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Threatening 'Farewell' to LSU Football Shows Louisiana's Strains.

Louisiana State University's football team is a perennial national championship contender. The Tigers finished last season ranked No. 16 and boast the third-best incoming freshman class.

It may not be in the chase next year, though, because of the state's budget crisis.

After one month in office, Democratic Governor John Bel Edwards spelled out Louisiana's financial strain to his 4.65 million constituents in a televised address. The collapse in oil prices has created a \$940 million budget gap for the current fiscal year and a \$2 billion shortfall for the year that begins July 1. In a worst-case scenario, Edwards said, health programs for the poor and disabled will close and some public universities will have to shutter before the end of the semester.

"If you are a student attending one of these universities, it means that you will receive a grade of incomplete, many students will not be able to graduate and student athletes across the state at those schools will be ineligible to play next semester," Edwards said. "That means you can say farewell to college football next fall."

Invoking a football season without LSU, the state's flagship university that has made it to three National Championship games since 2003, shows how Louisiana is reeling in the aftermath of oil's slide to less than \$30 a barrel from over \$100 in mid-2014. Edwards, a graduate of the university's law school, is trying to drum up support for a higher sales tax and further cuts to public services by jeopardizing one of the most-profitable and well-known college football programs in the country, a threat seen as more of a stunt than a reality.

ESPN commentator Tony Kornheiser quipped that Louisiana residents would likely toss the governor out of office before he could halt the Tigers' season.

Louisiana's strains, though, are real, and few signs indicate they're easing. On top of the budget hole, it has the seventh-highest unemployment rate among U.S. states and the seventh-lowest median household income. It's on the brink of a downgrade from Moody's Investors Service and Standard & Poor's and investors are demanding higher yields to own its bonds.

"The whole point with LSU football is the governor trying to get people to pay attention and say, 'Wait, what's going on?'" said Roy Eappen, a municipal debt research analyst at Wells Fargo Securities in New York. "The public is somewhat detached from whether a budget gets passed or not. It's really hard to have a public discussion about the impact of these cuts."

Ernie Ballard, a spokesman for LSU, said the Baton Rouge-based school doesn't have a comment on the governor's speech.

Edwards, 49, wants to temporarily increase the state's sales tax to five cents per dollar from four cents and boost levies on alcohol and cigarettes. He'd also freeze government hiring, cut state contracts and slash more than \$160 million of spending.

The state senate last week unanimously approved the governor's plan to draw \$128 million from its rainy-day fund and take \$200 million from a settlement with BP PLC to reduce the current-year shortfall.

Credit Ratings

Edwards's predecessor, one-time Republican presidential candidate Bobby Jindal, mostly curbed spending and tapped one-time sources for revenue during his eight years in office. He rolled back income taxes starting in 2009 and had floated the idea of eliminating the state's personal and corporate income taxes altogether.

During much of Jindal's tenure, Louisiana's credit rating improved, a fact he touted on his presidential campaign website. Moody's and S&P both raised the state three steps from 2008 to 2011, giving it the third-highest investment grade.

In February 2015, the two companies soured on Louisiana, lowering their outlooks to negative, the first step toward a downgrade.

Municipal-bond investors including Eagle Asset Management and Wasmer Schroeder & Co. have been mostly avoiding debt from Louisiana, given the swelling budget gaps and its dependence on oil revenue.

"We have not been a big buyer of Louisiana," said Reid Tomlin, director of muni research in Naples, Florida, at Wasmer Schroeder, which oversees \$5 billion of state and local debt. "It's a small state, it's had ongoing budget deficits for the last couple of years, and it has rating volatility."

The extra yield investors demand on some Louisiana general obligations have climbed since Edwards's address. Bonds due in August 2024 traded Wednesday at a yield of 1.83 percent, or 0.41 percentage point more than benchmark munis, data compiled by Bloomberg show. That's the widest spread since June.

Selling Louisiana

Similarly, LSU bonds maturing in July 2028 traded last week at yields about 1 percentage point more than similar-dated AAA rated munis, the widest spread since July, Bloomberg data show.

"If LSU came with a new issue, it would come at a wide spread and there probably wouldn't be much investor appetite," said Burt Mulford, a manager of tax-exempt funds in St. Petersburg, Florida, at Eagle, which oversees \$2.4 billion in munis. He said he's been selling securities from Louisiana.

While LSU depends on the state for funding, its athletic department receives no state or school subsidies, making it one of about 20 self-sustaining programs. It still sees a bigger profit than almost all other universities, according to Education Department data from the 2014-2015 academic season.

The football program brought in \$57.7 million of profit that year, topped only by the University of Texas and Southeastern Conference rivals Georgia and Tennessee. The athletic department as a whole brought in a net \$41 million, also the fourth-most overall.

The football team would be in jeopardy in a case where the school shuts down, preventing attendees from finishing the semester. Among the National Collegiate Athletic Association's rules: "All Division I student-athletes must earn at least six credit hours each term to be eligible for the following term."

That wouldn't happen under a scenario where lawmakers rebuke tax increases and look solely to

spending cuts, according to a letter from Joseph Rallo, Louisiana's higher education commissioner. Only incomplete grades would be issued in the spring, canceling all fall athletic events.

"These aren't the governor's recommendations — this is what the universities are saying will happen," said Richard Carbo, a spokesman for Edwards. "It's a ripple effect that people don't think about. Because the problem is so severe, he wanted people to understand what it actually means."

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by Brian Chappatta

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