounting for 4.7% of total governmental spending (net of federal government revenue received). As of December 31, 2016, the state calculates a 5.4% debt service carrying charge, which was just below the 6.0%-of-state-revenue limit mandated by constitutional and statutory debt management policies. However, given recently passed additional revenue measures, the state's bonding capacity has also increased under the net state tax-supported debt limit. Despite increased bonding capacity, the state does not anticipate issuing additional new-money GO debt during fiscal 2017 and is currently pursuing a refunding for debt service savings for its gas tax bonds.

Pensions And Other Postemployment Benefits

Louisiana reports a lower unfunded pension liability because of new Governmental Accounting Standards Board (GASB) reporting requirements and the state's allocation of the liability across pension systems in fiscal 2016. The state is a participating employer in seven defined benefit retirement plans that provide pension benefits for all state employees: LASERS, public school teachers and certain higher education employees (Teachers Retirement System of Louisiana [TRSL]), certain other school employees (the Louisiana School Employees' Retirement System [LSERS]), state police law enforcement officers (Louisiana State Police Retirement System), district attorneys (District Attorneys' Retirement System); clerks of court and deputies (Louisiana Clerks' of Court Retirement and Relief Fund); and registrars of voters (Registrar of Voters Employees' Retirement System). Louisiana also contributes to the defined pension plans administered by the Firefighters' Retirement System, the Sheriffs' Pension and Relief Fund, and the

Municipal Police Employees' Retirement System as a non-employer; however, the state does not report a share of the unfunded pension liability from these respective plans because pension contributions are funded from dedicated annual insurance premium tax collections by statute.

Given the most recent data available for the state's plans, which include market values as of June 30, 2016, we consider the state's three-year average pension funded ratio relatively low, at 63% on the basis of GASB Statement Nos. 67 and 68. LASERS, which represents the largest share of the state's liability, was about 58% funded as of June 30, 2016, down from 63% the prior year. The lower funded ratio largely reflects poor investment experience in fiscal 2016, consistent with most plans across the U.S. LASERS reported a negative 2.4% return on investment to end June 2016 versus the assumed 7.75% return. Favorably, the plan's board of trustees recently adopted a plan to reduce the discount rate in 0.05% increments beginning July 1, 2017.

For LASERS, the state's largest pension plan, the state constitution assigns the legislature the authority to determine employee contributions while employer contributions are actuarially determined using statutorily established methods. The contribution rates are determined annually and are constitutionally required to cover the employer's portion of the normal cost and provide for amortization of the unfunded accrued liability. Although the state has included the full actuarially determined contribution in the budget, contributions lag one year and any surplus or deficit is included in the following year's valuation report and amortized over five years using a level dollar amount. Per our calculations, annual plan contributions for LASERS in fiscal 2016 fell short of the amount required to cover service cost and an interest cost component plus some amortization of the unfunded liability.

The 2014 legislature passed reform to limit benefit growth by granting cost of living adjustments every other year rather than every year. It also passed legislation that redirects a portion of excess investment returns, which the state had previously deposited into an experience account to fund retiree benefit increases, to fund the pension unfunded actuarial accrued liability (UAAL). The legislation also limits Louisiana's ability to grant future retiree benefit increases unless the respective systems are funded at certain minimum threshold levels. The 2014 legislature also passed an act to increase the eligible retirement age for certain members of LASERS, TRSL, and LSERS hired after July 1, 2015. In 2011, the voters approved a constitutional amendment that requires the state to appropriate no less than 5% of designated nonrecurring revenue in the REC forecast toward the LASERS and TRSL liabilities in fiscal years 2014 and 2015, and 10% of the nonrecurring revenue applied in fiscal 2016 and subsequent years.

We believe, on the whole, management factors and actuarial inputs for LASERS do not significantly encumber or improve our view of the state's overall pension funding discipline. Assumptions for the plan include amortization of the unfunded liability on both a "level dollar amount" and a "level percentage of pay" over an open, 30-year period, which assumes rising future payroll and results in escalating pension contributions over time. The state has segregated its unfunded liability into two base amounts: one in existence prior to June 30, 2004 (the original amortization base), which is amortized based on percentage of payroll, and the experience account amortization base, which is amortized based on a level dollar method. The plan reported an actual 5.9% five-year average rate of return as of June 30, 2016, well below its actuarial assumed rate of return. Its actuarial study states that the plan has no a crossover date, which, based on recent contributions relative to ADC, is reasonable, in our view. However, lower contributions or below-forecast investment returns could lead us to question this assumption. The plan's ratio of active members to beneficiaries is 0.8, which is below the national median of 1.50 and could indicate stress on contribution levels as fewer active employees support retired members. It is LASERS' practice to produce an experience study every five years.

