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Louisiana State Cancels Muni-Bond Deal After Talk of Insolvency.

Louisiana State University scrapped a \$114.5 million municipal-bond deal amid investor concern that its plans to address cuts in state funding may include filing for exigency.

Officials at the Baton Rouge-based school said they're considering financial exigency, which is equivalent to college bankruptcy, because of budget cuts proposed by Governor Bobby Jindal. When the university sold the tax-exempt debt this week, the offering documents circulated to investors didn't explicitly mention that possibility.

Louisiana State told investors Friday that the bond sale had been put off, said Ernie Ballard, a school spokesman. In a separate announcement, state Treasurer John Neely Kennedy said the postponement may increase borrowing costs for other state universities and even Louisiana itself as it grapples with a \$1.6 billion budget gap in the coming fiscal year.

"Maybe the university was too candid in telling our taxpayers what's going on, but they're telling the truth," Kennedy said in a telephone interview. "Every university we've got is doing contingency planning and looking at the possibility of financial exigency."

If an offering is canceled before closing, the bonds aren't considered issued, according to Jennifer Galloway, a spokeswoman at the Municipal Securities Rulemaking Board, which is based in Alexandria, Virginia. Investors don't receive the debt and also don't owe any money.

'Continued Unpredictability'

"In light of recent events, LSU has decided to postpone the issuance" of the bonds, the school said in a statement. "Due to the continued unpredictability of our state budget, we believe this is the responsible thing to do, and we will re-evaluate the offering once the state's financial picture becomes clearer."

Ballard said Thursday that the university's disclosures were adequate. Bond documents said "the university will examine all possible options to address potential reductions to state appropriations" in fiscal 2015-2016.

The U.S. Securities and Exchange Commission has been stepping up efforts to crack down on municipal borrowers that fail to make sufficient disclosures to investors.

Louisiana faces a budget shortfall next fiscal year because of declining oil-tax revenue and the state's failure to enact adequate tax increases or spending cuts. Both Moody's Investors Service and Standard & Poor's lowered their outlooks on the state to negative this year.

Jindal has proposed higher-education cuts of more than \$200 million to help plug the gap, along with reductions to tax subsidies for businesses.

LSU will explore its options in case state funding dries up, the school said. Exigency, declared when schools face insolvency, would allow it to restructure and fire tenured faculty.

“We remain hopeful that the legislature will develop solutions to protect funding for LSU and higher education in Louisiana,” the university said. “But we owe it to our students, faculty and staff to prepare for every possible outcome, as any responsible fiscal manager would do.”

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by Brian Chappatta

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