Louisiana's proportionate share of net pension liability translates to what we view as an above-average $1,500 per capita and 3.5% of personal income.

Louisiana primarily provides retiree health care benefit programs and life insurance through a defined-benefit, agent multiple-employer plan administered through the Office of Group Benefits. The state had an unfunded OPEB actuarial liability of about $5.3 billion as of July 1, 2015, the most recent actuarial valuation, compared with $5.5 billion as of July 1, 2013. During the 2008 legislative session, the state approved the creation of an OPEB trust, although it has not been funded as of year-end 2016. Louisiana continues to fund the liability on a pay-as-you-go basis and although the state has taken initial steps toward addressing the long-term liability by establishing a trust fund, actual continued pay-as-you-go funding of the liability with minimal plan changes is likely to pressure the future OPEB burden higher.

We have assigned Louisiana's debt and liability profile a score of '2.9' on a four-point scale whereby '1.0' is the strongest and '4.0' is the weakest.

Ratings Detail (As Of March 15, 2017)		
Louisiana unclaimed prop spl rev bnds ser 2015 due 09/01/2035		
Long Term Rating	A+/Negative	Downgraded
Louisiana GO		
Long Term Rating	AA-/Negative	Downgraded
Louisiana GO		
Long Term Rating	AA-/Negative	Downgraded
Louisiana APPROP		
Long Term Rating	A+/Negative	Downgraded
Louisiana (I-49 South Proj)		
Long Term Rating	A+/Negative	Downgraded
Louisiana GO		
Unenhanced Rating	AA-(SPUR)/Negative	Downgraded
Long Term Rating	AA-/Negative	Downgraded
England Dist Sub-Dist #1, Louisiana		
Louisiana		
England Dist Sub-Dist #1 (Louisiana)		
Long Term Rating	A+/Negative	Downgraded
Landmark Lsg 2004A, LLC, Louisiana		
Louisiana		
Landmark Lsg 2004A, LLC (Louisiana) (Northrop Grumman Lse Fincg)		
Long Term Rating	A+/Negative	Downgraded
Louisiana Correctional Facs Corp, Louisiana		
Louisiana		
Louisiana Correctional Facs Corp (Louisiana) lse		

Ratings Detail (As Of March 15, 2017) (cont.)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Louisiana Local Govt Envir Facs Comnty Dev Auth, Louisiana		
Louisiana		
Louisiana Local Govt Envir Facs Comnty Dev Auth (Louisiana) (Bossier Parish Comnty Coll-Campus Facs, Inc. Proj)		
Long Term Rating	A+/Negative	Downgraded
Louisiana Local Govt Envir Facs Comnty Dev Auth (Louisiana) (LCTCS Act 360 Project)		
Long Term Rating	A+/Negative	Downgraded
Louisiana Local Govt Envir Facs & Comnty Dev Auth (Louisiana) (Comnty & Tech Coll Sys Facs Corp Proj) approp		
Long Term Rating	A+/Negative	Downgraded
LLGEFCDA Louisiana (Delta Campus Facs Corp Proj)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
LLGEFCDA_Louisiana (LCTCS Facs Corp Proj)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Long Term Rating	A+/Negative	Downgraded
Louisiana Pub Facs Auth, Louisiana		
Louisiana		
Louisiana Pub Facs Auth (Louisiana) (Hurricane Recovery Prog) (wrap of insured) (AMBAC & ASSURED GTY) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Louisiana Pub Facs Auth (Louisiana) (Hurricane Recovery Prog) rev		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Louisiana Transp Auth, Louisiana		
Louisiana		
Louisiana Transp Auth (Louisiana)		
Long Term Rating	A+/Negative	Downgraded
Louisiana Transp Auth (Louisiana) (La 1 Proj) sr lien toll rev		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
New Orleans Indl Dev Brd, Louisiana		
Louisiana		
New Orleans Indl Dev Brd (Louisiana) (New Orleans Fed Alliance Proj) (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Negative	Downgraded
Office Facs Corp, Louisiana		
Louisiana		
Office Facs Corp (Louisiana) (State Capitol Complex Prog) approp		
Long Term Rating	A+/Negative	Downgraded

Many issues are enhanced by bond insurance.